

The LGA's Autumn Statement submission



October 2013

1. Summary

In the period of the current Parliament, **local government core funding will fall by 43 per cent**. No other part of the public sector has made such a significant contribution to deficit reduction.

Council tax has fallen on average too – by 5.8 per cent in real terms between 2010/11 and 2013/14 helping households meet the rising cost of living for energy, fuel and other goods and services.

In the 2013 Spending Round the Government announced reductions of 10 per cent in 2015/16 to core local government funding. In the technical consultation it clarified that there would be “holdbacks” of £1 billion that take the up-front reductions to 15 per cent.

The next two years are therefore going to be very tough and councils fear that 2015/16 will be the crunch year. Councils face real terms reductions in core funding of 21 per cent across 2014/15 and 2015/16. In some cases, the reductions for individual councils are nearly a third. There will be cuts to the frontline services people rely on and some services will have to stop altogether.

Our estimate is that by the end of 2013/14 councils will collectively have made only half of the cuts they need to make by March 2016. The same level of cuts that has been achieved over the last three years must be achieved again in the next two, from services which are already stretched to breaking point. This contrasts with departmental spending – where the Department for Education has been able to find £1 billion to meet the additional costs of the academies programme.

New statutory obligations introduced by the Coalition, as well as existing ones, place limits on where councils can find savings.

Funding for council tax support has been subsumed within councils’ overall funding settlement. If councils were to apply the same percentage reduction to their council tax support schemes as has been applied to their funding, all working-age claimants, including the most vulnerable members of society, would see a drop in support of 21 per cent over the next two years. This is in addition to the 10 per cent funding cut that was imposed when council tax support was localised in 2013/14.

Alternatively, if councils are to maintain their schemes at 2013/14 levels, an additional pressure of £690 million is created that councils must find from budgets elsewhere. To put this in context, this is more than half of the entire budget for planning and economic development.

The concessionary fares scheme will cost councils over £1.2 billion in 2015/16. The costs of providing free bus travel to pensioners and disabled people is increasing as the number of pensioners grows, but the funding has been cut by 39 per over the lifetime of this Parliament.

While councils continue to demonstrate that they can provide services efficiently, the Government seems determined to test this beyond breaking point. More transparency is needed to show how new burdens are funded.

Councils have been allocated a total of £5 billion of capital funding to meet the sharply rising demand for school places. While the National Audit Office found that councils were keeping pace by providing 81,500 additional primary places between 2010 and 2012, an additional 256,000 new school places still need to be provided by 2014/15¹. They also carried out a survey which showed that the average financial contribution councils made to the cost of school places in 2012/13 was 34 per cent – even though the Department for Education claimed to be contributing 100 per cent of the costs.

By contrast, the free schools programme has been allocated capital funding of £1.7 billion to 2014/15. The National Audit Office estimated that free schools opened in September 2012 could provide up to 24,500 places, 58 per cent in council areas with a shortage of places. However, only 8,800 of the 24,500 places are in primary schools, where most additional demand lies, and most free schools will not be operating at their full capacity by 2014/15.

So far councils have sought as far as possible to protect frontline services for the most vulnerable. But they would like to intervene earlier to prevent problems before they occur. Instead they are having to spend more on crisis services – for example, spending on homelessness is up 16 per cent since 2011/12. Their ability to invest in early intervention, which in the long-term will save far more money than it costs, has also been hampered by spending reductions, including a £330 million cut in 2015/16 alone to education funding (that includes cuts to both the Early Intervention Grant and the Education Services Grant²). On current trends by 2019/20 local government will spend 60 per cent of its income on social care compared to 41 per cent in 2010/11.

This inevitably means that other services will be squeezed with spending on them falling in real terms by 66 per cent by 2019/20³. We are now approaching a crunch point when, bluntly, some councils will be unable to meet their statutory obligations to an acceptable minimum.⁴

In addition the Government, chipping away at council settlements and breaking its agreement over incentive funding schemes such as the New Homes Bonus, makes it very hard for authorities to plan.

Despite this financial background, councils have been working hard to improve their local economies, for example through prudential borrowing to finance infrastructure investment that in

¹ Capital funding for new school places, National Audit Office, March 2013

² At the same time OFSTED's introduction of a new inspection regime for support for school improvement is increasing expectations on councils.

³ *Future funding outlook for councils 2013*, Local Government Association, 2013

⁴ The accompanying Any Council update sets out what these reductions mean in a typical local council, but some councils will be much worse off.

turn attracts inward investors⁵. Councils are working in partnership with each other and with the private sector, in local enterprise partnerships, to bring forward development, tackle unemployment and tackle skills shortages. But spend on growth promoting services has fallen and future cuts pose a further risk to these services.

Councils have also led the way on public service integration through place-based public service budgets for troubled families and the whole place pilots. Independent analysis⁶ shows these approaches will deliver better outcomes at less cost against a background of rising demand for services particularly in social care. But the Government needs to drive this agenda with real pace and determination.

The recent Public Accounts Committee report into 'Integration across government and Whole Place Community Budgets' made a number of key recommendations about public service integration and place-based public service budgets that we support. These include:

- That departments should identify and provide clear evidence on the opportunities for integration in their spending proposals and HM Treasury should challenge those which have not
- the Treasury should improve financial incentives for integrated working by initiating multi-year funding agreements, aligning funding periods for different bodies, and creating mechanisms to share the financial benefits of coordinated working
- the Government should provide a strong lead on integration efforts, address any lack of coherence and send a clear signal about the importance of integration to all government departments and agencies.

In addition we would welcome a move towards central government savings made through integrating local public services being reinvested locally in further public service transformation rather than being absorbed back into the Treasury. When spending from the welfare budget is capped⁷ and managed within a fixed envelope, as the Government has committed to do, this allows savings on the welfare budget previously off limits under the current accounting regime to be included.

A fundamental transformation is therefore needed immediately following the next General Election if we are going to protect the local services people use and value. In 'Rewiring Public Services'⁸ local government sets out an alternative.

⁵ The development of the I54 site off the M54 motorway in Staffordshire and inward investment by Jaguar Land Rover in a new engine plant is an example.

⁶ *Whole place community budgets – a review of the potential for aggregation*, Ernst and Young, 2013

⁷ The Spending Round announced a cap on welfare spending – a nominal cap will be set in 2015/16. Further detail is expected in the Budget 2014.

⁸ *Rewiring public services; Rejuvenating democracy*, Local Government Association, July 2013 / www.local.gov.uk/campaigns

We made a set of positive proposals to enhance the quality of life of everyone in England – by rejuvenating democracy and giving people real reasons to participate in civic life and their communities; transforming public services so they prevent problems instead of just picking up the pieces; and boosting economic growth in a way that offers prosperity to every place.

Our ten transformative ideas:

1. Give people a meaningful vote on local tax and spending issues: a local treasury in every place.
2. Cut red tape: bring local services and decisions together in one place.
3. Reduce bureaucracy and Whitehall silos: merge six government departments and create an England Office.
4. Share money fairly across the UK: replace the Barnett formula with a new needs-based funding model.
5. Take financial distribution out of ministers' hands: replace it with agreement across English local government.
6. Strengthen local say: reduce ministers' powers to intervene in local decisions.
7. End flawed, tick box inspections by bureaucrats: create local service user champions.
8. Boost investment in infrastructure: create a thriving market in municipal bonds.
9. A multi-year funding settlement tied to the life of a Parliament.
10. Protect local democracy: give the local government settlement formal constitutional protection.

We will be discussing their adoption by the main political parties over the next 18 months in the run up to the 2015 Election.

This submission focusses on shorter term measures for 2014/15 and 2015/16 some of which pave the way for more fundamental change in the next Parliament.

Our proposals will:

- help spread the economic recovery more widely across England, promote house building, and equip local people with the skills to benefit from growth
- give councils greater financial flexibility to make the necessary savings
- increase the pace at which local partners can work together in smarter ways to integrate and reform locally.

Our key message is that the spending reductions to local government budgets and the pressure to reduce fees or taxes must stop. If income falls, the services that people rely on and value will inevitably suffer too.

2. The Local Government Association's (LGA) proposals⁹

Financial stability

To give councils greater financial stability over the next two financial years, we propose:

- The Government makes no further cuts or top slices to the figures announced in the 2013 Spending Round and clarified in the technical consultation on the local government finance settlement 2014/15 and 2015/16. Not only are such cuts hard for councils to absorb without impact on services, they also make it impossible for councils to plan.
- The Government reduces the excessive level of holdbacks in 2015/16 and agrees a date with local government to reinstate the amount in the overall settlement.
- Local government should be fully compensated for any changes to business rates that reduce yield, including any extension of the temporary doubling of Small Business Rate Relief for a further 12 months from 1 April 2014.
- Local government should retain the full growth in the local share of business rates including growth from inflation without a netting off from grant funding.
- The removal of the referendum cap and the ability to vary locally all council tax discounts including the single person discount as first steps towards the local control of local taxes.
- Local discretion over fees and charges (including planning fees).
- That the Department of Communities and Local Government publish their modelling of the impact on local services of the funding reductions set out in the 2014/15 and 2015/16 local government finance settlement as they were asked to do by the National Audit Office¹⁰.
- A review of the handling of future local government settlements looking at new arrangements that rebuild trust in the system. The timing of local government settlements, the level of detail in the settlements and the contested presentation of the headline settlement numbers are no longer acceptable. This should include a new definition of "spending power" to establish a single, fixed method for calculating this figure.

⁹ LGA response to the Local Government Finance Settlement 2014/15 and 2015/16 Technical Consultation, 2 October 2013 also makes a number of proposals on financial stability.

¹⁰ *Financial sustainability of local government*, National Audit Office, 2013

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- A review of the funding arrangements for the devolved nations to report by summer 2014 looking at spending needs across the UK. The funding arrangements for the devolved nations are currently based on the out of date Barnett formula. It provides a historically more generous financial settlement for the some of the devolved nations that does not take account of need.
 - A review of the way capital receipts can be used to enable authorities to manage the liabilities on their balance sheet more effectively, for example to invest in pension funds and reduce future pension costs.
 - Full funding for all new burdens stemming from the Care Bill currently passing through Parliament, particularly the costs associated with the proposals for funding reform.

Promoting growth

To promote economic recovery and growth, we propose:

- Removing the Housing Revenue Account borrowing cap to enable councils to build to a further 60,000 homes over and above current plans, contributing £20 billion in wider economic impacts.
- Establishing a level playing field by moving to the General Government Gross Debt measure of debt, used by other countries and by the EU, IMF, OECD and credit rating agencies, equalising the treatment of local authority and housing association borrowing. This will enable government to truly assess value for money and ensure the most effective public investment in housing.
- Allowing councils to set the Right to Buy discount locally to reflect local housing markets enabling them to maximise the receipts to reinvest in replacement homes while encouraging sales under the scheme.
- Local councils become the default commissioners of all provision seeking to reengage young people, specifically including the Youth Contract 16/17 year old provision and the Youth Contract wage subsidies to help tackle youth unemployment more effectively.
- Local enterprise partnerships set local priorities for skills, apprenticeship and traineeship provision for 16 to 19 year olds to address skills gaps and smooth the transition from education to work.
- Localising the £300 million Help to Work scheme to help people who are impacted by the Government's welfare reforms and get those that are the furthest away from employment back into work.

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- A new partnership between the Highways Agency and local government on strategic road investment that connects road building with local initiatives to drive growth.
 - A full review of the licensing system, to simplify and standardise the licensing framework, and identify where licences can be abolished or consolidated.
 - Allowing councils to recover costs for alcohol licencing (using the powers under the Police Reform and Social Responsibility Act) thereby removing the £18 million subsidy of the alcohol industry by taxpayers every single year.
 - Increasing the locally retained share of business rates, with the balance made up by the Treasury and distributed on a basis that takes account of the fact that different areas raise different amounts of business rates, to enable local councils to offer discounts in local areas where small businesses and high streets need additional support.
 - Working with government on the right delivery model for Universal Credit that recognises councils' central role, as commissioner and provider, of face-to-face support for claimants.
 - Funding the Local Growth Fund by devolving more budgets from central government. This should include working with local government to find an alternative to the £400 million cut to the New Homes Bonus which weakens the incentive to promote house building, threatens existing commitments to growth, and increases the financial pressure on local government.

To make public services more effective we have proposals covering social care, children's services and the fire service.

Social care and health

In a difficult overall Spending Round for local government, the announcement of pooled budgets to take forward health and social care integration at scale and pace was the one real positive. However, this is not new money and brings together existing NHS and local authority resources that are already committed to core activity. Although the pooled budget provides an important opportunity to create a stronger shared plan for health and care, the challenge of doing so should not be underestimated. Furthermore, the pooled budget does not include funding for the wide-ranging reforms emanating from the Care Bill and the Government's proposals for funding reform (based on the Dilnot capped-cost model). It is essential that these reforms are fully-funded from new money to ensure we can continue to support our more vulnerable residents. If they are funded from resource already in the system then that existing support for the more vulnerable will inevitably be reduced.

In moving forward we propose:

- sharing the Care Bill draft regulations and statutory guidance as early as possible to give councils the maximum time to prepare for implementation
- working with (a) the sector to arrive at a clear and accurate understanding of what care and support reform is likely to cost and (b) the government to ensure all such costs are fully funded from new money
- providing councils with early certainty on their Integration Transformation Fund (ITF) allocations
- working to ensure that the ITF has an opportunity to become the vehicle for facilitating a longer-term and more significant pooling of budgets between health and social care that is led locally by Health and Wellbeing Boards.

Children's services

Demands on children's social care services have steadily increased¹¹, whilst at the same time the 2010 Spending Review assumed a 43 per cent reduction in spend. Councils have largely protected children's social care spend, including through the reduction of other budgets. Recognising this, we would like to see councils given the flexibility they need to redesign services around individual and family needs, and promote effective early intervention. Place-based public service budget arrangements would be the norm for service delivery in local areas; bringing local services and decisions together in one place, including education and children's social care. As steps towards that we propose:

- removing the protection and ring-fencing of the schools' budget, which creates an obstacle to better working between schools and local agencies
- reversing the decision which prevents schools from pooling budgets, so they can cooperate with and support wider services for children and families to improve child development and attainment
- free school meals¹² are fully funded by government and not by reducing other services for children and young people.

¹¹ The number of looked after children increased by 10 per cent between 2009 and 2012 [DN:source].

¹² <https://www.gov.uk/government/news/free-school-lunch-for-every-child-in-infant-school>

Fire services

On the fire service we propose:

- the Government work alongside Fire and Rescue Authorities (FRAs) to remove the barriers to greater collaboration across the emergency services
- exploring with FRAs the impact of the funding reductions on risk levels taking account of the analysis in the Knight Efficiencies Review¹³
- a bottom-up approach to governance reforms rather than the Knight Efficiencies Review options for wholesale governance reform, which would divert attention away from efficiency reforms.

Local Government Association (LGA)

¹³ *Knight Review of Fire and Rescue Authorities in England*, Sir Ken Knight, May 2013

For more information please contact:

Phillip Mind
Senior Adviser – Local Government Finance
Local Government Association

Local Government House
Smith Square
London SW1P 3HZ

Email: lgfinance@local.gov.uk
Telephone: 020 7664 3085



Contact the Local Government Association

Telephone: 020 7664 3000
Email: info@lga.gov.uk
Website: www.local.gov.uk

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