

**Item 2**

## **Spending Review**

### **Purpose of report**

To outline the shape of the LGA's Spending Review submission for discussion and direction.

### **Summary**

There will be a one year Spending Review looking at spending plans 2015-16 with an announcement before the summer recess. This note invites members to comment on the coverage of the LGA's submission and outlines our proposed approach.

### **Recommendation**

For discussion and direction.

### **Action**

Officers to act as directed by members.

**Contact officer:** Phillip Mind  
**Position:** Senior Adviser  
**Phone no:** 0207 664 3243  
**E-mail:** Philip.mind@local.gov.uk

**Item 2**

## **Spending Review**

### **Background**

1. Both the Autumn Statement and the Coalition's mid-term review made statements about this year's Spending Review (SR):
  - 1.1. The review will report before the summer recess. Reporting at the time of the Budget has not been ruled out yet.
  - 1.2. The Government will operate on the principle that departmental resource budgets continue on the same trajectory in 2015-16 as over the period of the 2010 Spending Review (SR10).
  - 1.3. Spending on health, schools and overseas development and aid will be protected from further reductions.
  - 1.4. The Government is committed to *"increase the proportion of spending that is awarded through the single funding pot based on Lord Heseltine's recommendations. This is likely to include some of the funding for local transport, housing, schemes to get people back into work, skills and any additional local growth funding"*<sup>1</sup> and details are promised in the Spending Review.
  - 1.5. The Government will accelerate programmes of work to progress reform, drive efficiency and reduce wasteful bureaucracy.
  - 1.6. Total Managed Expenditure in 2017-18 will continue to fall at the same rate as the SR10 period.
  - 1.7. Exemption from the 2013-14 [one] per cent reduction is described by the Treasury *"as an opportunity for local authorities to invest in reform...by consolidating back offices and transforming service delivery."*<sup>2</sup>
2. The key point here is the Government's expectation that spending plans will continue on their current trajectory. There is a judgment to be made about how the LGA responds to this message.
3. Notwithstanding that decision, our proposed approach is to: clearly set out how local government has managed to reduce spending in line with SR10; the implications of continuing on that trajectory; and the measures that need to be taken to make it easier for local councils to manage within their financial settlement.

---

<sup>1</sup> Autumn Statement, HM Treasury, 2012

<sup>2</sup> Ibid

**Item 2**

**Local government's Spending Review submission**

4. At the Finance Panel, we would like to invite the Panel to consider the main pillars of the LGA's SR submission to the Treasury – what follows below is an outline to aid that discussion. Later on, we sketch out what we can, in absence of a date for the announcement, about the process.
5. Local government deserves great credit for the way it has managed to live within the SR10 allocations.
6. **Our first proposed pillar is to set out a factual account of our track record** including:
  - 6.1. the reductions in budgets since 2010-11 and the variable impacts across the sector;
  - 6.2. the headcount reductions;
  - 6.3. progress on shared services, collaborative procurement, asset sales and other headline efficiency measures and measures to accelerate the full potential of these efficiencies;
  - 6.4. the impact on services, including closures and the re-framing of service thresholds.
7. **Our second proposed pillar is to set out the cost pressures**, drawing on the funding outlook model, other internal analysis and external sources including:
  - 7.1. Between 2010 and 2030 the population over 75 is forecast to increase by 64%, and the number of adults with learning disabilities by 32%<sup>3</sup>. Over the same time period, the additional cost of **adult social care** is projected to increase by 84% from £14.5 billion to £26.7 billion in real terms<sup>4</sup>. Over the last two years, adult social care budgets have reduced by £1.89 billion<sup>5</sup> in real terms.
  - 7.2. Pupil numbers (age up to and including 15) in state-funded schools began to increase in 2011 and are projected to continue rising (with more acute pressure on school places in some areas). For example, by 2020 numbers in maintained nursery and state-funded primary schools are projected to be 20% higher than in 2011. There are also increases in the number of pupils with special needs. Some councils, particularly in the North East, are reporting increases in the numbers of looked after children. There are pressures resulting from reducing the amount of ring-fenced early intervention grant and the decision to fund some central

---

<sup>3</sup> LGA figures

<sup>4</sup> LGA figures

<sup>5</sup> ADASS Social Care Budget Survey 2012-13

**Item 2**

education services to schools and academies through the new Education Support Grant.

- 7.3. **Waste management** costs are projected to rise by 3% (or over £120 million) between 2014-15 and 2015-16, even if efficiency savings continue to be realised.
8. **Our third proposed pillar will cover the impact of policy that has changed the local government financial framework introducing additional risk, uncertainty or cost** including, for example:
- 8.1. the council tax freeze;
  - 8.2. the localisation of council tax benefit (and other welfare reform changes);
  - 8.3. the localisation of business rates;
  - 8.4. the academy programme.
9. The remaining pillars deal with coping mechanisms – they can be described more positively as offers, and we will need to consider carefully language and tone. For example, some council leaders are concerned about community resilience.
10. **The fourth pillar is growth** – higher growth will help reduce the pressure on public services in the round (for example welfare payments, homelessness) and help drive local government's tax base, for example through business rate retention. We know from the local growth campaign that councils have continued to promote local growth despite falling budgets.
11. Professor Travers' report<sup>6</sup> also reminds us that the funding gap will lead to a focus on core statutory services for adults and children and waste management, reducing the funds available for those services that are growth promoting for example transport, environmental services, planning and capital investments.
12. Councils are ambitious to do more to promote local growth. We will be lobbying for an response to the Lord Heseltine's review<sup>7</sup> that enables local growth, and in particular a single pot that increases local decision-making over the public funds available to promote growth for example on vocational skills.
13. **The fifth proposed pillar is community budgets.** The Ernst and Young report<sup>8</sup> shows that if other places were able to replicate the approaches taken by the whole place pilots then there would be an annual steady state saving of over £4 billion a year and a savings of up to £21 billion over 5 years – across all public services. There are

---

<sup>6</sup> Local government's role in promoting growth, Professor Tony Travers, 2012

<sup>7</sup> No stone unturned in pursuit of growth, Lord Heseltine, 2012

<sup>8</sup> Whole place community budgets: a review of the potential for aggregation, Ernst and Young, 2013

**Item 2**

pre-conditions for such a rollout: at the local level relating for example to collaborative public service leadership; and national pre-conditions that require new ways of collectively funding, organising and delivering public services.

14. Community budgets are not however a quick fix or an easy way to make savings – they are however a more progressive way to cope with falling budgets than cuts.
15. **The sixth pillar is to set out the mitigating measures that are service specific.** This pillar will need to be developed but the Government needs to put adult social care on a sustainable financial footing to take account of the demographic pressures, and to meet the costs of both the draft Care and Support Bill and those associated with the Dilnot proposals. We will consider developing an LGA estimate of the funding gap.
16. In children’s services, the increasing pupil numbers require a school building programme and the capital finance for it<sup>9</sup>. This was subject of a review in 2011 for which we await the Government’s response. A school building programme should be commissioned locally from a single capital pot.
17. Early Intervention Grant has been subject to a number of reductions (set out above). It needs protecting to allow councils to address the pressures on safeguarding and looked after children.
18. We could also make a case for freezing the landfill tax.
19. To support and develop these proposals we are beginning to consider the additional research and analysis we might commission.
20. **The seventh pillar sweeps up the other measures that would enable local government to cope more effectively with the impact of an SR10 trajectory.** They relate to the rules and ring-fences attached to local government funding which inhibit the efficient allocation of resources locally. We could consult the sector about the rules they would like to see removed.
21. We could also include the development of innovative financing mechanisms, such as social impact bonds.
22. After the panel meets, we would propose developing a short, overarching narrative that brings these separate strands together and includes the most compelling facts and prioritise the issues for which local government needs a positive SR outcome.

---

<sup>9</sup> Review of education capital, Sebastian James, 2011

**Item 2**

**Process**

23. Without a timeline we cannot be completely clear about process – if the outcome of the Spending Review were to be announced at the time of the Budget on 20 March, we would need to focus on key areas.
24. The Treasury sets the SR process – there are departmental submissions, bi-laterals between the Chief Secretary and Spending Departments and meetings of the group within Cabinet that taken the final decisions. We need to identify the key decision points and time our interventions to influence them.
25. Alongside that we need to engage local government – in shaping the submission and evidencing our propositions. Subject to the point about timing of the announcement, we would propose:
  - 25.1. An early submission in late February/March based on a short consultation with the sector.
  - 25.2. A more thoroughly evidenced based submission in April/May.
  - 25.3. A co-ordinated suite of meetings with senior members of Government – in Cabinet and at official level timed to impact on the key decision points.
  - 25.4. Briefings with other groups who could help make local government's case, for example in the voluntary and business sectors.
26. The LGA Executive will take the final decisions on the content of the submission and also play a role in steering its development, with the Finance Panel providing the initial political direction during its development. Officers are currently developing a Spending Review project plan.

**Conclusion and next steps**

27. Members of the Finance Panel are invited to comment on the outline themes and the approach to the Spending Review described in this note.

**Financial Implications**

28. None. This will be managed within existing LGA budgets.