Finance Panel
22 March 2013

Item 3, Appendix A

LGA submission to HM Treasury

March 2013

Contents

1. Summary

Local government has made a significant contribution to deficit reduction. We have also kept council tax down helping households meet rising living costs for energy, fuel and other goods and services. In doing so, councils have sought as far as possible to protect the frontline services communities depend on and value.

Local government has also played a major role in both promoting growth and supporting and building the resilience of communities that are facing both challenging economic conditions and reductions in public funds available for local services[1].

Against that background, we need a new relationship on funding and service delivery. There are measures that government can take that will assist local government to reform services more effectively and develop a new financially sustainable model for local government. This public spending environment requires fundamental reform to the way local public services – not just those delivered by councils – are organised and provided.

Our submission is based on two major offers: to help government promote growth more effectively; and to drive efficiency and public satisfaction with public services.

If, as the government intends, the current trajectory of spending reductions is replicated in this year's spending review, some councils will not however be able to deliver the existing range of services.

In the current Spending Review period (between April 2011 and March 2015) local government funding will fall by 33 per cent in real terms. Headcount has reduced by 312,000 in the two years from October 2010.

Whilst the exemption from the additional 1 per cent reduction in 2013/14 is welcome, the additional 2 per cent cut to local government funding in 2014/15 (made in the Autumn Statement) is unsustainable without impacting on some services. It follows that further reductions in 2015/16 are equally unsustainable.

Further reductions in 2015/16 will require changes to public and statutory expectations about the services councils will provide.

In 2012, we estimated the funding gap by 2019/20 as £16.5 billion. With social care and waste spending absorbing a rising proportion of the resources available to councils, funding for other council spending would drop by 66 per cent in cash terms by 2019/20 (or 80 per cent in real

[1] Adapting to change the role of community resilience, The Young Foundation, 2012 highlighted the importance of good community networks, good leadership and effective partnership working between the voluntary community and public sector in building community resilience. The LGA will be working with the sector to support their role in strengthening resilience.

terms)[2]. There is a risk that the services through which local government promotes growth will be hardest hit[3] and there will be cost impacts on other public services.

This submission sets out local government's proposals on growth and public service reform.

Promoting growth

- Councils are keen to promote growth and generate the business rates that will protect front-line services. **All places should be offered a local growth deal.** This would include:
  - A range of economic powers, including devolution of skills policy and levers for localities to support local businesses to access finance.
  - A single pot of growth-related funding comprising all of the funding streams recommended for devolution in the Heseltine report. The onus should be on departments to devolve funding, unless they can demonstrate greater benefit from retaining the funding at a national level.
  - Capacity to reinvest the proceeds of growth in a local area through an "Earnback" principle[4], including but not limited to business rates.
  - Access to deals should be on a non-competitive basis, with notional allocations finalised as part of the deals themselves. Feedback from the business sector is that bidding processes work against the certainty that is needed to attract investment.

- **A devolution of funding into a single pot as suggested by Lord Heseltine would enable councils with their local partners to shape public investment in local growth to the precise needs of local businesses.**

- **On broadband secure state aid clearance for the urban broadband programme and address councils' concerns about the competitiveness of the supply chain in the rural programme by making available benchmarking data.** This will enable councils to assure themselves of value for money when there is only one active supplier.

- **On housing - remove the unnecessary and centrally set Housing Revenue Account borrowing cap and allow councils to borrow in line with prudential rules and allow councils to set the right to buy discount and retain 100 per cent of the receipts.** The current £2.8 billion headroom available to councils following self-financing already enables them to plan a limited build programme. Just one year into the new self-financing arrangements indications suggest that councils are already planning to build 15,000 units spread over five years. Removing the centrally set borrowing cap would allow councils to

[2] Funding outlook for councils from 2010/11 to 2019/20, Local Government Association, 2012
[3] Local government's role in promoting economic growth, Professor Tony Travers, 2012
[4] The earnback model is set out in Greater Manchester's City Deal http://www.dpm.cabinetoffice.gov.uk/sites/default/files_dpm/resources/Greater-Manchester-City-Deal-final_0.pdf

invest an additional £7 billion over five years which could result in up to a further 60,000 homes over and above current plans helping to meet the need for affordable homes.

Local government finance

Government should allow local government and its communities to make decisions about the best way to manage local finances. The current system is over-regulated. We propose:

- **The removal of restrictions on council tax** so that councils can determine with their communities the appropriate level of tax and be accountable through local elections for doing so.

- **The full and unconstrained ability to vary locally all council tax discounts** including the single person discount.

- In 2014/15 the growth from inflation in the local share of business rates has been netted off from revenue support grant, despite the policy intention to reward local people for growth in their areas. **Any increases in the local share of business rates should be retained by local government and central government should begin to consider ways of increasing the local share**.

- **A change to Treasury rules to enable local government to capitalise one-off revenue expenditure without a top slice or an overly-regulated process**.

- **A commitment from government to find ways to provide local government with a stable funding outlook and support effective financial planning including funding for schools and public health and removing ring-fences in children's services**. In 2012, a late settlement made a challenging budget setting process even more so by compressing the time available for the task. We are also inviting the Department for Communities and Local Government (DCLG) to publish their financial modelling of the impact of potential local government spending scenarios on local services as part of the Spending Review announcement[5].

- **A commitment that the additional costs on local government from welfare reform – both direct and indirect – are met through additional new burdens funding**.

- **Joint work to develop a local authority bonds agency.**

[5] Financial sustainability of local government, National Audit Office, 2013 proposed that government should "better evaluate the impact of decisions on local authority finance and services – before and after implementation."

Public sector reform

- Central government needs to lay the ground now for fundamental reform to the way the full range of local public services is organised and provided. The whole place community budget pilots have delivered hard-edged proposals for integrating public services. The case for place-based approaches to funding and organising services is now made. **To accelerate the national development of community budgets, we propose the development of a new way of budgeting for public services across a place**.

- In SR 10 additional money for social care was included in formula grant and additional money from the NHS "to support integration between health and social care services at the local level… specifically for measures that support social care, which also benefit health". There is a broad consensus now that the health and social care system needs to be looked at as a whole, and in doing so there is potential to reduce acute costs and bed based care through preventative measures and community based care**. Against that background we would like to discuss with government at least maintaining the NHS investment in social care and the case for adding to it.**

- **Against a background of a falling budget for early intervention, we would like the discuss with government how schools could work with councils to use Dedicated Schools Grant to support early intervention and early help approaches which will reduce public spending pressures on schools and council statutory services in the longer term.**

- **A joint central/local review of the statutory duties on local government** – local government is subject to over 1,200 statutory duties. With reducing resources, councils need to prioritise the services that matter most to local people. But councils will not want to step away from a duty lightly. In some cases, the repeal of a duty could be contentious and requires a mature dialogue between central and local government. We propose therefore a joint piece of work with DCLG, informed by robust cost benefit analysis, to help identify duties that fail a value for money test and could subject to further consideration be suitable for repeal.

- **A landfill tax freeze at 2014/15 levels would contain councils' costs to a 3 per cent rise in 2015/16 whilst retaining an effective incentive to minimise waste to landfill and help avoid potential EU fines of £100-£150 million. This is compared to a larger increase in council costs and additional burden of £70 million to the tax payer based on continuation of the landfill escalator at its current rate.**

- **On the fire service:**

    - **Remove the barriers in the funding system to fire service mergers.**

    - **The costs associated with new burdens on the Fire and Rescue Service, such as the non-employee costs associated with the retrospective admittance of retained firefighters to the pension scheme, should be met in full by government.**

    - **We would like to work with government to see how any savings that might arise from the reform of the pension scheme can be retained within the service.**

2. Overview: local government's contribution to deficit reduction

Over the Spending Review period from April 2011 to March 2015 local government funding is reducing in real terms by 33 per cent. This has been achieved in a number of ways for example:

- Local government headcount reduced by 312,000 between the third quarter of 2010 and the third quarter of 2012[6].The total efficiency savings from shared services has increased from £165 million (2011) to £263 million (2012). 337 councils now have shared service arrangements compared to 220 councils in 2011.

Despite local government's best efforts there has been an inevitable impact on service provision.

The Audit Commission[7] has set out the impact on spend:

- Adult social care was cut by 2.2 per cent in 2011/12, with cuts of 3.4 per cent planned in 2012/13.
- Planning and development was cut by 27 per cent in 2011/12, with cuts of 7 per cent planned in 2012/13.
- Housing (non-HRA) and cultural services were cut by 9 per cent and 8 per cent in 2011/12, with cuts of 9 per cent and 8 per cent planned in 2012/13.

Local government expects the cost pressures to increase – driven mainly by growing demand, resulting principally from demographic change.

There is an expectation of a pay increase (following freezes in the last three years) which would add to the pay bill. Equal pay risks have increased recently due to the Abdulla case in Birmingham which means that ex-employees now have an opportunity to sue for compensation. This is difficult to quantify but could result in claims of several hundred million pounds. Local government staff have responded well to pay restraint and headcount reductions but with falling living standards the risks to morale, productivity and recruitment increase. At a time when local government is re-modelling it is essential to retain and attract the most talented and high-performing individuals.

In each of the detailed sections below, we comment on the specific service pressures and the way in which central government could alleviate them.

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[6] Quarterly Public Sector Employment Survey (ONS) http://www.local.gov.uk/web/guest/local-government-intelligence/-/journal_content/56/10171/2991184/

[7] Tough times 2012, Audit Commission, November 2012 (figures for single tier and county councils) based on revenue account (RA) and revenue outturn data (RO)

The risks of changes in local government finance

There are a number of risks to local government resulting from the government's welfare reforms:

- The funding for local council tax support will not be separately identified and will be provided through formula funding. Where there are further reductions to local government funding, this will increase the pressure on those councils to collect more council tax from those people who previously received council tax benefit.

- Local authorities and housing providers will incur a number of additional costs as a consequence of the welfare reforms (including the benefit cap and the changes to housing benefit for spare rooms), in particular in relation to homelessness, rent arrears and welfare advice. We are working closely with the sector to develop an evidence base as the reforms are implemented. Government has been reluctant to amend policy to deal with the cost implications of some of the reforms – for example by applying the benefit cap to temporary accommodation. There will also be a number of indirect costs, for example the impact on borrowing and increase in bad debt arising from rent arrears. We are seeking a commitment that these additional costs – both direct and indirect – are met through new burdens funding.

Other measures have introduced more uncertainty for local government:

- Whilst the business rate retention system may provide most local councils with an incentive to grow the local tax base, it also exposes it to reductions in funding due to volatility in the tax base.

- The New Homes Bonus provides funding to councils for new homes in their area. Whilst most of the funding comes from a top slice of formula funding with local government, the DCLG[8] allocation of £200 million in 2011/12 and £250 million for each of the years 2012/13 – 2014/15 should continue. Its removal would constitute a cut and intensify the re-distributional effect of the bonus between authorities.

The impact of further reductions

It is well understood that the local government finance settlement impacts on different authorities in different ways. It is important that these distributional effects are fully understood. Whilst the LGA does not comment on distributional issues, it is important they are understood and transparent.

[8] NHB replaced Housing Planning Delivery Grant (around £250 million per annum).

The LGA therefore supports the National Audit Office's recommendation[9] that DCLG, together with other government departments, should better evaluate the impact of decisions on local authority finances and the impact on service levels.

We look forward to seeing the DCLG modelling of the impact of the 2013 Spending Review decisions.

A new deal on local growth

Councils have a long tradition of promoting growth and of working in partnership with business and other stakeholders, including through the newly-created Local Enterprise Partnerships (LEPs). The economic challenge varies across the country from place to place, which means that local solutions are needed. Councils' efforts to drive growth have included:

- The prudential borrowing by South Staffordshire, Wolverhampton and Staffordshire councils secured the Tata investment in the Jaguar Land Rover low emissions engine plant in South Staffordshire . The councils leveraged a £400 million private sector investment.

- Northamptonshire County Council provided a £10 million secured loan to Silverstone Circuits to secure the future of the British Grand Prix in the UK, alongside a £1.5 million investment in a joint venture to expedite the Silverstone Masterplan Technology Park which is promoting the high performance technology sector. This also employs 21,000 people and contributes £2 billion to the local economy.

- Calderdale Council has freed up funds to directly support new small to medium sized enterprises. This has so far led to 150 new businesses, created 500 jobs and attracted private investment exceeding the initial seed money.

If more of the growth-related tools and levers that are currently held nationally were devolved to local areas, even more could be achieved. The Government's response to our call for devolution of growth-related powers and funding to local areas has been encouraging. With City Deals already in place and another 20 set to be negotiated, big steps have been taken towards putting the levers of growth into the hands of those who are best-placed to use them at a local level. The November Autumn Statement set out a very positive signal about the Government's intentions for a broader devolution of growth-related funding and policy to LEPs in 2015. We are looking for the March Budget to carry through the promise of the Autumn Statement by confirming that all areas will be offered the levers that they need to drive local growth.

[9] Financial sustainability of local government, National Audit Office, 2013

A devolved approach is particularly needed to address some of the most critical barriers to local economic growth that are reported by councils and businesses, including:

- Transport: Decisions about major projects too often are not consistent with the investment priorities of localities and the funding available to local areas is insufficient to realise local ambitions.
- Skills: Funding and policy for skills provision is fragmented across all age groups, which is both holding back people from getting into jobs and not offering businesses the workforce that they need.
- Financial return: Apart from a share of business rates, local areas get very little direct financial return from the proceeds of their investments.

Councils and their LEP partners caution that too much time and resources are currently being tied up in competitive processes for pilots and initiatives, which militates against quick and effective action. What is needed is a menu for customised local growth deals that can be rolled out on a non-competitive basis across the country.

A Local Growth Deal could comprise:

- A range of economic powers, including devolution of skills policy and levers for localities to support local businesses to access finance.
- A single pot of growth-related funding comprising all of the funding streams recommended for devolution in the Heseltine report. The onus should be on departments to devolve funding, unless they can demonstrate greater benefit from retaining the funding at a national level.
- Capacity to reinvest the proceeds of growth in a local area through an "Earnback" principle, including but not limited to business rates.
- Access to deals should be on a non-competitive basis, with notional allocations finalised in response to the scope of the deals themselves. Feedback from the business sector is that bidding processes work against the certainty that is needed to attract investment.

More details on the potential menu for local growth deals are set out in Annex A.

It is too early to project the tangible outcomes of devolution with certainty, but the eight City Deals that have already been signed demonstrate the promise of this approach. The core cities have estimated that the first wave of deals will create 175,000 jobs over the next 20 years and 37,000 new apprenticeships. We believe that even more could be achieved through ambitious devolution of growth-related funding and powers to all localities.

Alongside the roll-out of local growth deals, councils and businesses have indicated an urgent need to tackle broader reform of national skills and transport policy. On skills, the Autumn Statement also signalled the intention to give Local Enterprise Partnerships a new strategic role on skills from 2015. On transport, funding streams for local transport schemes have been localised. These are positive steps but do not go far or fast enough given the pressing need to kick start job creation and growth. Greater local influence in decision-making is urgently needed and we have set out below what this reform should look like in the context of skills and transport.

Skills

The current skills system is failing to train people for jobs demanded by local employers; our research has demonstrated a significant systemic skills mismatch. In 2011/12, for instance, it trained 94,000 people in hair and beauty for but just 18,000 new jobs in the sector, while only 123,000 in trades for around 275,000 advertised in the construction sector. As well as failing young people, it holds back growth, by not meeting the labour supply needs of high productivity sectors.

Local government is best-placed to flex provision around employer demand in local labour markets, using local labour market intelligence, while supporting and brokering genuine employer engagement. Councils are already doing significant work to support the most vulnerable and hardest to reach families overcome complex problems through the Troubled Families initiative. Ultimately we want those that can, to be able to make steps towards the labour market. Councils need to be able to influence employability programmes such as the Work Programme to ensure residents they are supporting to overcome barriers progress into schemes, which are locally relevant both to individuals and the local labour market.

We have set out proposals for reforms specifically related to policies for young people, whose principles could underpin a new national framework for skills policy across all age groups. Our reforms propose that local authorities and their partners:

- become the default commissioners of all programmes seeking to get the most disengaged young people up to 24 years old back into work training and education
- lead in setting local and sub-regional priorities for 16-24 skills provision, driven by employer demand in local labour markets, and linked to pre-16 provision
- co-design, with Jobcentre Plus and Work Programme providers, joint packages and employment programmes for hardest to reach young people, effectively bringing together local and national programmes
- commission wage subsidies announced as part of the Youth Contract, engaging small and medium enterprises and targeting young people with most to gain from public subsidies.

We calculate that this new local approach to youth unemployment would result in savings of £1.25 billion a year to the taxpayer, through £1 billion of benefit payment savings and £250 million in additional tax and national insurance contributions.

Transport

The need for local influence over transport decisions is a theme that recurs in discussions with both local government and the business sector up and down the country. The following excerpt from an independent report by the think tank Localis aptly identifies the problems with the existing system and a more effective way forward:

"In March 2012, the Government announced a review of the Highways Agency, which could potentially recommend abolishing it and replacing it with regional frameworks, possibly managed by the private sector. The feasibility study undertaken by DfT is due to report to the Prime Minister in spring 2013.

However, simply privatising the highways network will not radically alter the current lack of strategic links between local and strategic road networks. The historic lack of influence by local authorities over the strategic network has led to a fragmented approach to road, and indeed overall, transport planning. Further, any attempt to draw in private investment to a national or regional highways network would likely require a steady income stream reliant on either road charging or linking tax revenue to road usage, neither of which could be achieved either quickly or easily.

Given that the Government has committed to route-based strategies that will "support a much greater local and regional stakeholder involvement in planning for the network",[10] alongside encouraging greater oversight of transport policy via LEPs and the future Local Transport Boards, we suggest that local bodies have the capacity and value for money skills to commission strategic routes works at the local level with the support of the Department for Transport. Indeed, the ability of local authorities to work with Government to improve the commissioning and efficiency of such works has been demonstrated in Cornwall. Any move towards a 'single pot' local funding mechanism and appropriate governance would of course strengthen the argument in favour of this approach.

Arguably, an unaccountable middle-man in the form of the Highways Agency is no longer required."

There are two other transport issues we would like to raise as part of the Spending Review:

- The English National Concessionary Travel Scheme is nationally prescribed but funded locally out of local authority income from grant and council tax. The level of national funding has not kept pace with the costs of the scheme which is increasingly subsidised by local tax payers. Greater local flexibility is required to enable local authorities to use the limited funding more effectively.

- Greater powers such as the Traffic Management Act part six would enable local authorities to manage transport congestion more effectively, potentially reducing road

[10] http://pressreleases.dft.gov.uk/content/detail.aspx?ReleaseID=424566&NewsAreaId=2

maintenance costs, by encouraging mode switch to cycling and buses. It would also have broader economic benefits that would support growth in business rates.

Model local growth deals

1. **Single economic investment fund:** A single pot of growth-related funding comprising all of the funding streams recommended for devolution in the Heseltine report.
2. **Skills development:** A role in commissioning training and apprenticeships across the 16-19 and 19-plus spectrum, including the Work Programme.
3. **Transport:** A greater devolution of major transport funding, joint local and national decision-making on investment in the Strategic Roads Network and more of an influence in deciding future rail franchises and the targeting of funds held nationally.
4. **Localised asset management:** A Single Property Board in an area should set a strategy for the use and disposal of local and national public sector land and assets.
5. **"Earn-back":** Capacity to reinvest the proceeds of growth in a local area through an "Earnback" principle (as in the Manchester City Deal), including business rates and a share of other tax receipts generated locally.
6. **Broadband:** Resources for broadband to be included in the single economic investment fund with decisions taken through the local planning system.
7. **Business support:** A localised version of Business Link to coordinate and broker the range of business support services available within a place.
8. **Alternative funding mechanisms:** With Government capital grant set to be constrained for the foreseeable future, localities have to be able to use a range of capital financing mechanisms to support the infrastructure they need to unlock growth.
9. **Inward investment:** A commitment from UK Trade and Investment (UKTI) to work with localities to develop compelling local offer for securing inward investment, which may also require start-up funding or specialist support.
10. **A new model of local regulation:** Flexible licensing, a move away from scheduled inspections for low and medium risk businesses to target poor performers and a new approach that encourages business to seek advice from regulatory services. The latter could generate focused activity with specific industry sectors or start-up businesses, more online facilities, training opportunities, work with businesses with a high turnover of managers or highlight areas for further advice and guidance.

Housing

On housing – remove the unnecessary and centrally set Housing Revenue Account borrowing cap and allow councils to borrow in line with prudential rules and allow councils to set the right to buy discount and retain 100 per cent of the receipts. The current £2.8 billion headroom available to councils following self-financing already enables them to plan a limited build programme. Just one year into the new self-financing arrangements indications suggest that councils are already planning to build 15,000 units spread over five years. Removing the centrally set borrowing cap would allow councils to invest an additional £7 billion over five years which could result in up to a further 60,000 homes over and above current plans.

There is significant and rising pressure on the affordable housing stock currently available. The housing waiting list stands at 1.84 million against a context of persistently low affordable house building starts[11] and low completions across all tenures[12]. Rental costs in the private sector continue to increase at a higher rate than inflation[13].

Homelessness acceptances continue to increase[14]. There are specific regional pressures, for example the use of temporary accommodation has increased slightly over the last year but over 70 per cent of these placements and a third of the total spend on homelessness overall occur in the capital.

The capacity of the whole social sector – local authorities, as well as housing associations, needs to be harnessed to help meet a clear need for increased levels of affordable rented accommodation.

Local Government has a track record of borrowing prudentially against its means, using the prudential code as an effective way of self-managing borrowing. Our market testing with economists, fund managers and credit rating analysts indicated that there were no particular concerns about local authority managed investment as distinct from that managed by central government[15]. Furthermore councils' debt levels are modest on a per property basis[16] and they have low borrowing costs for new debt.

The new self-financing housing system for local authorities has created a business framework with a range of factors that support new investment. Borrowing headroom for some has enabled

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[11] http://www.homesandcommunities.co.uk/sites/default/files/aboutus/housing_statistics_november_2012.pdf
[12] with 115,620 completions in the 12 months to December 2012 falling from a high of 177,000 in 2007 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/86119/House_Building_release_-_December_Qtr_2012.pdf
[13] The RICS are projecting further rises of 2 per cent and 3.9 per cent over the next 6 and 12 months respectively www.rics.org/lettingssurvey
[14] Acceptances were 16 per cent higher during January to March 2012, than the same quarter last year[14] and 9 per cent higher between April and 30 June 2012

http://www.communities.gov.uk/publications/corporate/statistics/homelessnessq22012
[15] http://www.almos.org.uk/guidance_docs.php?subtypeid=14
[16] The average council debt is now just over £17,000 per property.

authorities to plan more investment. However, the amount of borrowing headroom up to centrally set caps is distributed unevenly and some councils have little or no headroom. It bears no relation to housing need in the area and as a result constrains the ability to invest for some authorities and the ambitions of others.

Councils can build at significantly lower levels of cost per unit than housing associations for equivalent properties[17] and 85 per cent of councils surveyed are planning to release their own land for housing over the next five years[18]. Councils are able to link construction work to apprenticeships and work experience schemes as well as the wider growth and regeneration strategies operating at both local authority and sub-regional level.

The LGA is pressing for a removal of the unnecessary and centrally set HRA borrowing cap and allowing councils to borrow in line with prudential rules.

The current £2.8 billion headroom available to councils following self-financing already enables them to plan a limited build programme. Just one year into the new self-financing arrangements indications suggest that councils are already planning to build 15,000 units spread over five years. Removing the centrally set borrowing cap would allow councils to invest an additional £7 billion over five years which could result in up to a further 60,000 homes over and above current plans. This estimate is based on the prudent approach local authorities have taken to date bearing in mind levels of risk and limitations such as land and organisational capacity; and is far below the theoretical borrowing capacity available to councils should the cap be removed. Overall, we estimate unlocking this potential to invest in housing would lead to a wider economic impact of £20 billion[19]. The market reaction to this proposal was that amount of extra borrowing in question is far smaller than the standard statistical error for public borrowing figures and would not be of concern to the economists, fund managers and credit rating analysts we interviewed.

The government has reinvigorated the right to buy and has set an increased discount level of £75,000. This single cap fails to take into account local housing demand and the cost of building new homes. This actually means that in some areas receipts will be insufficient to build replacement homes. It is also poor value for the public purse as in some areas the discount is higher than is needed to generate additional sales. We believe that by allowing councils to set the discount rate the right to buy could more effectively take account of local housing market conditions and demand for right to buy properties and to ensure the scheme could deliver sufficient funding for replacement homes. To ensure that the receipts from right to buy sales are invested as effectively as possible councils should retain 100% of the receipts for reinvestment in housing locally. This should not be subject to the current conditions on using the receipts which makes it more difficult for councils to use their land assets effectively to bring forward housing.

[17] Councils demonstrated through the LA new build programme that they could build at an average lower cost of £10,000 when compared to housing associations. Housing Commission: Housing Shortages. What Councils can do, p46.

[18] http://www.local.gov.uk/web/guest/research-housing/-/journal_content/56/10171/3750535/ARTICLE-TEMPLATE

[19] Lets Get Building, National Federation of ALMOS et al, 2013

Public service reform

There are a range of solutions that government could take each of which would assist local government to manage services more effectively within any given settlement.

Community budgets

Based on the work of the four whole place community budget pilots Ernst & Young[20] has estimated that whole place community budget approach offers an opportunity not only to drive local public service reform, but also to deliver significant net financial benefits for the taxpayer into the long-term.

They have calculated that the potential net five year benefit of a community budget approach to health and social care, troubled families and work and skills alone if rolled out across the country would be £9.4 billion to £20.6 billion. While the net one year annual benefit – in steady state – would be £4.2 billion to £7.9 billion of a one year addressable spend of £107.1 billion. Councils would account for 20 per cent of this benefit with the major part accruing to other partners.

To achieve this level of savings and change however, in addition to having the right local factors in place, complete buy in from Whitehall Departments will be required, with responsibilities devolved from Whitehall to local areas.

The Government will need to implement the national pre-conditions set out by the pilot sites in the pilots' business cases.

Amongst other things the government will need to put in place funding arrangements that will allow devolution to the lowest level to deliver at scale, a default to enable the easy sharing of information and data between local partners and government and arrangements to develop investment agreements and social investment models.

Since the financial benefits of integrated local approaches to public services in a place accrue to Department for Work and Pensions (DWP), the NHS, the police and Ministry of Justice, to galvanise community budgeting approaches we propose that a new way of budgeting for public services in a place is developed. In doing so, it is essential that all departments benefitting from the approach share in the upfront investment needed to deliver it in each locality.

Adult social care

Demand for adult social care is on an upward trend. The number of people aged 75 or over is projected to grow by 24.5 per cent between 2010 and 2020 and the number of adults with learning disabilities by 18.2 per cent.

[20] Whole place Community Budgets: a review of the potential for aggregation, Ernst and Young, 2013

Over the period to 2030, the additional cost of adult social care is projected to increase by 84 per cent from £14.5 billion to £26.7 billion in real terms[21].

Yet over the last two years, reducing budgets have led to a fall of £1.89 billion in adult social care budgets in real terms[22].

Councils are doing what they can to constrain costs in adult social care. Of the £1.89 billion fall in budgets £688 million has been made through service re-design and efficiency. However, this level of saving is unlikely continue. Reductions in budgets inevitably lead to lower fees to providers. This can have a range of negative impacts – for example on the development of a wider provider market particularly micro-providers whose presence in the social care market is seen as important to progressing the personalisation agenda.

The Government has recently outlined some major proposals to change the way in which adult social care is funded in the future and what an individual's liability for costs should be. These reforms on funding sit alongside a further set of reforms outlined in the Draft Care and Support Bill to make the system simpler and fairer. If the reforms are to work it is vital that they are adequately funded, which includes taking account of the likely regional variation in cost implications for councils.

Part of the reform agenda is about achieving a shift away from crisis response and more towards prevention and early intervention. Again, this will need resourcing to make the aspiration a reality.

Reform will mean little if the system itself is not adequately funded to take account of the on-going pressures posed by rising demand and increasing costs. This is not just an issue about an increase in the number of older people, but also includes working age adults living longer with disabilities. The level of savings in adult social care councils have achieved since the 2010 Spending Review cannot be maintained going forward.

In SR 10 additional money for social care was included in formula grant (£530 million 2011/12, £930 million 2012/13, £1 billion 2013/14, £1 billion 2014/15) and additional money from the NHS "to support integration between health and social care services at the local level… specifically for measures that support social care, which also benefit health" (£800 million 2011/12, £900 million 2012/13, £1 billion 2013/14, £1 billion 2014/15).

There is a broad consensus now that the health and social care system needs to be looked at as a whole, and in doing so there is potential to reduce acute costs and bed based care through preventative measures and community based care. Against that background we would like to discuss with government at least maintaining the NHS investment in social care and the case for adding to it.

[21] Local Government Association figures
[22] ADASS Social Care Budget Survey 2012/13

Children's services

Demand for children's services is on an upward trend:

- the number of children subject to a Child Protection Plan at 31 March has steadily increased from 29,200 in 2008 to 42,850 in 2012[23]
- care applications have risen by 58 per cent between 2008/9 and 2011/12 with the number in July 2012 the highest ever recorded for a single month
- the number of looked after children grew by 10 per cent between 2009 and 2012[24].

Looking ahead, pupil numbers (age up to and including 15) in state-funded schools began to increase in 2011 and are projected to continue rising. Current Department for Education estimates[25], due to be updated in March, are that by 2020 numbers in maintained nursery and state-funded primary schools are projected to be 20 per cent 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 un-ringfenced early intervention grant available to councils from £2.3 billion in 2012/13 to £1.7 billion in 2013/14 and £1.6 billion in 2014/15. The evidence is that early intervention approaches can reduce demand on statutory child protection services in the longer term. It follows that reducing early intervention funding available to councils to use flexibly is a false economy.

Across recent spending reviews the 'schools' budget, which is ring fenced within the Dedicated Schools Grant (DSG), has been relatively protected and over this spending review period was given a 'cash flat' settlement. Growth in spending on the other areas for which children's services authorities are responsible has been constrained in previous spending reviews and cut in line with overall reductions in council spending in this review period, despite the increasing pressures.

However working more closely with councils on delivering early help and support for children and families will benefit schools directly, for example in relation to children being school ready, improved educational attainment and better physical and mental health. Early help gets to the root causes of problems and stops them developing, improving children's behaviour in a more sustainable way.

Given the relative protection of the schools budget, one option would be for schools to make a contribution to early help and early intervention approaches which will improve the attainment and outcomes of the children and young people for whom they are responsible. However, the scope for schools, by agreement, to make this kind of contribution through a 'top-slice' or pooling of DSG resources at a local authority level has been reduced with recent schools

[23] DfE Characteristics of Children in Need http://www.education.gov.uk/rsgateway/DB/SFR/s001095/index.shtml
[24] DfE Children Looked After http://www.education.gov.uk/rsgateway/DB/SFR/s001084/index.shtml
[25] http://www.education.gov.uk/researchandstatistics/statistics/allstatistics/a00211339/

funding reforms. Indeed, the most recent reforms have stopped schools forums (which decide the formula for allocating DSG) from entering into ‘pooling’ arrangements of this sort.

We would like the Government to reconsider this change and allow schools to work with councils to use DSG to support early intervention and early help approaches which will reduce public spending pressures on schools and council statutory services in the longer term.

Culture, sport and the digital economy

Councils currently spend just over £3 billion every year on libraries, leisure centres, museum and other cultural services because of their contribution to growth, tourism and wider outcomes. However, this investment is under increasing strain in the context of the overall level of savings councils need to find. The culture and sport sector has embraced the efficiency agenda and the LGA has led work to develop and share new delivery models, but efficiency savings are no longer enough. Significant savings have already been made across the sector and around 40 per cent of culture and sport services are now partially or entirely delivered through trusts, social enterprises or similar arrangements. It is estimated that councils’ cultural budgets have reduced by 8 per cent in 2011/12 with reductions of 8 per cent planned for 2012/13.

The best way to secure a sustainable future for culture and sport provision is to ensure councils have the necessary levers and flexibilities to maximise the contribution of these services to local growth priorities.

For example, new research reveals that for every £1 spent by local authorities on the arts, leverage from grant aid and partnership working brings up to £4 of additional funding. As we move towards a mixed economy of arts funding, local government has a key role to play driving local donations to the arts up and down the country. We want to work with government on a shared mission to re-discover philanthropy around the country. Lottery sales continue to be strong and achieve significant local impacts. It is an important statutory constraint on Lottery funding that it must not replace public funding (the “additionality” principle), but Lottery funding closely complements activity funded by mainstream public expenditure, and councils want a distribution system that reinforces, not runs counter to, the general drive towards joining up and simplifying public funding locally. We want to work with government and the lottery distributors to introduce a complementary approach to lottery funding that recognises the work being undertaken by councils locally and nationally and reduces unnecessary complexity of national funding streams.

Councils are leading the rollout of the nation’s broadband programme and have seized the opportunity to transform the economic fortunes of places which for too long have suffered from very slow or intermittent internet access and most have risen to the challenge of match funding the government funding at a time of austerity. Councils have, however, become increasingly frustrated by delays to the rollout of the rural programme, largely due to delays signing off the Procurement Framework, and further delays whilst state aid issues were clarified. With only one active supplier for the rural programme, councils are also concerned about how they can assure themselves that they are achieving value for money. Delays caused by state aid and the tight timescale for delivery are now also impacting upon the urban programme and councils are keen to resolve these as soon as possible.

We are urging government to secure state aid clearance for the urban broadband programme and address councils' concerns about the competitiveness of the supply chain in the rural programme by making available benchmarking data. This will enable councils to assure themselves of value for money when there is only one active supplier.

Public libraries are one of the few places where people can access the internet at low or no cost, and help with how to use it. This is going to be central to the successful implementation of Universal Credit, which the government wants to be digital by default – eight million adults do not have internet access and almost half of these are social tenants. Public libraries are ready to play their full part but it will place more demand on the service and this needs to be reflected in the funding arrangements for Universal Credit.

The fire service

Fire service, net current expenditure in 2011/12 stood at £2,118 million. When we take inflation and pay pressures into account and adjust for a reasonable level of on-going efficiencies we would expect expenditure to increase to £2,400 million by 2017/18. This is an increase of around 13 per cent. The 2012 pension valuation also presents a potential source of cost pressures. Depending on the treasuries assumptions – which are not yet known – employer contribution costs could rise in the short to medium term.

The Fire and Rescue Service is held in the very highest esteem by members of the public, trusted and visible in times of greatest need.

The Fire and Rescue Service has transformed itself into an all-encompassing emergency responder; the growth of the sector's role in attending road traffic collisions (RTCs) is an example. The recent report from Chief Fire Officers Association, Fighting Fires or Firefighting, highlighted the extent to which the Fire and Rescue Service contributes to a wide range of priorities including economic and social outcomes.

Fire and Rescue Authorities have been very successful in achieving year on year efficiencies, but we now need to work with government to understand what will constitute a fair future funding settlement for the Fire and Rescue Service based on risk.

Although there is an example of successful merger in the fire sector, recent attempts have not been successful and the barriers need to be addressed.

The costs associated with new burdens on the Fire and Rescue Service such as the non-employee costs associated with the retrospective admittance of retained firefighters to the pension scheme should be met in full by government.

The reform of the pension scheme represents an opportunity to support longer term reform in the Fire Service. The reforms will reduce employer pension contributions towards the end of the decade. We would like to work with government to see how any savings that might arise from this reform can be retained within the service.

Waste management

A landfill tax freeze at 2014/15 levels would contain councils' costs to a 3 per cent rise in 2015/16 whilst retaining an effective incentive to minimise waste to landfill and help avoid potential EU fines of £100-£150 million. This is compared to a larger increase in council costs and additional burden of £70 million to the tax payer based on continuation of the landfill escalator at its current rate.

Waste collection and disposal is the third largest local government service in terms of spend and an essential service for local people. The LGA's preliminary financial modelling from June 2012 projects that waste management costs will rise to £3.89 billion, an increase of 3 per cent (or over £120 million) in 2015/16, even if efficiency savings continue to be realised. This estimate is a conservative one, since there are cost drivers associated with disposal such as volatility in the recyclates market which cannot be factored into the model. Looking beyond 2015/16, councils are expected to face on-going cost pressures from an increased population and associated household waste, with the number of households projected to grow by 20 per cent to 2033[26].

Our projections on waste management costs in 2015/16 apply an assumption that the landfill tax rate will remain at 2014/15 levels. However, the Government has not yet announced its intentions regarding the landfill tax escalator after 2014/15 (in the current spending period, landfill tax increases by £8 per tonne per year). Freezing the landfill tax at the 2014/15 rate would help contain council costs and the burden on the local taxpayer. The rate at this point will be £80 per tonne of waste landfilled, which would continue to provide an effective incentive to divert waste from landfill.

Based on the most recent figures local authorities provide approximately half of landfill tax receipts, with commercial and industrial waste from private operators making up the remainder. The overall cost of landfill tax to local authorities in 2014/15 is projected to be approximately £720 million, which would rise to £771 million in 2015/16 if the £8 escalator remains in place. If the rate is frozen it would cost local authorities £700 million in 2015/16 based on falling tonnages to landfill, providing a saving in the region of £70 million and ensuring the overall cost increases for waste management are contained in that year at 3 per cent. Many councils will also be making significant capital investments as well as continuing to increase revenue spend in order to meet the EU 2020 targets on landfill diversion and recycling in order to avoid potential that fines, levied post 2020, in the order of £100-£150 million. Significant investment in

[26] CLG Household Projections https://www.gov.uk/government/statistical-data-sets/live-tables-on-household-projections

infrastructure will be required to meet the recycling targets. As waste infrastructure projects often need several years' lead time, we urge central government, in collaboration with local government, industry and other partners in the waste supply chain, to explore solutions to the gaps in waste infrastructure. Furthermore, the recent withdrawal of Waste Infrastructure Credits from three infrastructure schemes in recent weeks will add to revenue costs for the councils concerned as more material is landfilled.

Local authority bonds agency

In 2012 the LGA and WLGA published a report showing that an independent bond agency could raise and on-lend funds to member councils at competitive costs[27]. In the 2012 Budget the government stated it wanted to work with councils. We call on the government to work with us to develop this agency.

The Eddington Transport[28] review highlighted that smaller capital schemes typically provide highest returns on investment and drive economic growth.

A collective bond agency would be part of a mature relationship between central and local government. Councils would be trusted to ensure local government's collective financial standing and be responsible to properly manage those institutions, not least as their collective borrowing costs would depend on the result.

The bonds issued by an agency would be an attractive to UK pension funds. As it stands an increasing percentage of British pensions are flowing overseas because of a lack of available places to invest in the UK.

The government wants to see greater public sector financial transparency. An agency would provide comprehensive and authoritative information about council finances.

A collective agency would strengthen and modernise the governance arrangements in this area, which have remained largely unchanged since the nineteenth century. In order to secure a high credit rating the agency would need to have the best practice with a supervisory board with drawn from different sectors, transparent credit appraisal checks and clear reporting arrangements.

Our proposals represent credible international best practice. Collective bond agencies have existed in Nordic countries for decades and in one case for over a century. These were the countries that emerged from the recent financial crisis with least disruption. They are also the countries with the highest international ratings for competitiveness and financial integrity.

New Zealand launched an agency in 2012. France and Germany are developing or considering similar institutions. By working together Britain would be allying itself with the best international financial practice.

[27] Local authority bonds – a local government collective agency, Local Government Association, 2012
[28] Transport's role in sustaining UK's productivity and competitiveness, HM Government, 2006

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