

Anycouncil and the spending round



April 2013

1. Introduction

The Local Government Association's (LGA) Spending Round submission makes a number of proposals to help councils deliver better public services and promote growth.

In making those proposals, it is important to show how councils have since 2010 made efficiencies and contributed to growth, and how they could go further.

Anycouncil is a typical upper tier council in three principal respects: the funding reductions¹, the level of deprivation and the growth in the local economy are all in the mid-range.

Our analysis of Anycouncil shows:

- The financial impact of the 2010 Spending Review on the average upper tier council contrasting the position in 2011/12 with 2014/15.
- The steps the council has used to manage the financial impact.
- The positive impact of the council on local growth and jobs.
- The financial impact on the council of a further 10 per cent reduction in grant funding in 2015/16.
- The potential impact of the measures proposed in the LGA Spending Round submission (henceforth the submission) on Anycouncil's ability to protect local public services and promote growth.

2. The impact of the 2010 Spending Review

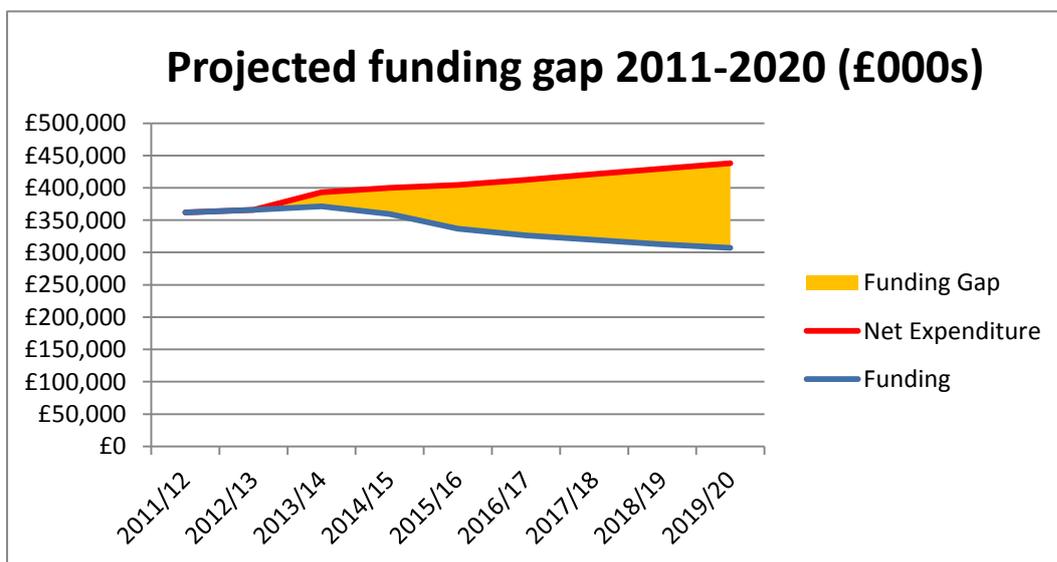
In 2014/15, Anycouncil will have resources of £360 million (excluding Dedicated Schools Grant). There have however been a number of marked changes since 2011/12:

- A real terms reduction of government grant from 2011/12 to 2014/15 of 27 per cent.
- The council froze council tax in 2011/12 and 2012-13, but increased it in 2013/14.
- Investment income has fallen by 50 per cent from £3 million to £1.5 million a year.
- The council has been allocated £24 million a year for public health responsibilities.
- Funding cuts, a two-year council tax freeze, inflation and rising demand on services for vulnerable clients mean that Anycouncil has had to take £64 million out of non-care budgets by the end of 2014/15.

¹ Funding reductions have varied according to the level of grant dependency.

- A total of £24 million in one-off reserves are being used to mitigate the funding reductions. This breaks down as £9 million in 2012/13, £4.5 million in 2013/14 and £10.5 million in 2014/15. Anycouncil recognises that the use of reserves in this way is not sustainable.
- A gap is opening up on the demand for services and funding available to provide them which makes it impossible to balance the budget in the future by making incremental budget reductions. Looking ahead, more fundamental service withdrawal and reductions will be required.

Chart 1 – There is a growing gap between income and expenditure – projecting forward on current trends and assuming a 10 per cent cut in government grant in 2015/16.



3. How has Anycouncil managed within reduced resources?

In common with most other councils, Anycouncil has cut costs through a strategic transformation programme. It has delivered nearly £64 million of savings from, for example:

- An asset strategy with other local public sector partners to utilise estate more efficiently and rationalise office space saving £4 million.
- Procurement controls and joint purchasing arrangements with other councils saving £2 million.
- The use of £4 million of reserves to fund severance costs, including redundancy and pension costs saving £4.5 million a year.
- Trading activity to generate revenue, including leasing council buildings for private functions and earning fees for providing services to other authorities.

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- Consolidation of legal, IT, accounts and back office services across the council saving £3 million and reducing management and business support saving £8 million.

There have been a range of measures to reduce workforce costs:

- Headcount has reduced by 14 per cent since 2011/12. In that year, the average council employed just under 6,000 people, now it is closer to 5,000 (not including education staff). This has been achieved through a redundancy programme (which has been largely voluntary²), deletion of vacant posts, recruitment freezes and natural wastage.
- Pay restraint, including a national pay freeze for each of the last three years, and a freeze on increments (in common with at least 20 per cent of councils). It has not implemented across the board additional pay reductions, but it has reduced the Chief Executive's pay by £20,000 a year and the number of staff paid more than £50,000 has fallen by nearly 30 per cent.
- Other changes to terms and conditions, especially changes to car allowances, redundancy schemes and payments for unusual hours.

Local people will have seen changes to services, for example:

- Increasing charges for social services including day centres, day care meals and monitoring technologies. Eligibility criteria has been set at the substantial/critical threshold.
- Efficiencies in children's services totalling £4.8 million to both make savings and meet new fostering costs of £1.7 million and placement costs of £1.2 million. The number of looked after children has doubled to 650 since 2006. In detail:
 - an early intervention strategy saving £1.3 million through refocusing Family Support and Children's Centres
 - directly provided services to pupils (for example, attendance and pupil support, Pupil Referral Units, early years and child care) and maximising the use of Dedicated Schools Grant funding for these services
 - a revised accommodation strategy for Looked After Children and better commissioning and management of placements
 - jointly commissioning and funding Connexions services with schools to deliver careers advice saving £0.3 million.

² LGA monitoring in 2011 showed that 58 per cent of councils had announced recent redundancy programmes.

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- Reduced support for cultural and sporting events and festivals such as community cohesion events and local food and drink festivals.
 - Operational changes to waste services to maximise the productivity of both staff and vehicles saving £0.25 million.
 - The use of volunteers to maintain public rights of way (£0.2 million) and increased car parking charges to more accurately reflect the cost of provision (£0.5 million).
 - A 35 per cent reduction in planning staff made possible in part through a 25 per cent fall in planning applications.

These savings have been achieved at the same time as prioritising local business and private sector job growth.

4. The council's positive impact on growth and jobs

Promoting growth in the local economy is a top priority for councils – through investment in infrastructure projects, supporting new developments, major inward investment schemes, support to small businesses and employment support schemes.

On the other hand the reduction in AnyCouncil's budget and employment will have had a short-term, negative impact on the local economy and that of neighbouring councils into which its economic activity spreads.

During the four year 2010 Spending Review period, AnyCouncil has taken a range of measures including:

- The creation of a £2 million interest-free loan fund to assist local businesses struggling to access credit from banks.
- A joint venture with a developer to bring forward a new town centre scheme through the use of a council land asset.
- Wage subsidies to support apprenticeships in local small businesses in their first year of employment and a council apprenticeship scheme.
- The prioritisation of capital investment financed by new prudential borrowing³, capital grants and capital receipts to invest in the local economy, infrastructure and housing.

The picture so far is one of far-reaching efficiency measures to reform and protect services alongside investment in the local economy.

³ New prudential borrowing of £36 million in 2013/14 reducing to £15 million by 2015/16.

Is this sustainable with further reductions in 2015/16?

5. The outlook for 2015/16 – the impact of further cuts

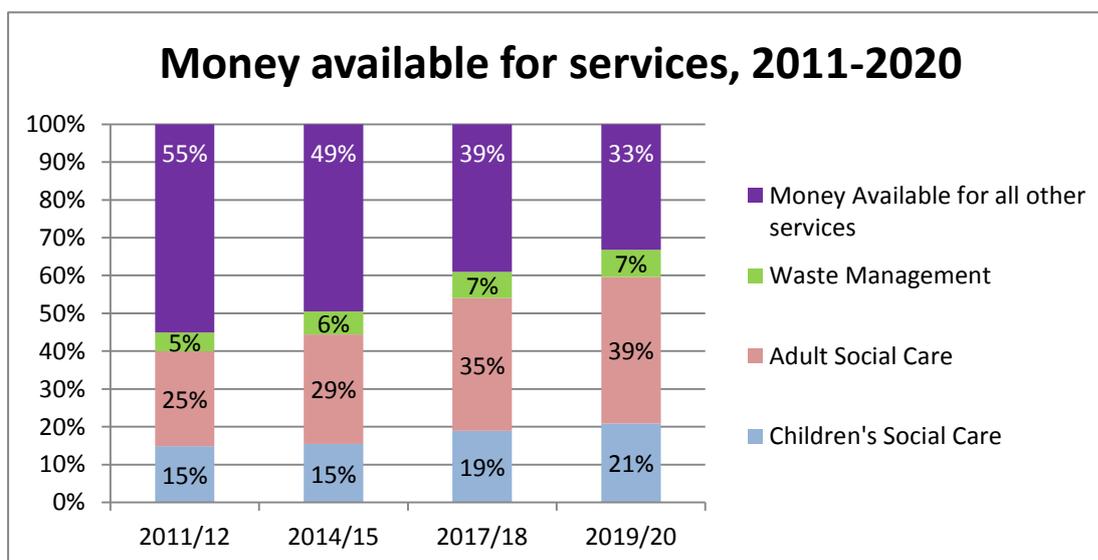
A 10 per cent reduction in grant funding for 2015/16⁴ reduces the resources available to Anycouncil by around £30 million compared to 2014/15, partly offset by a £2-3 million increase in retained business rates.

In addition, the council is facing an increased pension cost of £4 million to manage the National Insurance impacts of changes to State Earnings Related Pensions from 2016/17 (and a further £3 million for local schools).

This further squeeze on resources creates two major risks – to the provision of local services and to local growth and jobs.

Firstly, further cuts are not sustainable without an even greater impact on local services than those described above – efficiencies are harder to find and much more fundamental change is required.

The chart below shows the growing proportion of funding spent on adult social care, children's services and waste through the decade if these services are "protected".



Demand for adult social care services is growing at the same time as the resources available to Anycouncil fall. This means that spending on adult social care grows from 25 per cent to 39 per cent between 2011/12 and 2019/20. Correspondingly there would be a reduction in the funding available for other services from 55 per cent to 33 per cent of the total budget by the end of the

⁴ Ministers told to prepare for cuts of up to 10 per cent, BBC news, 27 March 2013.

decade⁵. What impact will this have?

Anycouncil will not make decisions about 2015/16 until after the Spending Round announcement. But it has begun considering the worst-case scenario and looking at ways to either raise income or reduce services to find £30 million.

It is approaching a tipping point where it is considering further service reductions and more starkly withdrawing completely from certain services.

Some of the options that may need to be considered and the estimated savings are set out in the table below:

Table 1 – Possible measures to meet Anycouncil’s £30 million potential funding reduction in 2015/16

Service area/income stream	Measure	Saving £m
Sports and leisure	Reduce expenditure to zero	7.9
Local council tax support scheme	Reduce funding by 20%	5.4
Children's centres	Close five centres	3.5
Highways and roads maintenance	Reduce expenditure by 15%	1.6
Single Person Discount*	Remove for non-pensioner households	2.2
Museums and galleries	Close all seven museums/galleries	2.1
Voluntary Sector	Reduce expenditure to zero	1.7
Council tax*	Increase by a further 1%	1.6
Local bus subsidies	Reduce expenditure to zero	1.1
Libraries	Close six libraries	1.0
Street lighting	Turn off 25,000 lights (50%) midnight-5.00am	0.4
Planning service	Reduce expenditure by a further 20%	0.6
Non-statutory schools transport	Remove for 1,000 pupils	0.4

*Requires central government policy change.

⁵ LGA internal figures on the funding outlook.

Secondly, as Professor Tony Travers⁶ from the London School of Economics suggested in his recent report, further cuts are not sustainable without compromising the councils' impact on growth in the local economy. Many of the cuts are likely to fall on transport, economic development, cultural, environmental and planning services – all growth enabling services.

In the average council, more cuts means a risk to the council's support for the local economy resulting from, for example:

- The use of reserves⁷ to reduce the scale of funding reductions on services rather than using them for investing in infrastructure and economic growth.
- An end to discretionary schemes to tackle market failure in the housing market (for example in mortgage lending).
- A fall in planning performance, including processing times and enforcement action, to the extent that the reduction in staff compared to the fall in planning applications cannot be met by increased efficiencies⁸.
- Reduced advice and financial inclusion services and support to manage the uncertainties associated with welfare reform and the introduction of universal credit.
- Less investment in broadband infrastructure and digital inclusion programmes in places like local libraries.
- The council has already had to cut its economic development team from 28 to 10 in the past couple of years, and would expect further cuts in 2015/16 to mean the loss of further posts, including its town centre managers.

So there are significant risks to both services and growth in 2015/16 – what's the solution?

⁶ Local government's role in promoting economic growth, Professor Tony Travers, December 2012

⁷ Some councils will be building up reserves to manage the uncertainty in the localisation of council tax benefit and volatility in business rate income.

⁸ Planning fees are centrally set and the current system does not properly reflect costs meaning local authorities operate at a loss of around 20 per cent. This equates to a public subsidy nationally of around £110 million. It also means that some applicants are heavily subsidised and others pay more than necessary with council taxpayers picking up the difference. Source: LGA estimates.

6. How the LGA's proposed spending round measures help secure services and growth for Any council residents

Any council will face a funding gap of -17 per cent by 2015/16, the difference between the projected growth in income and expenditure. This gap grows to -30 per cent by 2019/20.

Our proposals make it easier for Any council to cope with a growing funding gap in three principal ways – through public service reform and integration, local economic growth and the de-regulation of local government finance.

Public service reform and integration

The Community Budget pilots looking at new ways of funding, organising and delivering services in four areas have shown that there is the potential to make savings across the public sector in the medium term while at the same time improving outcomes.

Although a direct comparison is not possible the West Cheshire whole place Community Budget pilot is also a single unitary council area like Any council. In West Cheshire⁹, they modelled the potential savings from a community budgeting approach to work-ready individuals, adult social care, domestic abuse, early years and families with complex needs. They identified new ways of providing services that deliver improved services for local residents and save £107 million across the public sector over the next five years – with about 80 per cent of the savings accruing to central government agencies.

Ernst and Young¹⁰ modelled the potential net benefit of three whole place themes across each of the four whole place Community Budget pilots: health and social care; work and skills; and troubled families. They estimated the steady state savings reached in year five at between 4 and 8 per cent of the expenditure on these services across the public sector. They noted however that community budgeting is not a quick fix and the realisation of savings depends on the presence of both local and national factors. The savings are a way of managing spending reductions already in the system.

The Spending Round is an opportunity to drive this more integrated public service approach, removing protections and encouraging new ways of organising and delivering local services.

Any council is facing a demographic pressure of 2.7 per cent in its adult social care budget in 2013/14. Like most councils¹¹, it has set eligibility thresholds at the substantial/critical threshold and it is getting much harder to find efficiencies within social care alone.

It would like to see the local NHS investing in locally determined adult social care priorities that promote integration and better health and care outcomes, as determined by the Health and

⁹ A Community Budget for West Cheshire, Altogether Better West Cheshire, 2012.

¹⁰ Whole Place Community Budgets – a review of the potential for aggregation, Ernst and Young, January 2013.

¹¹ ADASS Budget Survey, 2013 – 87 per cent of councils are now at the substantial/critical threshold.

Wellbeing Board. West Cheshire's approach to health and social care will reduce the number of unplanned hospital admissions and the demand for long-term care placements, reducing costs to the health and care system by £26 million over the next five years.

There are opportunities for a more joined-up approach to children and young people's services too. Anycouncil is on target to save £2 million and improve outcomes from its early intervention strategy for children's services. Although there is good partnership working with local schools there is scope to develop even stronger partnerships and co-invest in more targeted early intervention and strengthen the important role schools play in safeguarding.

In West Cheshire a five year programme to deliver co-ordinated, cost effective and tailored support to young people aged 0-19 years old (on levels two and three on the continuum of need) will cost £2.5 million to implement and return benefits of £4 million over a four year period.

Growth

Alongside the measures set out above, Anycouncil is part of an ambitious city region economic partnership. A major devolution of growth funding will enable the partnership to provide more targeted and effective support for local growth.

The partnership has plans to tackle youth unemployment and create apprenticeship hubs, transform the transport infrastructure and to work with UK Trade and Industry to dramatically improve export and inward investment performance. There are plans to strengthen local economic governance and pool funding for investment, including a business rates pool, for a pipeline of local capital projects.

There is local ambition to take a leading role on skills – to open up more opportunities for disengaged young people, work with SMEs to identify job prospects and target mainstream skills funding towards the growth opportunities in the local economy.

The submission makes the case for local partners to drive growth and create new jobs through a Heseltine plus pot that includes the skills funding for 16 to 19 year olds.

This would allow the local enterprise partnership and local councils to ensure that mainstream skills investment is driving growth in the key sectors and attracting more private investment in higher level skills. Research is already underway to enhance local labour market intelligence and identify the future skills needs of local employers.

There is an appetite to build more homes too. Anycouncil expects to build nearly 200 homes for rent in 2012/13 which is well above the average. On average councils estimate that removing the cap on the Housing Revenue Account and retention of 100 per cent of right to buy receipts

locally would allow them to quadruple their building programme over a 5 year period, building around 900 additional homes per authority¹².

The de-regulation of local government finance

Alongside measures to reform public services and promote growth, the submission seeks the de-regulation of council tax.

Anycouncil council tax has been frozen in 2011/12 and 2012/13 with a 1.9 per cent increase in 2013/14.

They have received nearly £20 million in council tax freeze grant, nearly £16 million for the four years from 2011/12 and another £4 million for 2012/13. They estimate the “unfunded” element of the freeze as £11.4 million – that is the part not funded by central government’s council tax freeze grant.

The freedom to raise council tax by the retail price index in 2015/16 would raise around £4 million in that year and every subsequent year. **A £4 million increase in 2015/16 would however only meet 80 per cent of the projected increase in the cost of children and adult’s social care that year.**

The annual cost to the council of the single person discount is increasingly hard to justify – removing the discount for non-pensioner households would raise £2.2 million a year.

The council consults on its budget and could allow local people to shape the way in which these additional resources that are raised through council tax are invested in services and growth.

The financial impact

The financial impact of these measures on public service reform and integration, growth and local government finance will vary from council to council. The timing of their impact will vary too. The benefits of public service integration will also be spread across the public sector.

We estimated the effects of some of the principal measures in the submission on Anycouncil – Table 2 below shows that they are part of the solution.

Their precise impact (and that of the other measures in the submission) would need further, more detailed analysis to determine their effect in a real council area.

¹² The Tri-borough estimate building 300 homes creates 700 jobs. Strengthening the City – findings from the Tri-borough community budget pilot, Tri-borough, October 2012.

Table 2 – the potential financial impact of public service integration, growth and the de-regulation of local government finance

Measure	Potential financial impact £million	Timing (financial year)
Community Budgets – health and social care integration ¹³	2	2015/16 (assuming integration begins in 2013/14)
Community Budgets – DSG and EIG integration and early intervention measures – reduce number of looked after children by 5% ¹⁴	1.7	2015-16 (assuming integration begins in 2013/14)
Growth – 1% above trend – uplift in the local share of business rates ¹⁵	0.5	2016/17 (assumes single local growth fund set out by Lord Heseltine has an immediate additional impact on local growth following implementation in 2015-16)
RPI increase to council tax	4	2015/16
Removal of single person discount for non-pensioner households	2.2	2015/16
Roll forward of council tax freeze grant	4	2015/16

¹³ Based on Ernst and Young's analysis that savings from integration will be in the range 5-9 per cent with the local authority share of 31 per cent and Anycouncil adult social care budget of £100 million.

¹⁴ Based on a 5 per cent reduction in number of looked after children at unit cost of £52,000 per annum.

¹⁵ Based on a 1 per cent increase in locally retained business rates which are £50 million in 2013/14.

7. Conclusion

Councils are required to produce a balanced budget each year, upon which they set the level of council tax. They have made a significant contribution to deficit reduction, alongside keeping council tax costs down to help householders. However, councils are now facing increasingly tougher choices about service reductions and withdrawal.

The measures proposed in the LGA's submission would help enable Any council to:

- Drive public sector reform, integration and efficiency with local partners to reduce costs and improve outcomes (as demonstrated by the whole place Community Budget pilots).
- Accelerate integration in health and social care, reducing the number of emergency admissions to hospital and care.
- Improve the wellbeing and school readiness of young children (and their future wellbeing and educational performance) through early intervention programmes jointly funded by the council and local schools.
- Improve the performance of the local economy, and in particular reduce youth unemployment and equip young people with the skills they need to compete in both the local and global economy.
- Allow local people more control over local taxes and the way in which those taxes are spent to deliver services and promote jobs growth.

Taken together the measures in the submission help Any council reform and protect local services, maximise the efficiencies across the public sector, and promote growth in the local economy.

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