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The Spending Review 2013: Next Steps

Purpose of report

To set out the proposed next steps to be taken in lobbying for financial change for local government.

Summary

The Government announced the results of the Spending Round on 26 and 27 June 2013 and the outcomes were reported to the Executive on 18 July. This report sets out the next steps to be taken in carrying forward the agenda set out in the lobbying documents on the Spending Round.

Recommendation

Members are invited to endorse the actions and proposals set out in this paper.

Action

Officers to act in line with Members' comments.

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Background

1. The Government announced the results of the Spending Round over two days in June. The LGA issued briefing documents on both days and responded through the media. A report setting out the outcomes was report to the Executive on 18 July.
2. At the July Executive meeting, Members requested a further paper setting out the next steps to be taken in promoting the issues set out in the Spending Round lobbying documents. This report is the response to that request.

Context

3. The main submission to Government ahead of the Spending Round was divided into seven sections and each of these is addressed in this paper:
 - 3.1. Financial stability and sustainability;
 - 3.2. Economic growth;
 - 3.3. Adult social care and health integration;
 - 3.4. Children's services: early intervention and meeting need;
 - 3.5. Housing;
 - 3.6. Welfare reform and the impact on our communities; and
 - 3.7. Community budgets, maximising efficiency.
4. The LGA's 'Rewiring Public Services' campaign will also pick up some of these themes and the broader, longer term objectives reflected in it are the subject of a separate report and work programme. Similarly, responses to consultations arising from the Spending Round in relation to changes to New Homes Bonus, Education Services Grant and capitalisation of transformation costs will be separately reported.
5. The Spending Round submission was a deliberately ambitious document and it was anticipated that most of the issues raised would not be addressed. In reporting the outcome in July, we emphasised that although some of the outcomes were disappointing, there were signs that the principles, if not the detail, of what the LGA has been proposing are starting to gain traction in Government. There has been progress on the key theme of integration and, to a lesser extent, on growth, and signals that a number of other issues have not been set aside permanently, including further progress on community budgeting. Given some of the opportunities that have been offered, albeit in a limited way, part of the response of the sector needs to come from authorities themselves taking the opportunities presented and demonstrating what can be achieved.

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Financial stability and sustainability

6. At the time of the Spending Round, the Government announced a 10 per cent real terms reduction in core local government funding of £2.1 billion.
7. On the 25 July, the Government released its consultation on the Local Government settlement for 2014/15 and 2015/16. This provided further detail behind the headline 10 per cent figure and shows that 'Settlement Funding Assessment' (broadly the equivalent in the new system of the old Formula Grant) will reduce by £3.1 billion or around 15 per cent in real terms. This arise from Government proposals to hold back various sums, especially for certain contingencies and new burdens, from the main settlement which was not clear when the Spending Round announcement was made in June. This means that for most authorities and most local government services – the main exceptions being Adults Social Care and Fire – the cut in government grant funding in 2015/16 will be of the order of 15 per cent on average.
8. Detail on the financial settlement consultation and a proposed response is set out under item 5 of this agenda. The key point to note for this report is that a 15 per cent cut for most services is far and away the largest cut in spending announced as a result of the Spending Round, in which most Departmental spending limits, other than protected services, reduced by between 8 - 10 per cent.
9. July also saw the launch of consultations on the use of £400 million in New Homes Bonus to finance the Local Growth Fund and the use of capital receipts to fund one off costs of transformation. Responses to these are reported under item 6 on this agenda.
10. Key elements of the campaign on financial sustainability in the period going forward are proposed as follows:
 - 10.1. A submission on the Autumn Statement towards middle/late October depending upon the timetable advised by the Government, which will pick up many of the themes in the Spending Round submission.
 - 10.2. An update of the 'Any Council' modelling in the wake of the harsher than expected 2015/16 settlement, demonstrating the impact on a typical Council of a harsher than expected funding reduction in 2015/16.
 - 10.3. A further 2014 iteration of the Future Funding Outlook to support the argument on financial sustainability.

We are encouraging authorities to respond to the consultation individually, given the important of getting the message across to Government about how this impacts in local areas.

Councils' contribution to economic growth

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11. The Spending Round created a £2 billion Local Growth Fund (LGF) to be allocated via local growth deals with each Local Enterprise Partnership (LEP), although detailed guidance has revealed that this will be managed in four separate funding streams not as a single pot. It also confirmed that the majority of spending decisions for England's £5.3 billion European Union Structural and Investment Funds (EU SIF) for 2014-2020 would be devolved to LEPs.
12. The funding to go into the Local Growth Fund includes £400 million of the New Homes Bonus, essentially recycling existing local government funding into the Growth Fund and allocating the funding to LEPs in those regions of the country where growth in the form of new housing development is already happening.
13. A positive announcement which local government has pushed for, was that the majority of spending decisions for England's £5.3 billion EU SIF for 2014-2020 would be devolved to LEPs to direct locally integrated provision to boost growth, employment, skills and support the most vulnerable.
14. Since EU SIFs need to be match funded, councils, LEPs and local partners are looking at all local and national public and private match options including the £170 million skills money announced as part of the LGF to be used to match part of local areas' EU allocations. Separate to this, the Government also identified national match funding for local areas to 'opt-in' to managed by national agencies such as the Skills Funding Agency (SFA). It has since become clear that Ministers have now decided that the £170 million will now only be made available on the condition LEPs commit their entire EU SIF skills allocation to an optional SFA model.
15. In that respect, the Government's response to the ambition of Lord Heseltine's 'No Stone Unturned' report was overall disappointing. In the light of this, officers propose four key thematic areas where further work is necessary:
 - 15.1. Support to councils as LEPs scope out and negotiate Growth Deals to maximise the devolution of funding and powers.
 - 15.2. Lobbying to ensure that EU funds can be used to support locally-agreed priorities.
 - 15.3. Set out proposals to keep the ambitious spirit of the Heseltine Review alive, including developing the concept of a local treasury from Rewiring Public Services to demonstrate what local autonomy could deliver for UK Plc.
 - 15.4. Building on the success of our Hidden Talents campaign, develop proposals for localising adult skills and employment policy to achieve better results and greater value for money.

Adult social care and health integration

16. The Spending Round allocated a £3.8 billion pooled budget Integrated Transformation Fund through the NHS for health and social care integration including £2 billion additional funding from NHS allocations. The LGA is working closely with NHS England (NHSE), the Department of Health and DCLG to shape the way this fund will work in

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practice. A working group of LGA, NHSE, councils and Clinical Commissioning Groups (CCGs) has been formed to take this work forward and is looking at the conditions attaching to the fund and how the £1 billion performance-related element might work. The joint work will lead to further guidance in the Autumn. This project is something of a 'test case' for how integration can work effectively at both national and local level and it seems likely that it will be watched closely within government. An effective programme could open doors for further integration involving other Departmental budgets in future.

17. The £335 million allocated in the Spending Round to prepare for the implementation of care funding ('Dilnot') reform falls short of the £500 million estimated by the Association of Directors of Social Services (ADASS), but perhaps the greater disappointment is that this so-called 'new burdens' funding has been top-sliced from the local government settlement and forms part of the explanation of the difference between the 10 per cent funding reduction announced in June and the 15 per cent cut identified in July. Work will continue with ADASS to understand the true likely costs of the Care Bill and funding reform. A series of half-day events are being run in September, including a simulation exercise, part of the outcome of which will be to identify cost issues.

Children's services: early intervention and meeting need

18. The positive story around service integration for adult social care and health is not mirrored in children's services and education, with the Government remaining committed to ring-fencing and protecting school budgets rather than driving better value outcomes across children's services. We will continue to press the Department for Education (DfE) to remove the barriers which prevent schools from working with councils and other local agencies to use Dedicated Schools Grant to support early intervention, help to reduce demand on local public services and improve educational and other outcomes for children and young people.
19. It was announced in the Spending Round that DfE and DCLG would work with local government to "examine the scope to improve outcomes, reduce burdens and drive efficiencies in children's services". The LGA has taken the initiative to establish this as a sector-led project, jointly with the Society of Chief Executives and the Association of Directors of Children's Services, to improve the understanding of costs and outcomes in children's services, in preparation for the next Spending Review. The project will initially focus on improving the data on costs in children's services, which are based on statutory returns to DfE's ('251 returns') which do not currently provide a reliable and comparable basis on which analyse costs.
20. The Government has committed to invest more than £21 billion in schools capital projects over the next Parliament. We will focus on getting councils a greater say in how that money is allocated and ensuring that there is a clear message about the extent to which local authorities are subsidising the school building programme from their own resources.
21. A consultation on the proposed cut of £200 million from Education Services Grant is expected in the autumn and we are preparing to respond robustly on the cut in general and providing clarity on the cost of the core council role in education.

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Housing

22. The Spending Round provided £3.3 billion for 165,000 new affordable homes over three years from 2015/16. We are awaiting further details on the scheme and have called for local authorities to be able to access this funding on an equal basis to Housing Associations.
23. The LGA should continue to press for freedoms for local authorities to invest in new and improved housing stock. As with financial sustainability, this is a theme that needs to be taken up in lobbying on the Autumn Statement. Work is continuing to try and remove the Housing Revenue Account (HRA) borrowing cap. The central issue is the Treasury's view that council borrowing, which scores on the government's balance sheet – represents worse value for money than an equivalent amount of government-backed off-balance sheet borrowing by housing associations, even where the underlying liability to the Exchequer is identical. The discussion, which has included conversations with Treasury Ministers, is continuing. We are also using the Deregulation Bill to continue to press our case for changes to the Right to Buy, to enable councils to retain and maximise the receipts from the Right to Buy to reinvest in replacement homes.
24. We will also work in partnership with the development sector and others to identify barriers and solutions to private investment in housing and develop policy proposals to support the development of investment models to encourage private investment in housing.

Welfare reform

25. Since the Spending Round, the government has confirmed its ambition to roll out Universal Credit (UC) by 2017 but has slowed the planned pace of introducing the change. At the same time, it has reasserted its view that councils have a role in delivering support to UC claimants and plans to issue a further version of the Local Support Services Framework in due course. It has also extended its support for the council-led UC pilots, in line with a request from the LGA and the pilots. The pilots are holding a series of open days for other councils over the coming weeks. We have continued to work with the Department for Work and Pensions (DWP) on this and are providing the secretariat for a new UC Partnership Forum attended by the DWP's Director-General for UC and a number of council Chief Executives.
26. We have also commissioned new research into the overall impact of welfare reform. This was published in August and received good media coverage. We will use this as the basis for further conversations with the government and others about how best to provide support to families affected by the government's changes.
27. No specific commitments have been made in relation to the on-going cost of new burdens from welfare reform. The DWP's position is to take a narrow view of the new burdens; for example, they have so far provided new burdens funding for some IT costs. This is a negotiation we are pursuing, although the current lack of visibility on the pace of Universal Credit roll-out is reflected in the state of those discussions. Similarly,

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the discussion with DWP about the TUPE status of council staff in the new system remains open.

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Community Budgets

28. The Spending Review saw a significant change in the government's language about the importance of service integration and local joint working. The extension of health and social care integration, described above, the further £200 million fund drawn from a number of Departments to extend the Troubled Families programme, the establishment of a Public Service Transformation Network (PSTN) to broaden the take-up of a community budgets approach, and the introduction of a £100 million collaboration and efficiency fund 'to help authorities to cover the upfront costs of working with each other and encourage better ways of operating', are all elements of this approach.
29. Whether the Government's language is matched by extra money is another question. From a purely financial point of view, the main measure in this list is the joint budget for health and care. The collaboration and efficiency fund, and the DCLG contribution to the troubled families budget, have been top-sliced from the local government settlement. The draft response to consultation on the settlement which is Item 5 of this agenda, challenges this decision. While the government's response to Heseltine, described above, arguably represents a failure to take on the community budgeting approach where economic development and transport spending is concerned.
30. The task now is to maintain the momentum of local public service integration and seek opportunities for taking it further, leveraging the health and care changes and the work of the PSTN. The LGA will continue to play a role in those developments, and is also keeping in touch with the wider group of councils which have expressed an interest in progressing community budgets but are not being supported by the PSTN. Our lobbying activity should focus on making sure that ways of further developing the community budgets/service integration model are on the agenda as the government prepares the remaining Autumn Statements and Budgets of this Parliament and as all parties consider their approach for the next Parliament. We will do this as part of the *Rewiring Public Services* campaign.

Conclusion and next steps

31. The Spending Round submission, and in part the Government's response to it, sets the framework for the next phase of work. The key points are:
 - 31.1. Progress of local public service integration, building on health and social care and the kind of local work which the Public Service Transformation Network will be supporting.
 - 31.2. Slow progress on the growth regime, with the onus on Councils and LEPs, supported by the LGA, to show that the policies that have been put in place should now be extended.
 - 31.3. The evidence that the case is not yet made on financial sustainability and the need to consider stepping up efforts to prove this case before service failure becomes an issue.

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32. Immediate actions to take the debate forward are proposed to involve a submission on the Autumn Statement and an update of 'AnyCouncil' to develop the story on financial sustainability. Refreshing the Future Funding Outlook for 2014 is also programmed.
33. The paper also sets out the approaches being taken in relation to other aspects of the Spending Round. It seems clear that a major part of the response needs to be to continue to engage with Government Departments, NHSE and local health partners to prove that the concept that integration of budgets can work at local level. This will enable us to gain more traction with less enthusiastic Departments, such as the Home Office and establish new ways of working for tackling a whole range of issues at local level. Similarly, while the Local Growth Fund is modest, the principles under which it will work need to be established on a locally accountable basis – meaning active involvement of local authorities - and demonstrated to work to provide the basis for future concessions.
34. Robust responses to the Government consultations on the funding settlement, New Homes Bonus and use of capital receipts have been prepared and are reported elsewhere on the agenda.

Financial Implications

35. The costs of taking forward these issues will be met within existing budgets.