

## **LGA Review of Council Financial Strategies**

### **Purpose of report**

For approval.

### **Summary**

In late 2013, the LGA undertook a call for evidence from council chief executives on their councils' plans to tackle financial challenges in 2015-16 and their plans for using reserves.

The report called *Under pressure: how councils are planning for future cuts* (attached at **Appendix A**) is presented to Finance Panel for approval. It summarises the results of the analysis of responses to the call for evidence, providing an overview of the actions councils are considering to meet the funding challenge. It finds that about 60 per cent of respondents considering reducing at least some service provision, implying that the scope for efficiency savings is diminishing.

### **Recommendation**

The Finance Panel is asked to discuss the report and approve its publication.

### **Action**

LGA Officers to proceed as directed.

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## **LGA Review of Council Financial Strategies**

### **Our call for evidence**

1. In November 2013, the LGA undertook a call for evidence, asking councils to provide details on their provisional financial strategy to tackle the budget gap in 2015/16. 73 responses were received, covering about 21 per cent of all English councils.
2. The replies took the form of unstructured responses to two general questions about:
  - 2.1. The councils' financial strategy towards the 2015/16 challenge, including the perceived scope for tackling it through efficiency savings.
  - 2.2. The councils' plans for using their revenue reserves to manage the reductions in their funding.
3. Responses were provided in confidence.
4. *The 'Under pressure'* report summarises our analysis of the responses received, providing a short discussion of the most often-mentioned approaches and considerations.

### **Results of the analysis**

5. The work was undertaken partly to test the synopsis that for many authorities, 2015/16 would be 'the crunch year'. Overall, the content of the responses implied that about 60 per cent of all respondents were considering a reduction in services in 2015/16 as part of their budget strategy, implying that they believed efficiency savings alone will not be enough to meet the challenge in that year.
6. However, 19 per cent of all respondents had a more optimistic outlook, stating that they believed further efficiencies would be sufficient to balance the budget in 2015/16. This means that while 2015/16 may be the crunch year for some, the picture is varied, and the timing of the greatest challenges is different for different authorities.
7. Outside of the main argument about efficiency savings and service cuts, councils also set out a number of approaches they are looking at to help meet the gap. The most mentioned approaches were:
  - 7.1. Commercialisation of services, such as increasing income from fees and charges or investing in income-generating assets;
  - 7.2. Using reserves to delay the need to reduce the budgets; and
  - 7.3. Increasing the local tax base and new homes bonus receipts.

8. Authorities were also asked to indicate how they were planning to use their reserves in 2015/16. The most mentioned planned uses of reserves were:
  - 8.1. To smooth the impact of cuts (48%);
  - 8.2. To guard against general and specific risks (41%); and
  - 8.3. To be invested in invest-to-save and invest-to-earn projects (38%).
9. The revealing finding here is that around half of all authorities are actively managing their budgets so as to spread the impact of cuts or savings by the use of reserves. This is good budget management in the circumstances.
10. Overall, the analysis indicates that although 2015/16 could be 'crunch year' for many authorities, for local government as a whole, the picture is more nuanced and it makes more sense to think of a slowly developing situation with a long critical period, perhaps over lasting over several years.

#### **Nature of the survey and findings**

11. A 21 per cent return rate is not sufficient for the results to be statistically representative of the whole sector. However, the indications these results provide are robust.
12. The nature of the call for evidence meant that councils were asked for their thoughts in a loose form as opposed to a 'checkbox'-style questionnaire. Our analysis logged the various themes mentioned in responses in an attempt to classify the responses in a more structured way. As a result, only those items that were explicitly mentioned by respondents formed part of the analysis.
13. The timing of the survey, during the budget setting process for 2014/15, also meant that authorities will have been focused primarily on the year ahead. Authorities will be giving more consideration to their budgets for 2015/16 in the light of new information in the local government settlement and other developments and some may change their plans.
14. Regardless of this, the results are a revealing snapshot of the main strands of financial strategies that councils considered as at late last year. They help refresh and revalidate our case, as well as provide us with an evidence base on what councils are planning that we can refer to at a later time.

#### **Stakeholder consultation**

15. The report has been sent to the LGA Chief Executive and political group offices for comment before being laid in front of the Panel.

#### **Next steps**

16. This report would be published in early April 2014, before the purdah period for the May Council elections starts. At the same time, this timing closely matches the start of a new financial year in order to coincide with the start of a new financial year.

17. A further update could be brought to Finance Panel to review the reception of our messages following publication of the report.