



#### March 2014

**Under pressure: how councils are planning for future cuts**

**Contents**

1. Introduction 3

2. The scale of the challenge 4

3. The end of efficiencies 6

4. Other remedies 8

5. Use of reserves 12

6. Conclusions 15

1. Introduction

Councils are currently half way through a scheduled 40 per cent cut in funding from central government. Having delivered £10 billion of savings in the three years from 2011/12, local authorities have to find the same savings again in the next two years. As a result of these cuts councils in many areas will not have enough money to meet all their statutory responsibilities.

These cuts, combined with the growing demand for adult social services being caused by our ageing population, mean that the amount of money available to deliver some of the most popular local services is predicted to shrink by 66 per cent by the end of the decade. This is likely to mean much less money to spend on things like filling potholes, providing youth services and funding leisure facilities like pools, gyms and parks. It will also mean less money to spend on libraries and museums, and a significant reduction in the help that councils can provide to local businesses.

Councils across England are preparing strategies for continuing to tackle the challenge. Local circumstances dictate the options available for quick cost savings or income generation, and the nature of difficult decisions that need to be made to achieve a sustainable financial position.

We asked councils to share with us some details about their financial planning for the rest of the Parliament. 73 councils, or about 20 per cent of the English authorities in total, responded to our call for evidence on their financial situation in late 2013. This level of response means that the results should strictly be taken as a snapshot of the views of this particular group of respondents. However, this was a large number of responses for such a qualitative analysis and it therefore indicates well the range of pressures being felt and strategies being developed by the sector to deal with the financial situation in councils.

The responses were unstructured and free-form answers to general questions about the financial strategy in 2015/16 and planned use of reserves. As a result, we were only able to take into account those approaches mentioned in the responses. The percentages of councils considering one approach or another might be higher than reported; however, explicit mentions in freeform answers mean that councils regard these elements as central to their.financial stability. It is also worth bearing in mind that the responses were submitted before the local government finance settlement was announced in late December 2013 and that may have changed the councils’ approach.Section 3 discusses the overall thoughts of councils on the question over whether reduction in services provided will be needed to deal with the challenge in 2015/16.

Section 4 deals with other elements of the councils’ financial strategies.

Section 5 looks at council plans on using reserves in more detail.

Overall, the results provide a clear snapshot of the financial health of the local government sector. The variety of pressures felt and strategies being developed shows that while the situation each council faces is unique there is a pattern and emerging evidence of the most preferred solutions.

1. The scale of the challenge

2015/16 is shaping up to be a year where many councils will have to make very difficult choices about which services to prioritise. Some services may be cut altogether. There is no single reason why 2015/16 should be such a difficult year (although nationally the cut in government support to local authorities will be the largest since 2012/13), but rather the squeeze is a result of an accumulation of reductions in funding, expenditure pressures which have been building to over a number of years, and a series of other risks. Figure 1 below illustrates a selection of contributing factors under these three headings.

**Figure 1. Pressures facing local government**

**FUNDING PRESSURES**: a 40 per cent real terms cut to core government funding over the life of the Parliament; consistently reducing council tax referendum thresholds; £1bn cut to local council tax support funding to April 2016

**OTHER PRESSURES**: business rate appeals; welfare reform, including the benefit cap, social sector size criteria and Universal Credit; potential changes to interest rates

**COST PRESSURES**: care service reforms (deferred payment schemes, social care cost cap); additional public health duties; and ageing population; increasing costs of concessionary fares schemes; pressures on social housing services; inflation

The picture is not universal across all councils, and the impact on each council will vary depending on how exposed it is to each of these factors. Some may not feel the crunch until later. However, our analysis shows that 2015/16 is the year in which 60 per cent of councils say they are considering some degree of reduction in services provided to help meet the budget gap.. It is also important to note that the funding allocations for 2015/16 have only been illustrative, which means that they are subject to change and only adds to the uncertainty.

Overall, the financial strategies in response to these pressures can be split into three distinct but closely interrelated aspects.

* Councils have to realistically assess their ability to provide the same services as before by finding all required savings through becoming more efficient. If this is no longer viable, councils have to start considering cutting services altogether.
* Councils also have to consider other potential ways to alleviate the pain, from income generation to changes in local taxation.
* The financial strategy will involve considering the utilisation of reserves in various ways – from using them to temporarily postpone some financial pressures arising as a result of cuts to funding, to investing in schemes that allow services to be delivered cheaper. The use of reserves always has to be considered in the context of risks facing the authority.

The review of council responses looked to cover each of these three aspects, and they are addressed in turn in this report.

1. The end of efficiencies

One main aspect of council financial strategies is whether they are able to continue to absorb reductions in funding, and all the other pressures, through increasingly efficient ways of working. True efficiency means configuring services so that they provide the same outcomes at a reduced cost.

For example, at least 95 per cent of all English councils have now engaged in some form of shared service delivery[[1]](#footnote-1), with most of the focus on back office functions – although initiatives to share front lines services are popular as well. Shared service delivery spans across more than one sector, as councils seek to share buildings with other public service providers, such as the police.

So far, these initiatives have been largely successful. This is being acknowledged by local residents as well – a recent poll found that 6 out of 10 residents felt local services were either improved or maintained[[2]](#footnote-2). However, the majority of respondent councils said that at least to some extent continued efficiency savings will not be enough to tackle the challenge that 2015/16 represents.

Our work shows that only one in five councils have made the decision (and believe they have the capacity) to avoid service cuts through continued efficiencies in 2015/16. Almost a third of councils mentioned that they believe the efficiency well has dried up and that service cuts are the only viable strategy, while another third believes that while the scope for further efficiency is still available, it is not enough to avoid any consideration of reducing the services offered to local residents.

As figure 2 shows, 21 per cent of councils are still considering their broad approach for 2015/16. Our analysis of council responses shows that 36 per cent of councils still have at least some unclear aspects about their strategy. In many cases this will be a result of difficulties assessing the risks councils will encounter in 2015/16.

In total, 60 per cent of authorities say that they will not be able to cover their budget gap with future efficiencies alone in 2015/16, while for a further 21 per cent this remains a possibility.

**Figure 2. The scope for using efficiencies to tackle the 2015/16 challenge**

However, even where a decision is made to reduce service provision, it is not a guaranteed way to achieve savings. For example, there has been an increasing number of applications for judicial reviews against councils reducing provision of services such as libraries[[3]](#footnote-3). This means that for some councils that have to resort to scaling back their offer there is a chance even these painful might not stop them from going overboard.

Here is a selection of councils’ comments on the potential for further efficiencies:

*“Our current budget models (even after allowing for some integration transformation funding from health) suggests that we will have a budget gap of £35m in 2015/16 rising to £80m to £90m by 2018/19, if no action is taken. The reality is that we will be decommissioning or spending less on many services in the future and because we are working on an already significantly reduced budget then there will be an impact on the front-line.”*

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*“We haven't yet identified anything that we need to switch off entirely but we don't expect it to be long before we do.”*

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*“We are already part way through a thorough review of all services which challenges whether our service standards can be reduced or non-statutory items ceased completely as it is very clear to us that, given the efficiencies we have already achieved in recent years, there will inevitably be significant service cuts required.”*

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*“In this revenue budget process we have sought to make further reductions in spending without stopping any services. Some front line services will be altered or reduced, but there is an inevitable consequence that we will be asking already hard pressed staff to do even more to seek to deliver the quality of services that we think our public deserve.”*

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*“We have delivered all savings <...> except for delivering some shared service savings in conjunction with our two partner councils.  We have received a CLG cash transformation award and will be putting in place a transformation programme to deliver these savings.  <…> No services have to be switched off.”*

1. Other options

Alongside the core argument about efficiencies or cuts in frontline service provision, councils are considering a range of other strategic directions, ranging from more commercial to more traditional options. Figure 3 identifies the most common strategies and the rest of this section will address the top five in turn.

It is worth noting that all councils will have gone through, or are going through, a process of evaluating each of these options and the effectiveness they could bring in their local areas. Just because a strategy is less common does not mean that it was not considered on its own merits by respondent councils. Not all approaches will be suitable to every area and authorities themselves, in consultation with their residents, are in the best position to evaluate local factors. Authorities are not limited to using one approach, and many are adopting a combination of these.

**Figure 3. The most common council strategies to tackle the 2015/16 challenge**

For many councils, raising more income seems to be a preferred strategy. Some are looking for ways to make sure their investments generate the maximum possible income, while others are looking at their fee charging structure to ensure that, while remaining equitable, service charges move closer to recovering the full costs of providing those services. Local authorities cannot charge users of many core services, such as street lighting. However, authorities can charge up to the full cost of provision of discretionary services, such as leisure centres. When it comes to such non-mandatory services, increased charges might be the only option available to make sure they can continue to be provided.

The issue of reserves will be covered in this report slightly later, but in summary, a majority of councils is planning to rely on the use of reserves either to delay the impact of cuts or to buy themselves time to see financial benefits of implementing money-saving schemes. For more than a third of councils, 2015/16 is definitely the time this will happen. Local authorities recognise that reliance on reserves is not a sustainable strategy – reserves are one-off pots of money which, when used once, are gone forever. One per cent of respondent councils does not have any reserves available to be used in this way. In addition, authorities need to retain appropriate levels of reserves to deal with emergencies, such as flooding[[4]](#footnote-4).

Local authorities are looking at ways to increase their local tax base, mainly through encouraging more house building. This has a double financial effect of providing council tax revenue from additional occupied homes and new homes bonus funding from the government. Similarly, encouraging the growth of the local economy can potentially lead to more locally retained business rate income, and reduced welfare costs. However, our recent research[[5]](#footnote-5) has shown that many authorities fear that the risks arising from business rates appeals may outweigh any potential reward from retained growth and published business rate income forecasts for 2014/15 suggest there are indeed a number of authorities in this position.

However, aspects of economic and housing growth are outside of local authority control, which makes relying on these strategies to balance the budget difficult. Indeed, many councils have chosen to use new homes bonus to fund specific projects rather than as part of their recurring annual budgets because of the uncertainty of how this income stream will develop in the future.

One of the continued suggestions from central to local government has been to review the assets owned by councils with a view of developing strategies to maximise income or minimise costs. For example, the government announced that, subject to conditions and limits, receipts of sales of capital assets will be allowed to be used to fund one-off costs of service transformation.

Councils have been reviewing their use of assets as a result to see if any financial gains can be reaped. However, only 11 per cent of our respondents have found that this is a strategy worth pursuing – it may be that the benefits in many cases are marginal.

Seen by many councils as a last resort, increasing council tax is an option that is always available for local authorities, although this is subject to a referendum above a limit set by the government. The scope for using council tax increases has also been limited by central government’s council tax freeze policy of recent years. For 2014/15, the referendum limit was set at 2 per cent, which was a very late announcement following hints of a potential departure from the 2 per cent limit the government indicated in June 2013. This means that even if councils decide to increase council tax, the limits mean that it is not enough to offset the cuts in full or even – in many cases – significantly.

Overall, this is a small percentage in comparison to the indication that about a third of councils have decided to opt for an increase in council tax in 2014/15.[[6]](#footnote-6) This might be because of the timing of the survey which meant that it was possible many councils had not yet begun discussions about council tax in 2015/16.

Given the freeform style of the survey, another explanation would be that councils may have thought that the impact of an increase in council tax on their total funding would be too small to make much of a difference, especially given the referendum limits.

Here is a selection of councils’ comments on the top three strategies:

**Maximising income from investment, fees and charges**

*“We have focused on increasing income in a number of services especially our garden waste collection and leisure centres. We have focused on the non-statutory services but not areas such as car parking, where we offer the first hour free and then only charge a minimal sum to ensure the maintenance of the car park, as we recognise the part they play in maintaining the viability of our market towns.”*

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*“We are for example actively pursuing options to develop business units to help with economic growth and also assist our own income.”*

**Using reserves to support the revenue budget**

*“We will very likely need at least £5m to balance the 2015/16 revenue budget although this is not formally in our plans yet. So, far from sitting on reserves unnecessarily, we have been prudent in planning for a highly uncertain future, in no small part caused by the volatility of the local government settlement from government. This is just as well, since we are highly likely to need to use these in 2015/16 and we would have been dangerously close (or below) our auditor’s recommended level of reserves.*

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*“Reserves will be used to balance the budget in 2015/16, and make a further contribution to the budget in 2016/17, by which time we will be down to a minimum working reserves balance.”*

**Increasing the local tax base and new homes bonus**

*“We have also commissioned a review of our empty properties within the District to maximise the New Homes Bonus that we receive.”*

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*“We are working with the Local Enterprise Partnership to enable growth in local businesses, over and above the assumptions used in the strategy, and thereby increase yield from retained business rates and the pool.”*

1. Use of reserves

In recent times, the government has increasingly paid attention to the levels of financial reserves local authorities hold, calling them ‘the Fort Knox’[[7]](#footnote-7) and ‘secret stockpiles’[[8]](#footnote-8) in order to push councils to release the cash that they have accumulated. The truth is that councils report the level of reserves they hold each year in their financial accounts and statistical reports, both of which are available for public to access whenever they would like to. Councils generally hold reserves for a number of reasons:

* To use them at a later date to support investment projects, including those designed to save money;
* To temporarily roll over unused portions of grants that can legally be used at a later date;
* To insure themselves against major unexpected events (such as flooding); and
* To guard against general risk (i.e. saving up for unexpected events). This can then also be used to smooth the impact of cuts.

In our survey, we asked councils about their plans for the reserves they hold. The vast majority of respondent councils is planning to use reserves over the next two years, and figure 4 illustrates the relative popularity of various reserves strategies. The overall conclusion is that prevailing reserves strategies are to buy time in implementing efficiency savings, to guard against various risks and to invest in projects intended to save or earn money.

The ‘other’ category encompasses those councils which have said that they are not planning to use any reserves in the next two years – this shows that for most local authorities, ‘stockpiling’ reserves was never the reality, or even an option.

As with the previous analysis, it is worth noting that all councils will have gone through, or are going through, a process of evaluating each of these options and the effectiveness they could bring in their local areas. Just because a reserves strategy is less ‘popular’ does not mean that it was not considered on its own merits by respondent councils. Any council may have chosen a combination of these options.

**Figure 4. The most prevalent uses of reserves by councils to tackle the 2015/16 challenge**

The rest of this section will briefly address the top three responses.

Almost half of all respondent local authorities felt that the next two years, 2015/16 in particular, will see the start of reliance on reserves to buy councils time. Local authorities might believe that the pain of the cuts should be spread over a number years; others might think that the ambitious savings plans will need more time to provide all the expected results. This is especially the case with preventative and early intervention strategies, which are costly to start undertaking, and the savings from reduced reliance on care services are unlocked only several years later.

Reserves accumulated over the past several years, either through deliberate strategy or early delivery of ambitious efficiency savings, are likely to be used in 2015/16. Local government has fixed the roof while the sun was shining and this will help buy it time to deal with this unprecedented challenge.

Regardless of the financial challenges, more than two out of every five councils explicitly mention that part of their reserves will continue to be held to guard against general or specific risks. The latter include such potential costs as equal pay claims, business rate appeals (the success of which can negatively impact councils from April 2013) and the impact of social care reforms. Another example could be the prolonged uncertainty over the council tax referendum threshold which affected financial planning of many councils adversely.

Councils also tend to insure against any other unexpected risks through a small general risk reserve – this feature of council finance is expected to continue unchanged. Use of reserves to guard against uncertainty and risk is also supported by the independent Chartered Institute of Public Finance and Accounting[[9]](#footnote-9).

In their responses, more than a third of councils mentioned that part of their reserves will be used to fund projects that will either save them money through smarter service delivery or earn them money through income arising from investment. The range of initiatives is very wide, ranging from upgrading the IT systems to owning a property and business portfolio in the local area, including the high street, with rental and other income supplementing the council budgets.

There is only a 10 per cent difference between the most and the third most popular reserves strategies. ‘Invest to save or earn’ being part of the top answers reflects the shifting focus from efficient service delivery to commercialisation of services.

Here is a selection of councils’ comments on their reserves strategies:

*“Programmes of change bring their own delivery risks, so we are planning to use £4m of reserves in 2014/15 in order to allow time for those programmes to gain traction. They will deliver their full, sustainable benefits in 2015/16.”*

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*“With the outlook for 2016/17 and beyond being very tough, and the scale and risk of achieving cost reduction being high, the Council’s policy on reserves is clear: to invest to save; to smooth the curve of cost reduction in the light of timescales needed to drive costs out; or to protect urgent priority spending on a non-recurrent basis.”*

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*“Our reserves have steadily increased over the last few years, taking advantage of in-year savings against the budget and also some windfall income such as VAT refunds. These have been maintained as we have known that addressing financial pressures will require some up-front costs.”*

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*“The Council’s policy on reserves makes it clear that reserves should not be significantly reduced until it is clear that the Council has a balanced budget for the foreseeable future.”*

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*“A year ago we decided that with a view to the long term it is desirable for local authorities to become as financially independent as possible the Council would invest significant reserves in to property development. Firstly by developing on land it already owns but also investing with a partner in strategic developments such as the Research Park.”*

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*“Our current financial planning allows for the use of reserves primarily to facilitate the changes required through the principle of ‘invest to save’. Our current plans do not allow for the new homes bonus within the base budget and any reserve created from this source of funding is envisaged to be used to support the delivery of the councils’ priorities.”*

1. Conclusions

Responses to our survey provided us with a snapshot of how local government is planning to tackle the financial challenges ahead, especially those over the next two financial years.

Our conclusions are:

1. Local government is approaching the end of the road of tackling financial pressures through increasingly efficient ways of producing services. 60 per cent of authorities say that they will not be able to cover their budget gap with future efficiencies alone in 2015/16, while a further 21 per cent identify this as a possibility. Only 2 out of every 10 councils felt that they can deal with the cuts over the life of the Parliament without avoiding cuts to services.
2. In relation to this, about half of all respondent councils said that they are planning to use some of their reserves to smooth the impact of funding reductions and buy themselves time for savings targets to bed in. This suggests that a significant number of authorities is facing making cuts after 2015/16 once reserves have run down, even if there are no further cuts in government funding.
3. In addition, every 2 out of 5 councils are looking to use reserves to support investment in cost saving or income generating activities over the next two years. All authorities report the level of reserves they hold each year, as part of their financial accounts and national statistical releases. This dispels the perpetuated myth that councils are needlessly sitting on a ‘secret stockpile’ or ‘Fort Knox’ of cash.
4. In a post-efficiency world, councils are looking into the commercialisation of activities by planning to adjust their charging and fees structures to recover costs incurred while providing discretionary services, such as leisure centres. In addition, maximising investment income is seen as a key priority in tackling the 2015/16 funding challenge – indeed, there are anecdotes of councils that are relying on a portfolio of real estate to provide them with continuous rental income.

The government must recognise that local government is fast approaching a state where continued efficiency savings is no longer a viable option to tackle funding cuts for the majority of councils.

Even the so called ‘secret stockpile’ of reserves does not provide a sustainable solution, only a welcome temporary respite against the rising pressure that councils can afford because they prepared for the challenges in advance of the rest of the public sector.

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1. For more details, please see the [LGA shared services map](http://www.local.gov.uk/productivity/-/journal_content/56/10180/3511353/ARTICLE) [↑](#footnote-ref-1)
2. BBC. ‘Public service cuts: did we notice?’ <http://www.bbc.co.uk/news/uk-24454006> [↑](#footnote-ref-2)
3. See, for example, this article from the [Local Government Lawyer](http://www.localgovernmentlawyer.co.uk/index.php?option=com_content&view=article&id=17275%3Aanother-council-faces-judicial-review-over-changes-to-library-provision&catid=56&Itemid=24) [↑](#footnote-ref-3)
4. For an example of this happening in a council, please see this story about [flooding in Canterbury](http://www.canterburytimes.co.uk/flood-alerts-council-raids-reserves-fix-damage/story-20521714-detail/story.html). [↑](#footnote-ref-4)
5. See [‘The story so far: business rate retention’](http://www.local.gov.uk/documents/10180/11531/The+story+so+far+-+business+rate+retention.pdf/2175c47c-6916-4b93-add8-c2201db60482) [↑](#footnote-ref-5)
6. Official statistics not available yet. The indication is based on a survey by the Local Government Chronicle. [Link](http://www.lgcplus.com/briefings/corporate-core/finance/council-tax-intentions-in-2014/5067058.article) [↑](#footnote-ref-6)
7. [‘Eric Pickles attacks councils for “stashing away billions”’](http://www.telegraph.co.uk/news/politics/council-spending/9280976/Eric-Pickles-attacks-councils-for-stashing-away-billions.html) , Telegraph [↑](#footnote-ref-7)
8. [‘Councils amassing secret stockpiles of taxpayer money says Local Government Secretary’](https://www.gov.uk/government/news/councils-amassing-secret-stockpiles-of-taxpayer-money-says-local-government-secretary) , DCLG [↑](#footnote-ref-8)
9. Please see this [press release from CIPFA](http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-sets-out-position-on-council-reserves). [↑](#footnote-ref-9)