NEW LOCAL GOVERNMENT NETWORK

Scanning Financial Horizons

Modelling the local consequences of fiscal consolidation

Nick Hope, **James Kirkland** and **Dr David Chapman**

www.nlgn.org.uk

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Throughout the report we endeavoured to use the latest available figures and information. All errors and omissions are, of course, those of the authors.

Nick Hope
July 2010

Executive Summary

The credit crunch earthquake and lingering aftershock of the global economic downturn hit the UK private sector hard. The longest recession since quarterly records began in 1955[1] also places a number of immediate financial and policy pressures on the public sector. However the scale of challenge councils and other public bodies will face over the next few years is far greater.

In response to the economic downturn, the previous government increased public spending, introduced a short-term stimulus package and honoured the spending settlement for 2008-09 and 2009-10, as set out in the 2007 Comprehensive Spending Review. This served to financially cushion local authorities from the immediate effect of recession. On 24th May 2010 the Coalition Government announced £1.165bn of in-year funding reductions to the 2010-11 grant settlement to local government.[2] However this first wave of cuts is relatively small compared to the tsunami of funding cuts that we predict will hit councils over the course of this parliament.

Following the June 2010 Budget, predictions suggest that local government will be confronted with a cumulative real terms cut in non-education funding from central government of 33 per cent by 2014-15.[3]

At the same time that local authorities will see their funding reduced, they will have to deal with the far-reaching and often stubbornly persistent social and economic consequences of the recession, such as long term youth unemployment and increasing demand for social housing. Councils will also face a number of other unrelated rising financial burdens, ranging from rapidly increasing waste disposal costs to meeting rising pressures on children's services, and meeting the demands of an ageing population with higher levels of social care needs. The mismatch of rising demand and shrinking resources may be further compounded by specific internal

1 BBC (2009), 'Record recession for UK economy', 'http://news.bbc.co.uk/1/hi/business/8321970.stm

2 HMT Treasury (2010), Press Notice: 'Government announces £6.2bn of savings in 2010-11', 24 May 2010, http://www.hm-treasury.gov.uk/d/press_04_10.pdf

3 IFS (2010), Rowena Crawford, 'Public services: serious cuts to come', http://www.ifs.org.uk/budgets/budgetjune2010/crawford.pdf

costs many councils could face, particularly in making increased pensions contributions and meeting equal pay claims.

More deprived areas are likely to be hit harder by cuts to Government grant because this funding is distributed, in part, on a needs-resource basis or targeted towards problems associated with high deprivation. The in-year cuts to grants to local government for 2010-11 can already be seen to disproportionately affect communities with greater deprivation, with the ten councils facing the maximum 2 per cent cut all in the top 100 most deprived areas in the country.

Councils are not wholly dependent on central government funding and possess other income streams, such as Council Tax and income from fees and charges. Many local authorities are likely to become increasingly dependent on these other sources of income as central grant is cut. However, the revenue raising powers of councils has been substantially eroded over the last few decades.

In order to get a closer understanding of what the overall threat to local authority income will be over the next few years, NLGN has carried out detailed quantitative modelling to project these changes. We have forecasted middle, best and worst case scenarios for local government based on a series of explicit assumptions, such as interest rate forecasts and different potential changes in Council Tax yield. Our middle case scenario suggests that, once locally generated income is taken into account, local government could see a cumulative real terms cut to their overall revenue income of 16.5 per cent between 2010-11 and 2014-15. Councils have very different mixes of income sources and those that are more reliant on income streams that are likely to fall, or not recover as quickly as others, could face far greater privations.

Decreasing income and increasing demands on expenditure are likely to leave a substantial funding gap. Our survey of Local Authority Finance Directors suggests that the funding gap most commonly anticipated by councils by 2014-15 will be between 21-25 per cent. Overall two thirds anticipate a funding gap of over 20 per cent, with one third anticipating it will be between 21-25 per cent and almost a third anticipating a funding gap of over 25 per cent.

While there are undoubtedly savings to be found through more traditional means such as shared services, better asset management and smarter procurement, it is clear that some of the most substantial efficiencies are to be found through better co-ordination of the public sector as a whole in localities, and radical service redesign. This requires a bold and substantial shift at the centre, with the Treasury and other big spending departments devolving budgets and power to local areas in return for agreed outcomes, through negotiated 'area budgets'.

Without these reforms, councils and their partners will be left in an even more precarious position from which to minimise the impact of budget reductions.

NLGNs scenario planning interviews with council Chief Executives and Finance Directors suggest that the range of services local government provides will have to be cut. If cuts to some services have to be made, our research suggests that particular service areas will be more vulnerable than others. The survey of Local Authority Finance Directors we conducted indicates that three areas – central services, cultural services and environmental services – will be most exposed.

A Populus poll commissioned by NLGN shows widespread public opposition to local service cuts and suggests that citizens are not prepared for reductions in service quality, with two thirds of those polled expecting services to be of the same or higher quality 18 months from now. Our survey of Finance Directors found that environmental services were identified as one of the most vulnerable areas, whereas our public poll found environmental services to be one of the service areas in which the public most opposed cuts. These research findings suggest that significant tensions between the public and local authorities are likely to surface in the coming years.

Councils face tough choices, between cutting services that will not be immediately felt by the public but could have a negative impact on society in years to come, and cutting services that the public will notice straight away but that would have a less negative impact on society in the future. Preventative programmes and invest-to-save activity could potentially be at a significant risk because the effect will not be immediately felt. Services that are more visible, commonly used or accessed by a vocal group of citizens may be maintained at the expense of services for which there is greater need from a vulnerable minority.

Tensions between council members and managers could also emerge and ultimately our research, unsurprisingly, suggests that cuts to services will be both difficult and unpopular for local authorities. Therefore, sophisticated engagement and an honest dialogue with citizens needs to take place in every local community, in order to minimise these tensions and arrive at a viable new service settlement.

The unique combination of demands and pressures councils face over the coming years has created a burning platform for radical action to make major efficiency savings and to undertake a comprehensive redesign of services. Local government has delivered substantial efficiency savings in recent years, outperforming many other parts of the public sector, and is therefore uniquely placed to drive forwards efficiency savings on a far wider scale. There are a number of options available to councils but many of the reforms that have the greatest potential to deliver substantial efficiency savings are managerially complex, requiring sophisticated planning and negotiation of new joint working arrangements. They take time, need funding certainty over extended periods, and demand devolution of resources and powers to allow a more strategic approach to be adopted. This requires a new shift in the working relationship between Whitehall and localities, and a more mature relationship to be negotiated between central and local government.

This report makes a series of recommendations to local and central government that will help ensure that efficiency savings can be maximised and that new service settlement between citizens and the state can be achieved:

Recommendations to central government:

- *Local authorities should be given greater control over wider public resources through the negotiation of new "Place Agreements". These radical new shared agreements between the national and local state would allow innovative deals to be struck in the devolution of budgets and powers, built on agreed outcomes such as reductions in unemployment or re-offending, or reduced acute healthcare costs. This will harness the potential for greater efficiency across multiple services and better delivery for citizens by allowing more local democratic strategic coordination and better integration of the public sector as a whole in a particular area.*

- *Central Government should scrap 'in year' balancing – where councils have to match their income to their expenditure every year – replacing* *it with a new 'three year' statutory balance requirement. This will give local authorities greater latitude, allowing them to be more sophisticated in their financial planning. The scale and complexity of service redesign required by the financial challenge will need a more strategic and long-term investment approach than can realistically be delivered in a one year time-frame.*

- *Central Government should provide funding certainty for at least three years in the 2010 Comprehensive Spending Review. The local government finance review, to which coalition Government has committed, should not be used as an opportunity by HM Treasury to devolve further unanticipated cuts to local authority budgets. Uncertainty will breed paralysis but transparency and predictability are needed to aid strategic planning, which will help avoid sub-optimal frontline services.*

- *Local authorities should be freed to raise more income locally through a new and more autonomous financial framework. This should include full discretion over Council Tax levels, the ability to retain a slice of business rates locally to incentivise economic growth, and the freedom for councils to engage more entrepreneurial activity to generate additional income. The planned local government finance review provides a rare opportunity to create a more permissive financial settlement, but the overall package of reform must have mechanisms for redistribution to ensure that the poorest and most deprived communities are not disadvantaged.*

Recommendations to local government:

- *Councils should undertake detailed scenario planning exercises with local partners from the public, business, community and voluntary sectors. They should make in-depth financial forecasts for the medium and longer term, if they have not already done so, to facilitate a robust and strategic response to the changes in income and demands on expenditure they face.*

- *Strong internal vision, leadership and management are needed within councils to further embed efficiency and service redesign throughout* *local government. It will be important for local authorities to strike the right balance between the different options for efficiency savings, as well as ensuring the workforce can be adapted to undertake the new revised roles and responsibilities of the organisation. This will require clear direction, strong relationships between management and other staff, and co-operation, dialogue and compromise between politicians and officers.*

- *A new level of ambition from many councils is needed if they are to take on new risks and wider responsibilities, so that all the services in their locality are properly orchestrated to meet the needs of citizens. Local authorities must be proactive in positioning themselves at the heart of public services, demonstrating their willingness to take risks, innovate and drive efficient and transparent services in their local area, demonstrating to Whitehall that local government is uniquely and often best placed to respond to the priorities of their local communities.*

- *Local authorities should actively engage with the public about the financial challenges and difficult choices that will have to be made. A full and public debate should take place and the fundamental role and purpose of the local authority should be reassessed in order to redefine and renegotiate the relationship between councils and the public. Local communities must arrive at a feasible new service settlement about what councils can provide and what citizens and community groups could take on themselves, with proper support, in the future. In doing so, local politicians will have a vital role and responsibility in framing the debate and managing the tensions that emerge from competing demands and priorities for services.*

1 *Modelling Local Government Revenue Income*

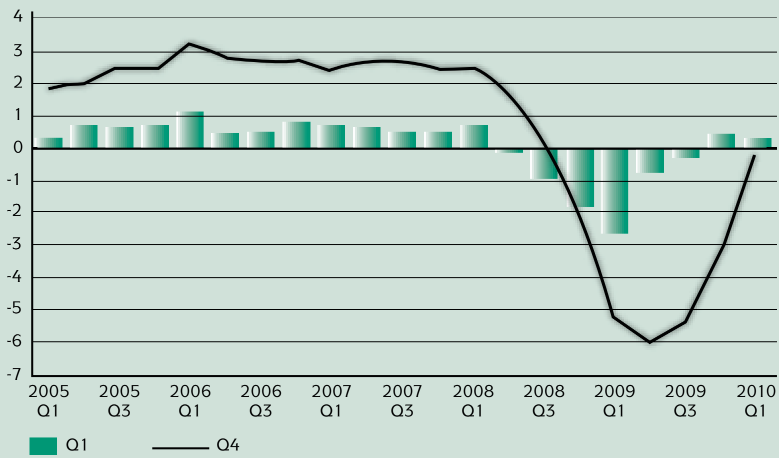
In this first chapter we have modelled, within the limitations of the information available, probable changes in local government income from 2010-11 to the end of the financial year 2014-15. This time-frame is consistent with the coalition Government's plan to establish five year fixed-term Parliaments and within the forecast horizon established by the Chancellor in the June 2010 Budget.[4]

It is important to stress from the outset that the analysis in this chapter is set at the national (i.e. English) level and variations between types of council and specific councils will be considerable, as the report will explore later in Chapter 2.

The Impact of Recession

The financial crisis hit the UK economy hard, with its reliance on the financial services industry and open borders to trade. Recession followed an extended period of economic growth and comparatively low unemployment.[5]

Figure 1 GDP per cent change 2005-2010

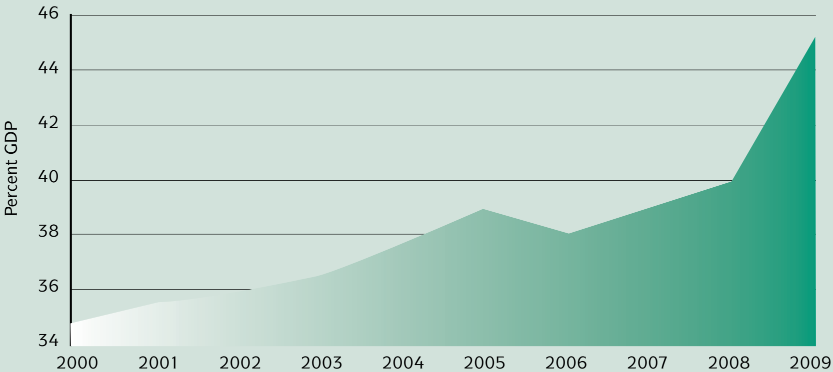


4 HM Government (2010), 'The Coalition: our programme for government'

5 Office for National Statistics (2010), 'Economy: GDP Growth', http://www.statistics.gov.uk/cci/nugget.asp?id = 192,

The UK has been through what the Governor of the Bank of England called the "NICE"[6] decade, and a short term fiscal stimulus package in response to the downturn, which saw public spending rise pretty consistently as a percentage of GDP.[7]

Figure 2 UK public spending as a per cent of GDP 2000-2009



Central government honoured the spending settlement for 2008-09 and 2009-10 set out in the 2007 Comprehensive Spending Review, which served to financially cushion local authorities from the first waves of the economic downturn. But public sector net debt has risen dramatically (see Figure 3[8]) and the coalition Government has stated that the "most urgent task facing this coalition is to tackle our record debts"[9]. Over the coming years councils will face very significant funding cuts as central government seeks to pay down the deficit.

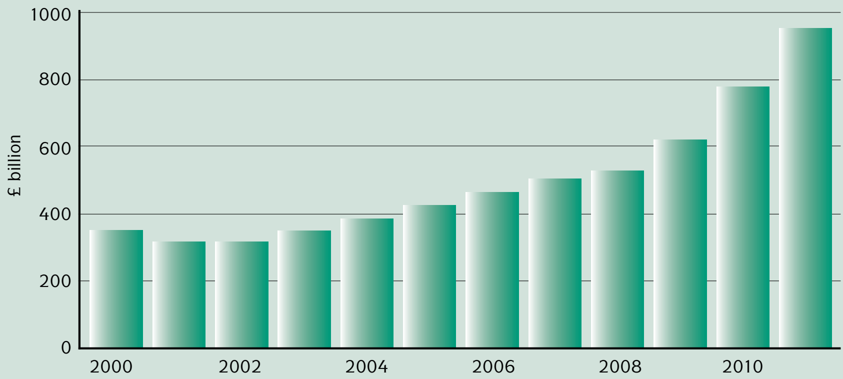
6 'Non Inflationary Consistently Expansionary', see Bank of England (2005),'Speech by Mervyn King, Governor of Bank of England' http://www.bankofengland.co.uk/publications/speeches/2005/speech256.pdf,

7 Public Spending As Percentage Of GDP (2009 figure is budgeted, rather than actual outturn from the 2010 Budget). See UK Public Spending (2010), 'UK Public Spending 2000 to 2009, http://www.ukpublicspending.co.uk/downchart_ukgs.php?year = 2000_2009&view = 1&expand = &units = p&fy = 2010&chart = F0-total&bar = 0&stack = 1&size = m&color = c&title = UK ,

8 UK Public Spending (2010), 'Time Series Chart of UK Public Spending' http://www.ukpublicspending.co.uk/downchart_ukgs.php?year = 2000_2011&view = 1&expand = &units = b&fy = 2010&chart = G0-total&bar = 1&stack = 1&size = m&color = c&title = ,

9 HM Government (2010), 'The Coalition: our programme for government'

Figure 3 Public Sector Net Debt 2000-2011



The Macroeconomics

In this report we have set ourselves the task of modelling local government's overall total income over the current Parliament. These income streams come in two forms: grants from Whitehall, and income generated locally. To give a complete description of possible changes in income we must model both of these aspects. In particular, self-generated income must be modelled to reflect its dependence upon long-term economic trends.

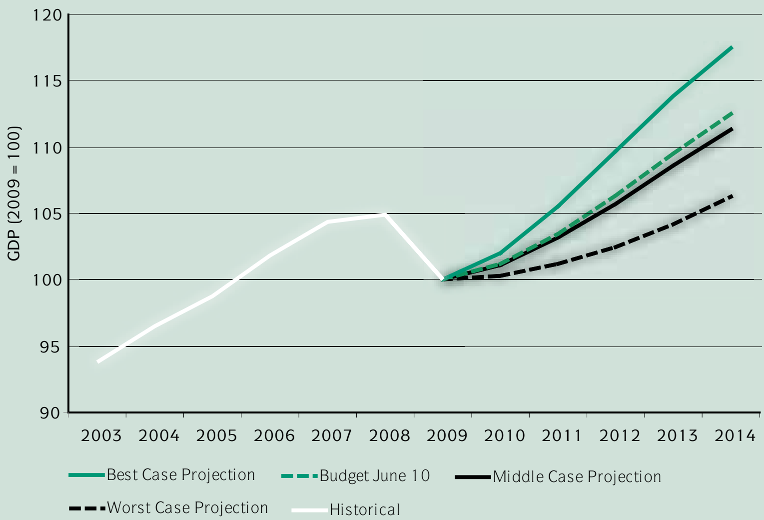
This modelling is based on forecasts for GDP, inflation and interest rates. For the first two we developed a set of best case, middle case and worst case scenarios to provide a range of possible trajectories. Our methodology for these macroeconomic projections is provided in Appendix 2 and summaries of our scenarios are provided below.

1) Gross Domestic Product

As an economic concept which needs relatively little explanation and is routinely used by politicians, we took GDP as our proxy measure for activity and output in the economy. The economic health of localities - and the nation more widely - is crucial in determining the income councils and government receives in taxation, or conversely, pays out in benefits. Therefore, future growth in the economy is a vital ingredient for identifying how income will respond to the recession and the anticipated recovery.

Using data from the Treasury's own polling of economic experts and banks,[10] we constructed a series of growth patterns (see Figure 4 below) which contrasted sharply with the optimistic projections given by the last administration. However, the June 2010 Budget has given projections for growth that are much more in line with the consensus opinion and for reference it is included here. In the remainder of this report the new Treasury projections and our mid case projections for growth can be seen as essentially the same.

Figure 4 Historical and projected GDP Growth



2) Inflation

Inflation is a vital variable, but one that can play both ways for local government. Higher inflation eats into the national debt faster but it also means higher expenditure on index linked items like pensions and any benefits for which it is responsible. Lower inflation, however, implies lower interest rates and probably lower growth which affect other areas of income.

More importantly for our analysis, we need to make sure that all amounts we predict or project can be understood in today's terms. To ensure that the reader can compare like with like we have used the GDP Deflator used by the

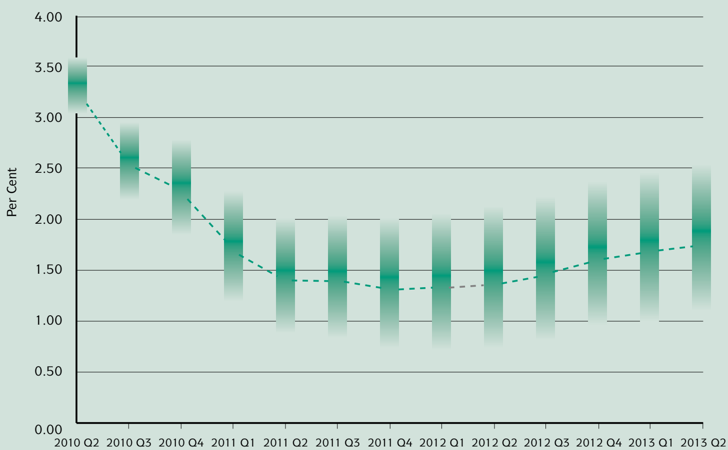
10 HM Treasury (2010), 'Forecast for the UK economy: a comparison of independent forecasts' M1 and M3 http://www.hm-treasury.gov.uk/d/201005forcomp.pdf

Treasury to rebase all prices to 2009. This means that it is clear when real reductions are being made, even if absolute amounts are going up.

Once again, we projected a best, middle and worst case scenario using the Treasury's consensus forecast of experts.[11] The other major measure of inflation, which is now to be used to index benefits and tax credits[12] is the Consumer Price Index. Changes in this index will now have implications for index linked or 'index aware' expenditure, including wage negotiations, and is related to probable changes in interest rates as well.

In Figure 5 the dotted line indicates the Bank of England's mode consensus projection of inflation into the future. The error bars at each quarter indicate decreasing probabilities that inflation will be higher or lower than the dotted line as you move further away. The end of these bars gives us our best case scenario for inflation (a lower number, bottom of the bars) and our worse case scenario (the higher numbers, top of the bars).

Figure 5 Bank of England CPI projections to Q2 2013



3) Interest Rates

Interest paid on debts and received on deposits is a fundamental component of the good financial management of any organisation and local government

11 Ibid.
12 HM Treasury (2010), 'June Budget 2010', p17 para.1.43

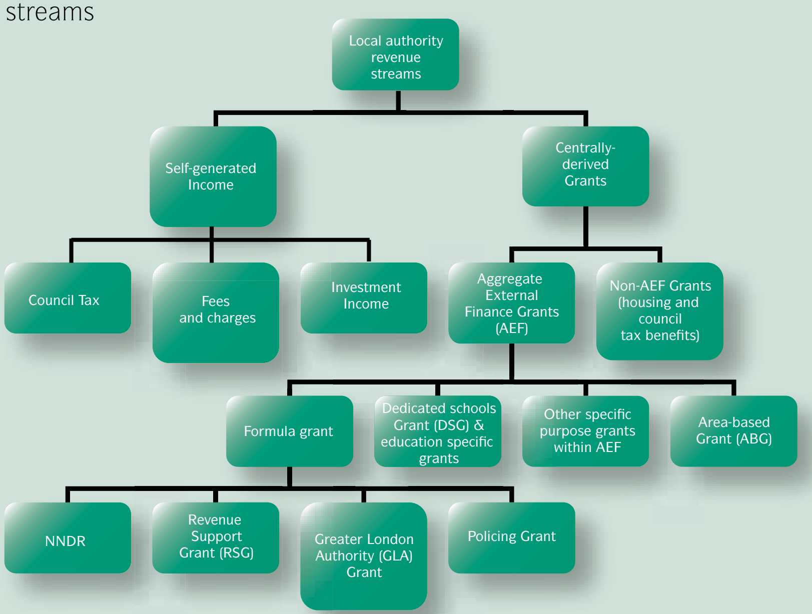
is no different. In particular for our purposes, local government has been the recipient of substantial amounts of income from interest received on deposits of reserves – nearly £2bn at the height of the financial boom.

That income has now declined as deposits are drawn down and finance managers have become more risk adverse since the credit crunch. However, it was important to attempt to work out where interest rates would shift and if a recovery in those rates would help close some of the funding gap. To do so, we assumed that the interest received would return to the long term trend by 2014. By utilising the CPI projections mentioned in the previous section, we could apply the historical spread of real interest rates received to the future to reach our assumed end point of returning to trend.

Sources of Local Government Revenue Income

Local authorities derive their revenue from various self-generated income sources and centrally derived grants, as summarised below. Fuller definitions of income sources are given in Appendix 3.

Figure 6 Schematic hierarchy of selected local government revenue streams



Self-generated Income

There are three self-generated income types:

- Council Tax
- Fees and Charges (parking charges, fines, planning application charges, etc.)
- Investment Income

Projecting these figures into the future is difficult for a number of reasons, not least that there are always a number of factors outside the direct control of government. In the case of Council Tax for example, there are no historical data as to the sensitivity of this tax to a recession, as it was introduced in 1993 once the last recession was over.

Council Tax

The amount of Council Tax revenue collected is influenced by the level of Council Tax rate, but also other variables such as changes in the number of chargeable dwellings and changes in the number of exempt/discounted properties. We have built these in to our modelling and our methodology is explained in Appendix 4.

The coalition government has stated that it 'will freeze Council Tax in England for at least one year, and seek to freeze it for a further year'.[13] For 2010-11 councils have announced an average 1.8 per cent rise[14], but central government has indicated that it will reward those councils who have limited rises to 2.5 per cent this year and next with a grant to return that rise to zero[15]. Therefore, for the purposes of our model this appears as a 1.8 per cent increase in Council Tax for 2010-11 (even though the additional 1.8 per cent will come from central government grant rather than rises in local Council Tax).

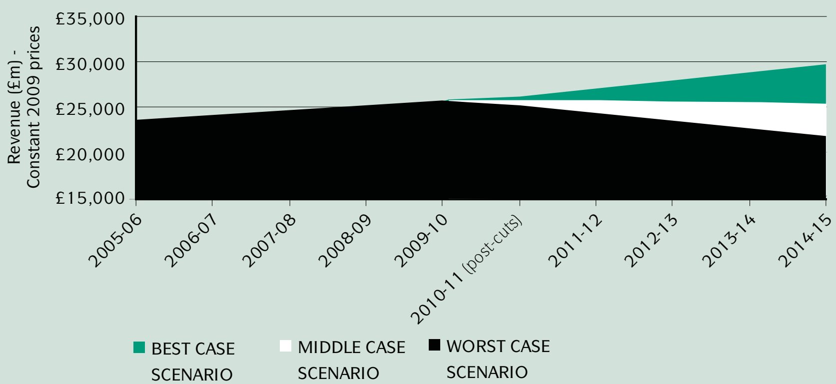
13 Cabinet Office (2010), 'The Coalition: our programme for government'

14 CLG (2010), 'Council Tax levels set by local authorities in England - 2010-11', http://www.communities.gov.uk/publications/corporate/statistics/counciltax201011

15 Conservative Party (2009), http://www.conservatives.com/~/media/Files/Downloadable per cent20Files/Returning per cent20Power per cent20Local per cent20Communities.ashx?dl=true

We have considered three future scenarios for Council Tax rate changes over the medium term. The worst case scenario assumes an absolute terms freeze in rates from 2011-12. This would lead to a large 15.5 per cent cumulative real terms decrease in tax revenues from 2009-10 to 2014-15. In our middle case scenario we assume Council Tax will rise by 1.8 per cent each year from 2011, as this is the average increase councils planned in 2010-11.[16] This may once again come from a Council Tax top-up grant to facilitate a Council Tax freeze in 2011-12, but for the purposes of our forecasting will appear as Council Tax income. Even with our predicted year on year 1.8 per cent rate increase, councils are unlikely to see their income increase in real terms, with our middle projection recording a cumulative decrease in real terms income due to inflation. By contrast, if (as occurs in our best case scenario) the rate were to increase from 2012 by the pre-recession average (4.4 per cent[17]) then councils would enjoy a 15 per cent or more real terms cumulative increase by 2015.

Figure 7 Historical and Projected Council Tax Revenues



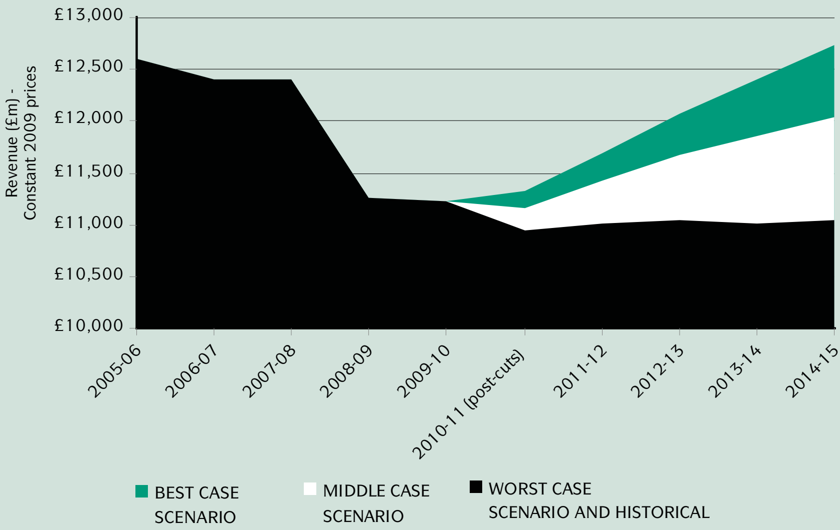
16 It is important to note that Council Tax is one of the taxes people would be least willing to see increased (see Ipsos MORI/2020 Public Services Trust, (2010) '*What do people want, need and expect from public services?*', p38-39), and new powers from the Coalition Government will give residents the power to veto "excessive" Council Tax increases.

17 This average is taken over the complete lifetime of Council Tax before the recession

Fees and Charges

Our fees and charges income predictions are based on the correlation between business activity in its broadest sense (measured as GDP) and previous yields. This methodology is explained in Appendix 5. Figure 8 shows our three projected future fees and charges income trends (to 2014-15), based on our best, worst and middle GDP forecasts.

Figure 8 Historical and Projected Revenues from fees and charges



No data for the level of local authorities' fees and charges income since 2008-09 were available at the time of writing, but in 2008-09 revenue from these sources fell below expectations to just over £11bn (from £11.9bn in 2007-08).[18] This was due in large part to a drop in development-related income from planning applications and Section 106 agreements, though income from facilities such as car parks was also reported by some councils

18 CLG (2009), '*Statistical Release: Local Authority Revenue Expenditure and Financing England - 2009-10 (Revised)*', 22 Dec 2009 to have fallen. Income from fees and charges is likely to improve with the economy, although there is almost certainly going to be regional variation in this improvement.[19]

Investment Income

Local authorities have built up very substantial deposits in various investments as a contingency against unforeseen events. In 2008, these funds stood at around £34bn. During the period of growth until 2008 local authorities used these deposits as extra sources of income, generating nearly £2bn per year in interest at peak. However, the collapse of the credit market, falling interest rates and a sudden reaction against investment risk (post-Iceland[20]) has led to this income figure falling dramatically. Despite rising slightly in 2008-09 income from investments fell dramatically by 62 per cent between 2008-09 and 2009-10 to £720m across English local authorities. Therefore, since 2007-08, total local authority investment income has fallen by £1.3bn, impacting heavily on a previously steady supply of funding independent of Whitehall.[21]

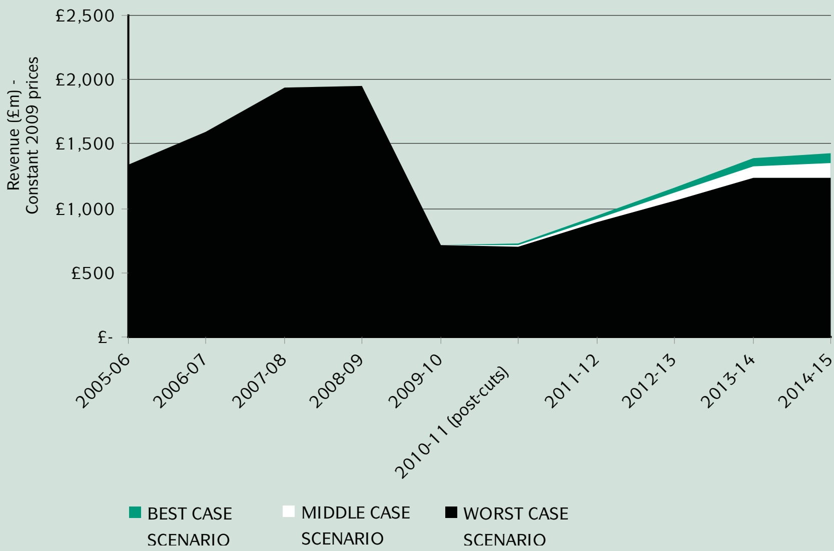
There are two factors affecting interest income: the size of the deposits and the interest rate received on them. The use of deposits to close budgetary shortfalls has affected the size of those deposits overall. We have assumed that deposit size will remain constant in real terms over the medium term, and we have used our best, main and worst case scenarios for interest rates to model returns.

19 While the Royal Institute of Chartered Surveyors reported a continued national increase in construction sector workload in its June Market Chart Book (See RICS, UK Economy & Property Market Chart Book, June 2010, p4) this was composed of a large increase in construction work in the South-East, more moderate increases in the Midlands and East Anglia, and falls in workload across the rest of the country. Thus the extent to which individual councils can expect to see their revenue from development-related charges recover or continue to fall in the middle-term is highly region-specific. Other charge-derived revenue from leisure, tourism and business activities will also recover differentially with regions' economies.

20 Some local authorities had investments in Icelandic banks, which were severely hit by the credit crunch. For further information see Audit Commission (2009) 'Risk and return: English local authorities and the Icelandic banks'

21 LGA (2010), *Media release: New LGA survey shows lowest Council Tax rise ever*, 24 February 2010, http://www.lga.gov.uk/lga/core/page.do?pageId=8729828

Figure 9 Historical and predicted investment income



As the national economy exits the recession local authorities' income from investments should begin to recover concomitantly, though with certain caveats. Many councils have plugged unexpected and unbudgeted revenue shortfalls in 2008-09 and 2009-10 through expenditure from reserves. This is particularly true for district councils, whose revenue reserves fell 6.3 per cent in real terms in 2008-09, compared to a 2.7 per cent decrease in revenue reserves for counties and single tier authorities. For example, district councils' total general reserves fell nearly a quarter in the financial year 2009-10.[22] Thus, even as interest rates increase and the stabilizing economic situation gives councils greater confidence to re-invest with riskier, high-return strategies total investment returns may remain low if councils have overly-depleted their reserves to maintain expenditure at pre-recession levels.

22 Audit Commission (2010), *Surviving the Crunch*, p. 37

Grant Income from Central Government

Central Government Spending Cuts

Between 2010-11 and 2014-15 the Government will implement its radical plans, detailed in the June 2010 Budget, to eliminate the "bulk of the structural deficit", with a total fiscal consolidation of £113 billion per year.[23] This rapid fiscal tightening of an additional £40 billion per year by 2014-15 on the previous Government's plans[24] is consistent with the 2010 Queen's Speech that "action will be taken to accelerate the reduction of the structural budget deficit".[25] By 2014-15, 80 per cent of the additional consolidation measures set out in the June 2010 Budget will be delivered through spending reductions.[26]

The June 2010 Budget announced an overall increase in spending from £637.3bn in 2010/11 to £692.7bn in 2014/15, but spending on debt interest, social security and other Annual Managed Expenditure (AME) is forecast to grow in real terms. Given the financial pressure on AME, overall spending plans will require deep cuts in Departmental Expenditure Limits (DELs), which is Whitehall spending on public services and administration.

The Coalition Government has stated that they will guarantee that health spending increases in real terms in each year of the Parliament. It also stated that 'we will honour our commitment to spend 0.7 per cent of Gross National Income on overseas aid from 2013, and to enshrine this commitment in law'.[27]

Protecting large areas of spending from cuts means that the remaining areas of departmental spending will feel the financial strain even more severely. The Chancellor has stated that the Budget figures imply that other departments will face an average real cut of around 25 per cent over four years. How the 25 per cent real terms cut in DELs will fall between the different "unprotected" departments will not be revealed until the Comprehensive Spending Review is released on 20 October 2010.

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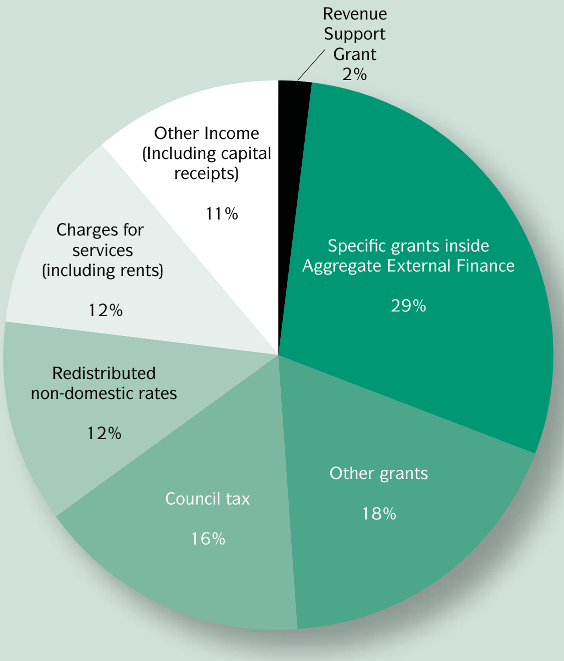
23 HM Treasury (2010), 'June Budget 2010',
24 Ibid.
25 Number 10 (2010), 'Queens Speech 2010', 25 May 2010, http://www.number10.gov.uk/news/speeches-and-transcripts/2010/05/queens-speech-2010-2-50580
26 HM Treasury (2010), 'June Budget 2010'
27 Cabinet Office (2010), 'The Coalition: our programme for government'

The coalition Government has already announced in-year cuts of £1.165bn to budgeted 2010-11 grants to local government.[28] This consists of £805m of cuts to revenue grants, and £361m of capital grant cuts.[29] Our analysis will show that this first wave of reductions is relatively small compared to the tsunami of cuts that will hit local government between over the next four years.

The Makeup of Grants to Local Government

Overall, approximately 60 per cent of local authorities' total gross income is from central Government. The main non-housing revenue grants are referred to collectively as Aggregate External Finance (AEF), redistributed non-domestic rates (usually called Business Rates or NNDR) and certain specific grants (Police Grant and Area Based Grant).

Figure 10 Local authority income by source 2007-08



28 HM Treasury (2010), '*Government announces £6.2bn of savings in 2010-11*', Press Notice PN 04/10, 24 May 2010

29 CLG (2010), 'Government sets out further detail on local government savings', Press Notice, 10 June 2010, http://www.communities.gov.uk/news/newsroom/1611369

Since 2003-04 NNDR, RSG and Police Grant have been distributed through Formula Grant. Specific Grants within AEF are distributed by individual government departments through a range of mechanisms. Since 2008-09 Area Based Grant has been distributed to local authorities in addition to revenue funding to areas, and allocated according to specific policy criteria, rather than general formulae.[30]

Grants outside AEF[31] comprise capital grants, funding for the local authorities' housing management responsibilities and those grant programmes (such as European funding) where authorities are simply one of the recipients of funding paid towards an area.[32] Grants outside AEF have therefore been excluded from our analysis.

In his Budget Statement the Chancellor stated that, although overall "unprotected" departments will receive a 25 per cent cut, *"of course, not all departments will receive the same settlement. I recognise, for example, the particular pressures on our education system and on defence"*.[33] Given that education was singled out as a special case by the Chancellor, we have assumed in our analysis that education revenue funding[34] will not be subject to the full force of the cut implied for other areas. These will consequently have to bear more of the burden.[35]

Clearly, the scale to which education and defence will transfer some part of their proportion of the cuts to other departments is a highly political one and not likely to be clarified before the Spending Review in October. However, the Institute for Fiscal Studies (IFS), in its analysis of the June 2010 Budget, suggested that a 10 per cent real terms cumulative reduction in these semi-protected areas was plausible.[36] We use this assumption in our analysis;

30 CLG (2010), 'Local government Financial statistics England, No. 19, 2009'

31 Where funding is not for authorities' core services, but is passed to a third party, for example, rent allowances and rebates

32 Parliament (2010), '7 Jan 2010 : Column 505W—continued, Local Government Finance: Lancashire, Barbara Follett', http://www.publications.parliament.uk/pa/cm200910/cmhansrd/cm100107/text/100107w0005.htm

33 Budget statement by the Chancellor of the Exchequer, the Rt Hon George Osborne MP, 22 June 2010

34 Dedicated Schools Grant and other specific education grants within AEF

35 A full breakdown of specific grants within AEF and the amounts awarded in the 2007 CSR in 2009-10 and 2010-11 is provided in Appendix 6

36 IFS (2010), Rowena Crawford, 'Public services: serious cuts to come', http://www.ifs.org.uk/budgets/budgetjune2010/crawford.pdf

but would suggest that a 10 per cent cut to these politically hyper-sensitive areas represents the extreme end of the scale. The IFS figure of 10 per cent real terms reductions implies a greater burden for other departments, including local government, amounting to a 33 per cent real terms cumulative reduction in grant income by 2015.[37]

Formula Grant

Formula Grant is distributed to local authorities through a ‘four block’ system that takes into account the relative needs and resources of local authorities.[38] Formula Grant is distributed through four revenue streams:

- Business Rates (NNDR)
- Revenue Support Grant (RSG)
- Police Grant (only goes to some authorities)
- Greater London Authority (GLA) Grant (only goes to some authorities)

RSG, Police Grant and GLA Grant are simple centrally derived grants, and comprise a small proportion of the total awarded Formula Grant. Meanwhile, the greater proportion of Formula Grant is provided by business rates, which operate under a more complex system.

Business Rates are a nationally administered tax on non-domestic properties collected by local authorities, passed to a centrally-administered fund at HM Treasury and then redistributed to local authorities. We have forecast business rate yield into the future, as explained in Appendix 7.

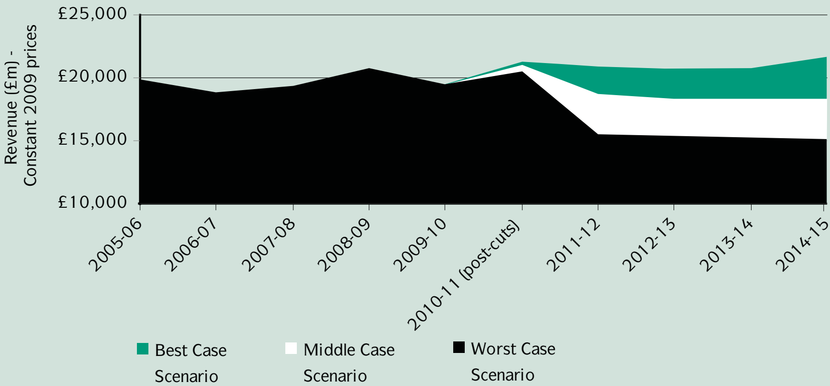
Each year HM Treasury calculates the total amount of business rates to be collected nationally, and compares this value to what is actually collected by local authorities (the ‘yield’). Any surplus or deficit between these amounts is currently retained or supplied by HM Treasury, before NNDR is redistributed to councils through the Formula Grant. During the recent recession councils have consistently under-collected NNDR compared to HM Treasury expectations, resulting in large ‘top-ups’ by central Government. In light of

37 Ibid
38 For details of the ‘four block’ system see Lyons Inquiry (2007), ‘Appendix E: Understanding the current grant distribution system’

plans to severely restrict spending over the coming years, it seems unlikely that this difference between yield and the amount redistributed to councils can continue. Therefore in our worst case scenario we have modelled that all 'topping-up' ceases as of 2011-12 and in our middle case we have predicted that the cessation of 'topping-up' is phased in over the period to 2014-15.

In our best case scenario 'topping-up' continues up to 2012-13, to hold the redistributed amount at 2010-11 levels. After 2012-13 'topping-up' ceases as the net yield (under our best case economic growth projections) will have surpassed the 2010-11 redistributed amount. Only in this last scenario do NNDR revenues to local government increase in real terms between 2010-11 and 2014-15. The following graph illustrates the changes in NNDR that we are forecasting in our three scenarios.

Figure 11 Historical and predicted Business Rate revenues



It is important to note that we have assumed that HM Treasury fully redistributes all collected NNDR to local authorities. If central Government changes legislation and HM Treasury retains a portion of NNDR, rather than redistributing them in full to local authorities, then the overall projected percentage cuts local government faces would become more severe.

What do these projections mean for local government?

Taken together, these scenarios have been used to model self-generated local government income up to 2014-15. We have also used the latest available local government revenue outturn data (2008-09)[39] to model local government grant income over the same period. This was done by excluding the semi-protected Department for Education grants and treating NNDR as a tax rather than a grant (i.e. the full collected amount of NNDR is returned to councils, rather than a portion retained by HM Treasury). We took the Local Government Finance Report for 2010-11 as the starting point of our analysis, and have taken into account the in-year grant reductions announced in May 2010 by the coalition Government. We have also assumed that capital grants to local government suffer a 25 per cent reduction over the period 2010-11 to 2014-15[40], and that the savings this provides can be put towards the 33 per cent reduction in total unprotected DEL. This reduces the level of cut required from revenue grants, compared to a scenario where the full brunt of savings are met by revenue income alone.

Based on these assumptions we calculate that RSG, unprotected specific grants within Aggregate External Finance and other central government grants to local government will have to take a 71.4 per cent cut, in real terms, between 2010-11 and 2014-15 in order to achieve the IFS' recommended 33 per cent overall unprotected revenue DEL cut.[41]

We currently predict, in our main scenario, that overall local authority income (excluding Department for Education grants) will fall by 16.5 per cent (£12.1bn) between 2010-11 and 2014-15. The figure below shows the breakdown of local government revenue income sources between 2010-11 and 2014-15, according to our predicted middle case scenario:

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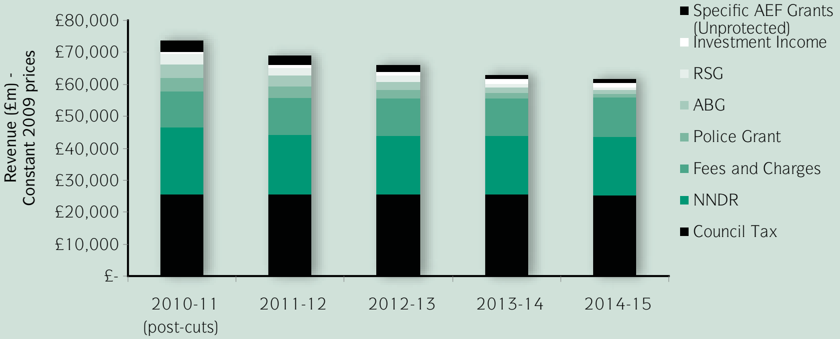
39 Data provided by CLG (2010). CLG RG 2008/09 final release data by LA (inc Regional Class totals) - 3-Dec-09 and CLG Revenue Outturn Summary (RS): 2008/09.

40 This is in line with the planned cuts to national Implied Capital DEL taken from Table 2.3 of HMT (2010), 'June Budget 2010', 22 June 2010, page 45

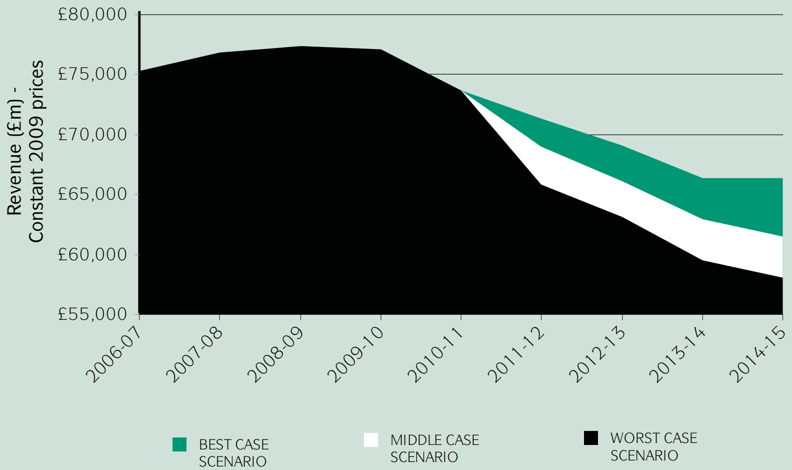
41 Alternatively, it could be assumed that the 25 per cent cut is shared evenly across all grants if central government retains some of the NNDR and does not redistribute the full amount. Either way, the overall reduction in central government grant to local government is the same.

Figure 12 Changing Local Authority Unprotected Revenue Income from 2010-11 to 2014-15 – Middle Case Scenario



Our worst case scenario predicts a cumulative fall in real terms of 27.3 per cent (£20.1bn) by 2014-15, while our best case scenario predicts a fall in real terms of 5 per cent (£3.7bn) by 2014-15. The total projected income profiles (excluding education grants) for all three scenarios are given below.

Figure 13 Projected worst, middle and best-case scenarios for total real local authority revenue income from 2010-11 to 2014-15



2 *Local Authority Income Profiling*

Referring to 'local government' as one entity is problematic. The overall picture hides a complexity of different types of local authority, operating from different starting points, in different circumstances, providing different types of service and with a different mix of income sources.

Local authority income by council type

At first glance there is a large disparity in revenue income profiles across the spectrum of local authority types, as shown by Figure 14 and Figure 15.

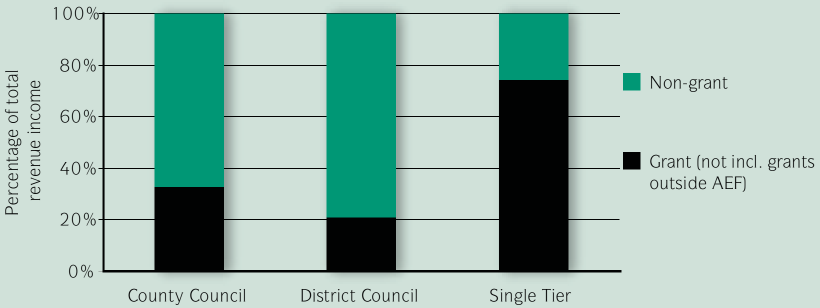
Figure 14 Percentage of total revenue drawn by local authorities from various sources.[42]

District councils receive a substantially lower proportion of their income from specific AEF grants (3.8 per cent compared to 50.2 and 45.4 per cent for county councils and single tier authorities respectively). Conversely, they

42 Source: CLG RG 2008/09 final release data by LA (inc Regional Class totals) - 3-Dec-09 and CLG Revenue Outturn Summary (RS): 2008/09. Provided by CLG. The 2008/09 local authority outturn data are the most recent revenue expenditure and income figures available, and so have been used to inform this analysis. Revenue grants falling outside of AEF have been excluded as local authorities can not use them to finance service provision. Similarly, council rental income has been excluded as this feeds into a Housing Revenue Account, which is maintained separately from monies providing for general service provision.

have historically derived a substantially greater proportion of their revenue income from investment interest, reflecting their higher relative reserve levels compared to county councils and single tier authorities.

Figure 15 Percentage of total revenue local authorities currently draw from centrally derived grants and other non-grant sources. [43]



However these disparities in income profile arise in large part from district councils not being in receipt of the Dedicated Schools Grant (DSG), which accounts for a very large proportion of total specific grants within AEF. The Government has protected schools funding from real terms cuts in 2010-11[44]. Thus if the 'protected' DSG is discounted a more balanced pattern of revenue income across local authority types emerges. This is shown in Figures 16 and 17.

Thus county and district councils are less reliant on centrally derived grants for income than single tier authorities. For example in 2008-09 single tier authorities relied on centrally derived grant 24.5 per cent more than county councils and 41.8 per cent more than district councils. This means that single tier councils, which are relatively more dependent on central government funding will suffer disproportionately from cuts to government grant. Meanwhile county councils are revealed as very heavily reliant on Council Tax

43 'Grant' revenue income is taken to be: Formula Grant (RSG, NNDR and Police Grant); ABG; and specific grants within AEF. 'Non-grant' income is the sum of income from: Council Tax; investment income; and fees and charges.

44 HMT (2010), *'Government announces £6.2bn of savings in 2010-11'*, Press Notice PN 04/10, 24 May 2010 revenues, with an average of 55 per cent of total unprotected revenue DEL deriving from Council Tax in 2008-09.

Figure 16 Percentage of unprotected revenue drawn by local authorities from various sources. [45]

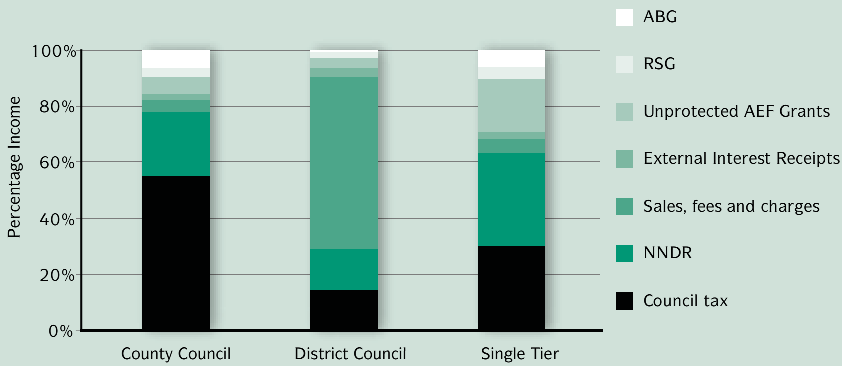
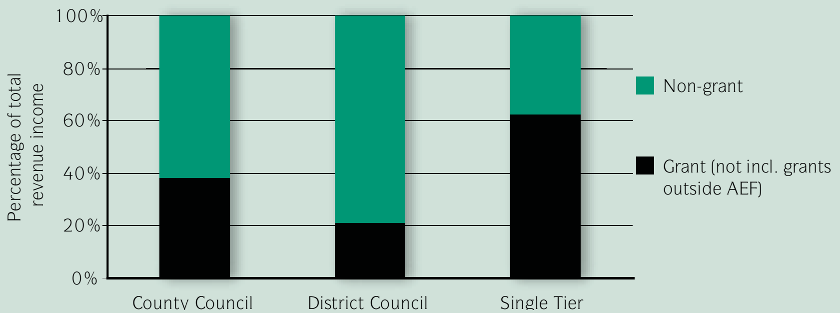


Figure 17 Percentage of unprotected revenue local authorities draw from centrally derived grants and other, non-grant sources. [46]

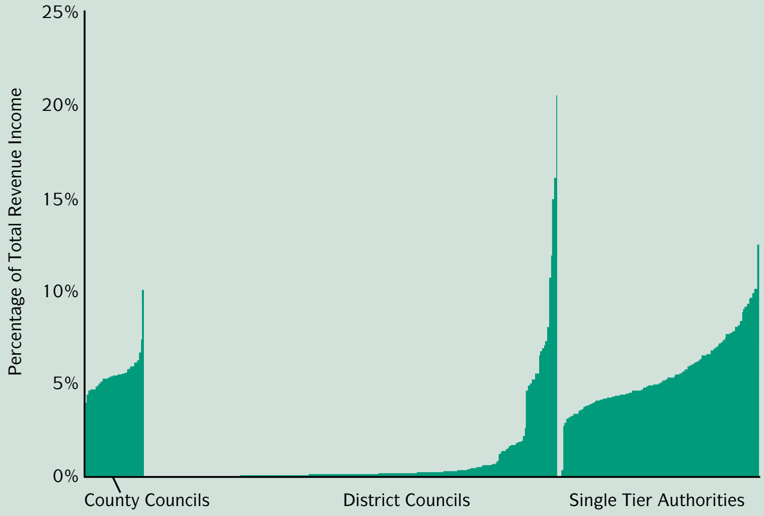


45 Data have been drawn from Figure 17 and adjusted to remove DSG.
46 Data were compiled as for Figure 18.

Variation within council types

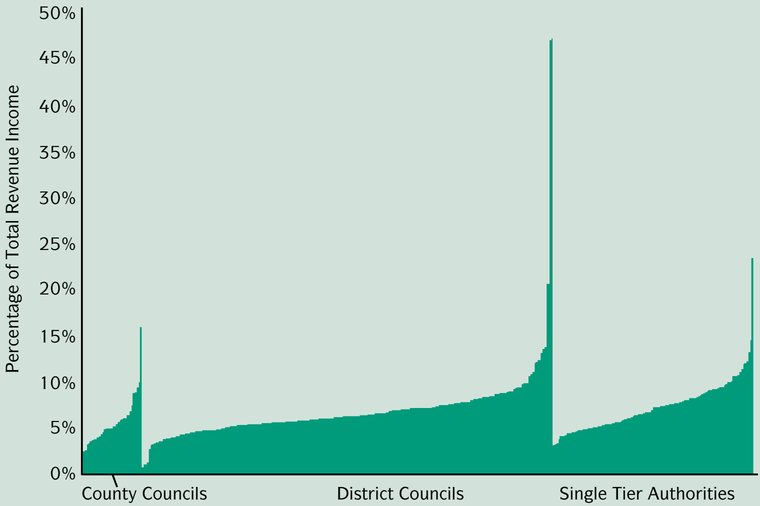
It must be remembered that grouping local authorities by type conceals considerable variations in reliance upon different income streams. While generally speaking county councils are most reliant on Council Tax for revenue, district councils upon investment, and fees and charges income, and single tier authorities upon centrally derived grant, there is variation of up to 200-fold in the extent to which a given council type is dependent upon an individual revenue stream. These variations are shown on the following pages.

Figure 18 Percentage of unprotected revenue local authorities draw from Area Based Grant (ABG).



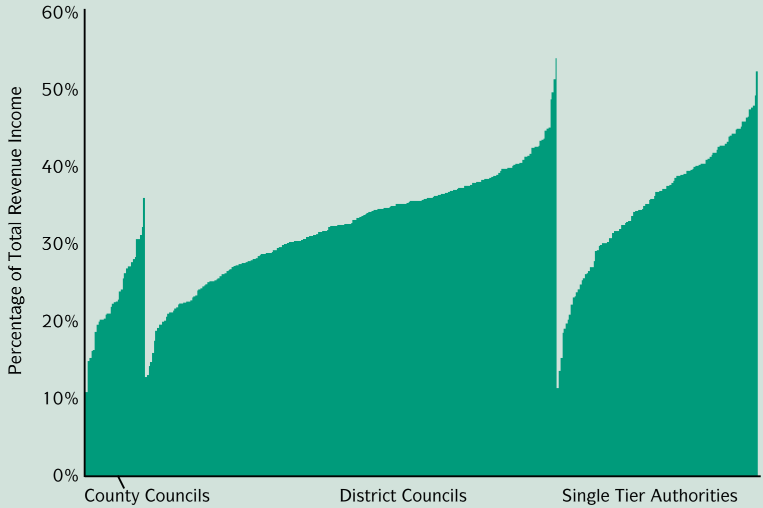
Some of the most extreme variations in income-dependence occur for the centrally derived grants, particularly amongst district councils. There are approximately six-and eight-fold ranges of dependence of county councils and single tier authorities upon specific AEF grants, ranging from 2.5 per cent to 16 per cent of total unprotected revenue income for county councils, and from 3.2 per cent to over 23 per cent for single tier authorities.

Figure 19 Percentage of unprotected revenue local authorities draw from unprotected grants within AEF.



The share of district council and single tier authorities' income derived from Formula Grant each span a five-fold range from the least to the most reliant. Meanwhile county councils are less reliant upon Formula Grant, with less variation between the lowest (10.9 per cent) and the highest (36 per cent) proportions of revenue derived from Formula Grant. By far the greatest variation in dependency upon grants occurs for district councils. 86 per cent of district councils receive less than one per cent of their total unprotected revenue from ABG, while the remaining fourteen per cent of councils derive up to 20.5 per cent of income from this source. Similarly, from a low of 0.8 per cent there is a 58-fold increase in reliance of district councils upon specific AEF grants, including one central England district that derived 47.2 per cent of its unprotected income from these grants. Such large ranges in the reliance of councils upon different grant sources creates a series of unique vulnerability spectra for councils in the face of cuts to any of these streams of funding.

Figure 20 Percentage of unprotected revenue local authorities draw from Formula Grant



Similar variation exists in individual councils' reliance upon self-generated income. The county with the greatest dependency upon Council Tax receives almost twice the proportion of its revenue from this source than the least reliant, while there is four-fold variation in districts' dependency on this revenue stream, and a 30-fold increase from the least Council Tax-dependent single tier authority (2.1 per cent of revenue from Council Tax) to the most (60.4 per cent). Moreover, while district councils generally are very heavily dependent upon income from investment, and fees and charges, there is a staggering 50-fold variation in dependence upon the former and 200-fold variation in dependence upon the latter. For example, eight districts receive less than one per cent of their revenue income from investment interest, while one district receives 27.8 per cent of revenue in this way.

Figure 21 Percentage of unprotected revenue local authorities draw from Council Tax.

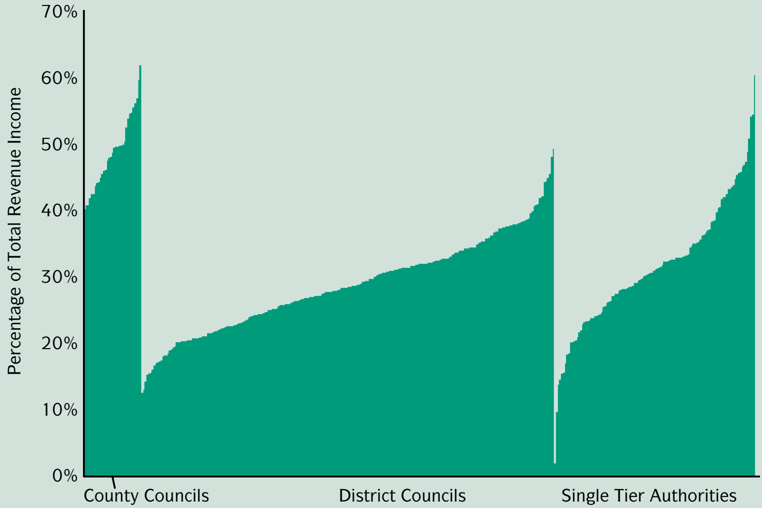


Figure 22 Percentage of unprotected revenue local authorities draw from investment income

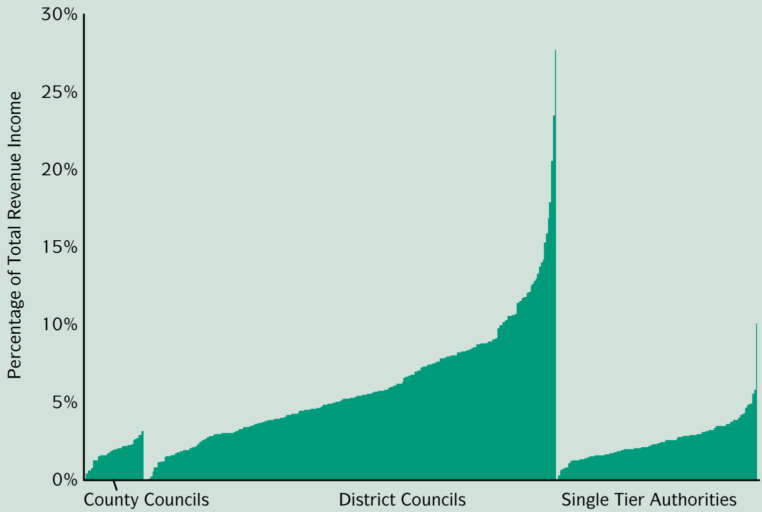
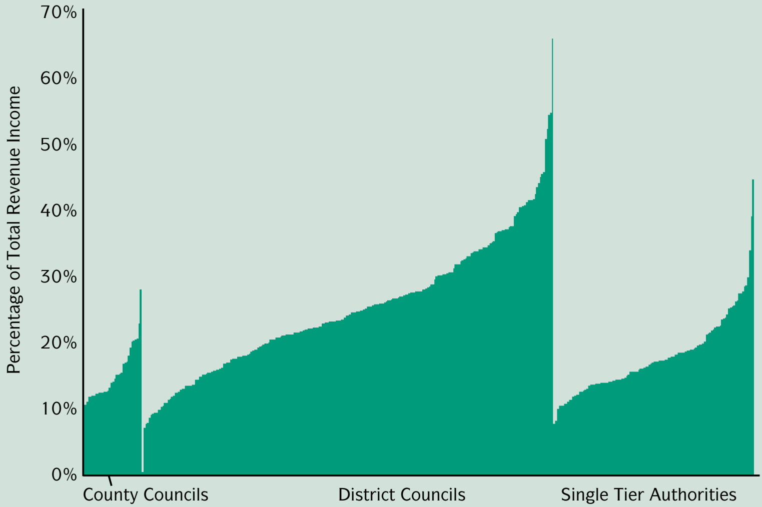


Figure 23 Percentage of unprotected revenue local authorities draw from fees and charges.



Every council therefore is reliant on an almost unique pattern of income streams to provide its services, making each council vulnerable to the effects of the recession in different ways. For example, one county in the South West receives the lowest proportion of any county of its unprotected revenue from ABG and Formula Grant, but the largest proportion of any from specific AEF grants. This makes it highly susceptible to the adverse consequences of cuts to specific grants.

Impact of grant cuts on more deprived areas

Local authorities in more deprived areas are likely to be hit harder by cuts in central government grant, which is distributed on a relative needs-resource basis. Analysis correlating the scale of in-year cuts for 2010-11 against their corresponding levels of social deprivation illustrates this (see Figure 24). The methodology for this analysis is provided in Appendix 9.

Figure 24 Indices of social deprivation scores for local authority areas correlated with percentage cuts to their in-year revenue grants for 2010-11

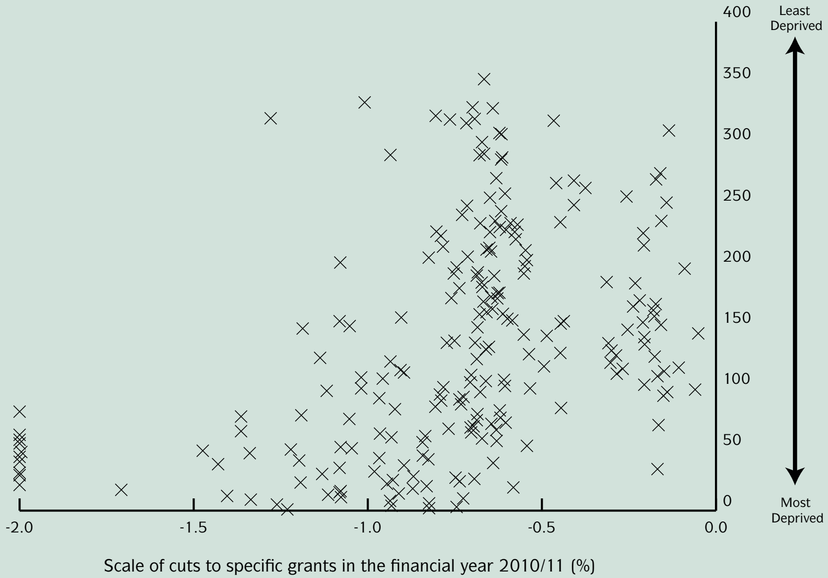


Figure 24 shows a concentration of ten relatively deprived local authorities facing cuts of 2 per cent (the cap for the largest cut), all of which are in the top 100 most deprived areas in the country. Though there is a considerable degree of deviation (as would be expected given the multiple and non-transparent criteria used by the Government in apportioning the cuts), overall the scatter graph shows a general trend for relatively more deprived areas to face relatively larger percentage cuts.

Conclusion

This chapter has highlighted the complexity behind the national local government headline figures. Different types of councils have varying degrees of reliance on different income sources. For example, single tier councils are relatively more dependent on central government funding, compared to other types of council, and are therefore likely to suffer disproportionately from cuts to Government grant.

It is important to note, however, that there are extreme variations in income sources within council types. Local authorities must ensure that they have a detailed understanding of their unique income profiles if they are to accurately plan for their financial future, and thereby adapt to minimise the impact on service provision.

More deprived areas are also likely to suffer disproportionately from cuts to Government grant, because this funding is distributed, in part, on a needs-resource basis or targeted towards problems associated with high deprivation. The planned local government finance review provides a rare opportunity to create a more permissive financial settlement for councils, but the overall package of reform must have mechanisms for redistribution to ensure that the poorest and most deprived communities are not disadvantaged.

3 *Growing pressures on revenue expenditure*

Our quantitative modelling of local government income streams suggests that local government as a whole faces substantial reductions in income between 2010-11 and 2014-15. If demands on local government expenditure were to remain static in this period then meeting these pressures would be tough, but demands on expenditure are likely to grow substantially in the future.

The previous chapter demonstrated that different local authorities have varying income profiles and vulnerability to different reductions in income sources. Similarly, it is important to note that different councils will face varying types and scales of demand on expenditure. This chapter explores how the local government sector as a whole faces some significant spending pressures and highlights the particular challenges that some councils could face over the coming years.

Legacy of recession

The recession placed a number of immediate policy and financial pressures on local authorities, such as the need to save regeneration and development projects at risk, and to support people who had lost their jobs.

A survey conducted by the LGA last year found that 90 per cent of councils had seen an increase in the number of people seeking welfare/debt advice over the previous six months, 86 per cent had increased numbers of housing benefit applications, and 83 per cent had experienced increased demand for business support services.[47] Councils have also reported increases in demand for additional school places (as families can no longer afford school fees and so come back to the state system), council funded care places (as families can no longer afford private care), and free school meals.[48]

Although actions by central and local government helped limit the immediate impact of the economic downturn on peoples' lives, the consequences are

47 LGA (2009), 'Survey of the Impact of the Economic Slowdown on Local Authorities 2009'
48 LGA (2009), 'Council Leader survey on the impact of the economic downturn on local authorities – Full Report'

likely to be felt over the coming years. Many areas across the country face a number of longer term social consequences, with certain regions and localities facing particularly acute challenges.

Unemployment, workless households and young people not in education, employment or training have all increased and these will continue to have a number of direct and indirect costs over the coming years.[49] Falls in the number of new affordable homes being built also suggest that demand for social housing, homelessness services and housing advice will mount in the future.[50] The cost of these far-reaching and lingering social consequences of recession are hard to quantify, but are likely to put considerable pressure on the public purse over the longer term.

There are also a number of specific policy areas, beyond those associated with the economic downturn, which could place significant financial burdens on councils, such as children's social services, adult social care, waste disposal and carbon reduction strategies. Some local authorities will face additional financial pressure from the costs of concessionary charges, local government pay equalization and the local government pension scheme.

Children's Social Services

Expenditure on children's social care was £5.73 billion in 2008-09, compared to £2.22 billion in 1997-98 in cash terms. This is a real terms increase of over 90 per cent, equating to an average real terms increase of 6.1 per cent per annum.[51] There are an estimated 60,000 permanently looked after children in England at any one time, with 25,000 spending at least some time being looked after over the course of the year. The current cost of looking after children in care is £2.4 billion a year. [52]

The case of Baby Peter in August 2007 has had knock-on consequences for both the demand of child care services and the policy making around the safeguarding of children. The impact of this has been a sharp rise in the

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49 See Hope, N and Turley, A. (2010), NLGN, 'We Can Work it Out: Local Employment and Skills for Economic Recovery'

50 Audit Commission (2010), 'Surviving the Crunch'

51 House of Commons (2010), http://www.publications.parliament.uk/pa/cm200910/cmhansrd/cm100406/text/100406w0046.htm

52 HMT (2010), Chairman of the Specialist Schools and Academy Trust, "Who will champion our vulnerable children?' http://www.hm-treasury.gov.uk/d/cypreview2006_ssatrust2.pdf amount of local authority spend and their projected future spending in this area. For the first six months of 2009 there was a 28 per cent increase in looked after children.[53] A study by The Association of Directors of Children's Services based on 105 local authorities has calculated that safeguarding activities such as referrals and taking children into care increased by an average of 21 per cent over the two years up to 2009.[54] One County Council Chief Executive we interviewed reported that referrals had increased by 40 per cent since the Baby Peter incident (Council 5).

In addition to the growing costs caused by rising demand are the costs associated with carrying out the recommendations of The Laming Report published in March 2009. The Local Government Association estimates that implementing these could cost up to an extra £116 million a year for social work teams.[55]

The rising cost of safeguarding children has led to a need for an increase in the numbers of social workers. Although staff numbers in children's services increased by over a tenth over 2007-2009, there is a major problem with the recruitment of social workers, with the number of social care cases exceeding the number of social workers available. 72 per cent of authorities with recruitment and retention difficulties have problems in recruiting children's social workers, an increase of 8 per cent from 2008.[56] Research by Community Care showed an average vacancy rate of 10.9 per cent across the 96 councils that responded to the research, with London authorities having the highest vacancy rates at 18.6 per cent.[57] The demographics of social care workers, who have an average age of 48 [58], could further fuel this problem. The recruitment of new social workers over the coming years will serve to inject up-front costs for councils.

53 Audit Commission (2010), 'Surviving the crunch: Appendices to local government report', p. 4

54 LGA (2010), 'Demand rising for child protection services' http://www.lga.gov.uk/lga/core/page.do?pageId = 10790820

55 Holmes, L., Munro, E. and Soper, J. (2010), Calculating the cost and capacity implications for local authorities implementing the Laming (2009) recommendations, p. 39

56 LGA (2009), 'Councils improve recruitment and staff development opportunities' http://www.lga.gov.uk/lga/core/page.do?pageId = 5733848

57 Community Care (2009), Carson, G. 'Exclusive Research: Ageing workforce threatens staff shortage', http://www.communitycare.co.uk/Articles/2009/07/30/112203/exclusive-research-ageing-workforce-threatens-staff-shortage.htm

58 Ibid.

The growing costs associated with safeguarding children have placed a significant financial burden on local government and these costs are likely to continue into the future. Within social care, child protection is only one element and adult social care is likely to inject even more substantial costs in the future.

Adult Social Care

In 2008 there were approximately 1.26 million people who received local authority funded care. Two thirds of these users were over 65, with physical disability or sensory impairment being the main need for use.[59] Of those receiving care, approximately one million were recipients of community based care and 259,000 received residential care. In the period 2008-2009 local authorities saw an increase in Adult Social Service spending from £15.3 billion in 2007-08 to £16.1 billion. This represented a 3 per cent increase in real terms. [60] A survey in 2009 by the LGA found the most common effect of the economic slowdown on authorities was a reduction in the supply of services as independent care homes for adults closed (by 14.7 per cent of authorities).[61]

Advances in medical knowledge mean that people are living longer lives, whilst more people with profound disabilities are living into adulthood.[62] It is projected that there will be 1.6 million more disabled adults in England by 2026, and, of these, 1.3 million by 2026 will be disabled adults aged over 65.[63]

Better diagnosis and higher expectations for adults of working age with disabilities could also increase expenditure pressures. For example, more and more people are being diagnosed with autism and, as the government wants to increase diagnosis capacity[64], this is likely to continue. Local authorities currently have to assess people who may be in need of community care services,[65] but under current plans this will be upgraded to an automatic assessment.[66] This would lead to more individuals being assessed and

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59 HM Government (2008), The case for change – Why England needs a new care and support system, p. 21.

60 The NHS Information Centre (2010), Personal Social Services Expenditure and Unit Cost: England 2008/09, p. 1.

61 LGA (2009), 'Adult's Social Services Expenditure Survey 2008-2009')

62 HM Government (2008), The case for change – Why England needs a new care and support system, p. 24.

63 Ibid.

64 HM Government (2010), 'Fulfilling and Rewarding Lives', p7

65 NHS and Community Care Act 1990

66 HM Government (2010), 'Fulfilling and Rewarding Lives', p36 consequently claiming services. Local authorities may have to commission specialist autism teams[67] and the National Audit Office has estimated that such a move would cost local authorities and Primary Care Trusts £40million per year[68]. The Autism Act 2009 required the Secretary of State to publish an autism strategy[69] and guidance by 31 December 2010[70], which will be binding on local authorities[71].

There has been a steady increase in the number of elderly people requiring care and this is set to continue in the future. The older a person, the more likely they are to need social care and health care to help them in their old age. Whilst it is evident that many people in the over 60 age group are able to care for themselves and also care for others, as they become older they are likely to face obstacles caused by their age and associated disabilities. As the population ages, the cost of some age related health conditions will increase.

The UK's rapidly ageing population means that in the future a higher proportion of public funds will need to be allocated to support older people to maintain current levels of eligibility. The London School of Economics projects an extra £800 million will be needed over today's spending by 2012-13 in order to achieve this.[72]

Population projections by the Office for National Statistics in 2006 put the total population of Britain at 60,510,000 for 2010 and 62,675,000 in 2015. [73] By 2015 the number over the age of 60 will be 14,683,000, making up 23.3 per cent of the population. This is an increase of 1,003,000 from 2010 when the population was predicted to be 13,680,000 (22.6 per cent). Not only is the number of people over 60 rising there is also a distinct increase in the proportion of people who are in the age bracket of 75 and over. This is predicted to steadily increase over the five years from 2010-2015 from 4,722,000 (7.8 per cent of the population) to 5,258,000 (8.3 per cent). For those aged over 95 the number is predicted to stay fairly constant between

67 HM Government (2010), 'Fulfilling and Rewarding Lives', p7
68 National Audit Office (2009), 'Supporting people with autism through adulthood'
69 s.1 "Autism Strategy", Autism Act 2009
70 s.2(2) "Guidance by the Secretary of State", Autism Act 2009
71 s.3 "Local authorities and NHS bodies: duty to act under guidance", Autism Act 2009
72 Age Concern (2009), 'Half a million people at risk if budget hits social care'
73 Office for National Statistics (2006), 'Projected populations at mid years by age last birthday in five years age groups' http://www.statistics.gov.uk/downloads/theme_population/NPP-2006/wgb065y.xls

2010 and 2013 at around 103,000 but then increase suddenly to 121,000 in 2015, and continue to increase rapidly beyond then.

Table showing predicted number of people over the age of 60 in Britain 2010-2015 (Based on figures from Office of National Statistics 2006).

Year	Number of people aged over 60	Percentage of population aged over 60
2010	13,680,000	22.60
2011	13,879,000	22.77
2012	14,072,000	22.92
2013	14,271,000	23.08
2014	14,479,000	23.26
2015	14,683,000	23.27

Table showing predicted number of people over the age of 75 in Britain 2010-2015.

Year	Number of people aged 75 or above	Percentage of population aged 75 or above
2010	4,722,000	7.80
2011	4,854,000	7.96
2012	4,945,000	8.05
2013	5,045,000	8.17
2014	5,154,000	8.28
2015	5,258,000	8.33

The demands on adult social care services are growing. Medical advances mean that more people are being diagnosed with disabilities, living with disabilities and living longer. These changing demographics over the coming years will fuel demand for council services and serve to further increase pressure on local authority budgets.

Waste Disposal

Waste disposal costs have also been growing in recent years and are projected to continue to do so in the future. In 2007-2008 councils in England and Wales spent £4.5 billion on refuse, including collection, landfill and recycling.[74] Of the waste, 57 per cent went into landfills, 24 per cent was recycled and the rest was incinerated. In 2009 the cost of sending rubbish to landfill was £620 million.[75] The cost of taxes for sending waste by local authorities and waste disposal firms to landfills has risen in 2010 from £40 per tonne to £48 per tonne, and is set to increase by £8 every year until it costs £80 per tonne in 2014.[76]

The landfill tax is designed to act as an incentive for local authorities to reduce the amount of waste sent to landfill. The LGA shows that at current rates of landfill this will add an extra £110 to council rubbish costs, with landfill tax adding up to £49 a year to Council Tax bills by 2014. There is also a £150 penalty imposed by the EU for every tonne of rubbish that is landfilled above a set amount. All of these costs mean that local authorities are expected to spend £4.2 billion on waste management by 2013, up £1.1 billion on 2009 levels. [77]

With PFI projects for waste treatment under potential threat and disposal costs rising, many local authorities are likely to see waste management costs increase over the coming years. Costs would also rise if councils are put under pressure by the coalition government to return to weekly bin collections from central Government. Early indications suggest that Ministers are likely to pursue this agenda, with the Secretary of State for Communities

74 The Guardian (2009), McCarthy, D. '£1 of every £3 of Council Tax in England and Wales Spent on Rubbish', 11 October 2009.

75 Which? (2009), 'Recycling right could save taxpayers millions: Which? report shows recycling could save £12m,' http://www.which.co.uk/news/2009/04/recycling-right-could-save-taxpayers-millions--174490.jsp

76 Reston Waste Management Limited (2010), 'Landfill tax escalator extension to cost taxpayers and local authorities £110 million a year' http://www.restonwaste.co.uk/landfill-tax-escalator-extension-to-cost-taxpayers-and-local-authorities-110m-a-year-411.html

77 Ibid.

and Local Government stating that “fortnightly collections are unpopular and unhygienic. It’s the traditional weekly bin round that people want”.[78] Other environmental challenges will also put pressures on council expenditure, particularly commitments to reduce carbon emissions.

Carbon Reduction

The Carbon Reduction Commitment Energy Efficiency Scheme is a mandatory carbon trading scheme which covers both public and private sector organisations including local authorities. It has been introduced to encourage large organisations to reduce their CO_2 emissions, with targets of a 1.2 million tonne reduction by 2020 and an 80 per cent reduction by 2050. It starts with a reporting year from April 2010 and the first sales of allowances are scheduled for April 2011. From April 2013 allowances will be auctioned by government. Revenues from the sale of allowances will be recycled back into organisations within the scheme. Each organisation will be repaid in proportion with their historic emissions, with a bonus or penalty depending on how far they have managed to reduce their emissions compared to the other organisations in the scheme.

An estimated £1.4bn will be spent on allowances in the first year. The best performers will get their money back plus 10 per cent, while the worst will lose a sum equal to 10 per cent of their initial payment.[79] The bonus/penalty system aims to act as an incentive for organisations to reduce their emissions. If organisations perform well then the money they get back should exceed the cost of buying allowances.

There are concerns that this could be a significant cost threat to councils, particularly over the short to medium term. Estimates from the LGiU’s virtual scheme cost carbon allowances at between £300,000 and £1.4 million per council per year, depending on the scale of their estate. They calculate the total annual cost of the CRC for participating councils to be over £40 million, with additional costs if local authorities have to buy extra carbon allowances throughout the year.[80]

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78 CLG (2010), Press Notice: ‘Pickles calls time on town hall quango forcing councils into bin cuts: Taxpayers deserve decent services - rather than fortnightly collections imposed from above’, 18 June 2010, http://www.communities.gov.uk/newsstories/newsroom/1618444

79 Building.co.uk (2009), Jansen, M. ‘Countdown to CRC Deadline’, http://www.bsdlive.co.uk/story.asp?storycode=3151059

80 Local Government Information Unit (2009), ‘Councils must rapidly raise their game to meet government’s mandatory carbon trading launch date, report warns’

Concessionary Fares

Concessionary travel fares could also put pressure on many local authority budgets. At present, concessionary fares are available for bus travel around England for those aged 60 or over and for those who have a disability. From April 2008, each authority has been made responsible for paying the cost of all journeys starting in their area, irrespective of where the pass holder lives. This means that those who are entitled can travel round the country and are not restricted to travelling only in their local authority, as was previously the case.

Since the scheme was introduced the number of state subsidised non-fare payers has been increasing, and demographic changes indicate that they are likely to continue to do so. Research into the predicted costs of travel over the next five years commissioned by the LGA, London Councils and Passenger Transport Executive Group (pteg) found that the combination of demographic change, changes in commercial bus fares, bus operating costs and other potential factors could drive up costs by as much as 20 per cent to £1.14 billion by 2013-14 compared to 2008-09 levels.[81]

The government provided £212 million to fund free travel for older people in 2008-09, with a promise that this would be increased to £217 million in 2009-10 and £223 million in 2010-11.[82] However, approximately 50 councils in 2009 experienced a shortfall in special grant funding, with more than ten councils spending in excess of £1 million to top up the government grant.[83] For these councils the costs of concessionary fares are increasing faster than the rate of funding, and the position of authorities suffering a shortfall is likely to worsen in future years. Evidence suggests that the number of councils facing shortfalls and the size of those shortfalls would have increased in 2009-10 and will increase in 2010-11, as the costs of the scheme rise faster than the increase in grant promised.[84]

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81 LGA (2009), Press Release, 'Cost of free travel could 'spiral out of control', http://www.lga.gov.uk/lga/core/page.do?pageId=4755571

82 Parliament (2009), Paul Clark MP, House of Commons Debate on Concessionary Travel, 26 Jan 2009 : Column 134, http://www.publications.parliament.uk/pa/cm200809/cmhansrd/cm090126/debtext/90126-0022.htm#0901276000734

83 LGC (2009), Illman, J. 'Councils' fears on concessionary fares', http://www.lgcplus.com/finance/councils-fears-on-concessionary-fares/5001228.article

84 LGA (2009), Press Release, 'Address financing of concessionary fares urgently – LGA', http://www.lga.gov.uk/lga/core/page.do?pageId=2521777

Responsibility will shift from district councils to county councils in 2011. As such, future problems could be shunted to some county councils with a predicted increase of up to 11 per cent in the cost of the concessionary fares for some upper tier councils.[85] The money that is provided to local authorities from central government is paid to the bus companies via the council, but there are concerns that some councils are paying vastly larger sums to bus companies than the government is paying them.[86]

In addition to demographic and policy expenditure pressures, many councils have faced specific internal financial burdens in recent times that could continue and deepen in coming years.

Pay Equalisation

The 1997 Single Status Agreement was created in an effort to end inequalities in pay based on gender. Though the 1970 Equal Pay Act was designed to prevent discrimination between men and women, there continued to be stark differences in the pay that male dominated and female dominated jobs received. The use of different pay schemes for the administrative and manual sectors led to men generally being higher paid and also benefitting from bonuses in their field of work. The Single Status Agreement sought to address this unfairness by having councils streamline payscales into a single payscale, through evaluating jobs types and skills required. [87]

After a council has completed its job evaluation, those whose work has been lower paid than it should have been can claim compensation from the council (for up to the past six years) and receive an increase in pay. In 2008, research from the LGE put the cost of pay reviews at £2.8 billion with backpay of £1 billion, ongoing costs at £1.5 billion and protection at £400 million.[88] Unison, the public service trade union, claims that ‘75 per cent of women in

85 LGA (2009), Press Release, ‘Address financing of concessionary fares urgently – LGA’, http://www.lga.gov.uk/lga/core/page.do?pageId=2521777

86 LGA, (2009) ‘Concessionary Bus Travel’, http://www.lga.gov.uk/lga/aio/1669930

87 Leigh Day & Co (2006) ‘Council Workers and Equal Pay’. Available at http://www.supportequalpay.co.uk/CouncilWorkers.aspx

88 LGA (2008) ‘Councils striving for equal pay for its workforce’, http://www.lga.gov.uk/lga/core/page.do?pageId=41409

local government are still not receiving equal pay'.[89] As of 2009, 50 councils had spent £11.5 million defending equal pay claims.[90]

In one council, over 4,000 workers have received payouts of up to £200 million in total and a further 20,000 lodged claims, meaning the figure could rise to £1 billion.[91] Total costs for local government have been estimated to gravitate to up to £5 billion in back pay and future wage bills. To help councils pay costs, the government has granted 37 of them permission to borrow against or sell assets up to £501 million through equal pay capitalisation.[92]

Some of the Chief Executives and Finance Directors we interviewed stated that they had plans to fund some of this backpay through capitalisation and had also already designated reserves for this purpose. One County Council Chief Executive we interviewed estimated that it would cost £30m a year to "stand still", which represented over 10 per cent of the total salary level (Council 5), while a District Council Chief Executive we interviewed has budgeted for ongoing costs of £300,000 per year (Council 2). Most councils did not predict any significant further equal pay claims in the future and suggest that they have eliminated the problem over previous years. However, fears were expressed by some that the potential for significant costs remained.

"…[the council is] potentially in an awful position because we have got so many claims now. Some of those mirror claims that have gone through tribunals and have been lost, others are new claims and solicitors across the country are coming up with more innovative ways of being able to prove unequal pay. So we are getting claims from all sorts of directions which give us a potential big liability." **(Metropolitan Council Chief Executive, Council 6).**

In addition to the costs some councils could face in meeting equal pay claims and the legal costs associated with this, another major potential

89 Unison (2010) 'Equal Pay Now – Funding for Local Government', http://www.unison.org.uk/localgov/gettingequal/

90 People Management (2009) 'Local authorities weigh up cost and risk in gender wage disputes'. Available at http://www.peoplemanagement.co.uk/pm/articles/2009/11/local-authorities-weigh-up-cost-and-risk-in-gender-wage-disputes.htm

91 The Guardian (2010), Pidd, H. 'Female Birmingham council workers win £200m equal pay case', http://www.guardian.co.uk/society/2010/apr/28/pay-female-staff-birmingham-council

92 LGA (2009) 'Local government leads the way on equal pay', http://www.lga.gov.uk/lga/core/page.do?pageId=4339139 financial pressure for many councils will be the need to increase employer contributions to the Local Government Pension Scheme.

The Local Government Pension Scheme

The financial state of the LGPS is monitored triennially by CIPFA, who issue an actuarial report, showing contributions, liabilities and funding level, and allow the funds' administrators to plan for future requirements made on the scheme. The latest of these evaluations were held in 2004 and 2007. At the 2007 evaluation total funds were at 83.5 per cent of liabilities.[93] This was the result of a 4 per cent increase in employer contributions to an average of 19.5 per cent.[94] Average employee contributions were 6.5 per cent of gross pay.[95] Over the past decade total fund income has exceeded the costs of administration and pension benefits (see Figure 26)

Figure 25 Real terms net cash flow (investment income and contributions, minus benefits paid and costs) into the LGPS over the period 1999-00 to 2008-09.[96]

93 CIPFA (2007), The Local Government Pension Scheme (LGPS) in England and Wales: Results of the 2007 Valuation, p1

94 Ibid. p4

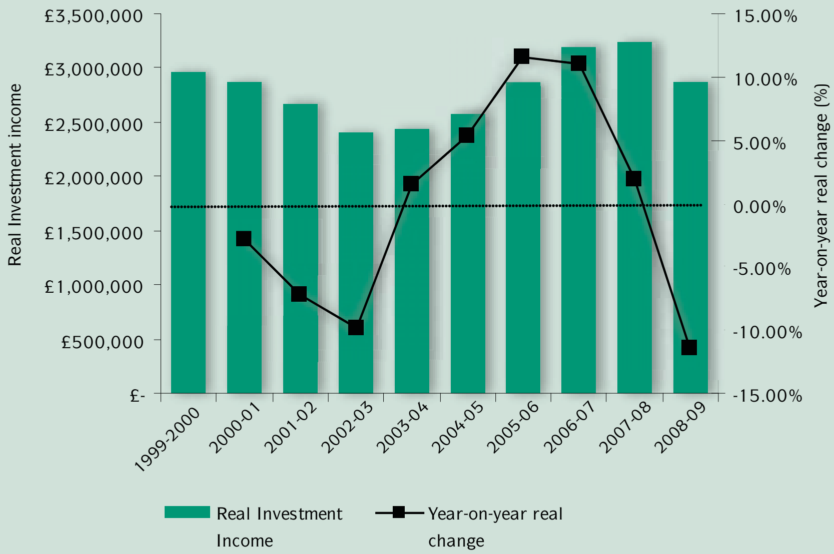
95 Ibid. p1

96 Figures are in 2008-09 monies. Source: Annual Local Government Pension Scheme Form (SF3) returns completed by all 81 English LGPS Administering Authorities.

However while net cash flows have been positive, with for example 2008-09 contributions and investment income for the LGPS totaling £10.2 billion, and benefit payments only £5.6 billion,[97] the LGPS has a large funding 'black hole'. This is derived from a contributions holiday by councils in the 1980s, which has been estimated at £53 billion.[98] This hole has to be filled if the LGPS is not to become in essence a 'pay-as-you-go' scheme like the unfunded public service pension schemes.

Income to LGPS funds is the aggregate of employee and employer primary contributions, secondary contributions by employers, and returns on fund investments. While investment income has varied cyclically with the market over the past decade (see Figure 26), employee and employer contributions (both primary and secondary) have been increasing at a constant rate (see Figure 27).[99]

Figure 26 Real terms income from LGPS fund investments from 1999-00 to 2008-09, with above-inflation year-on-year percentage changes.[99]

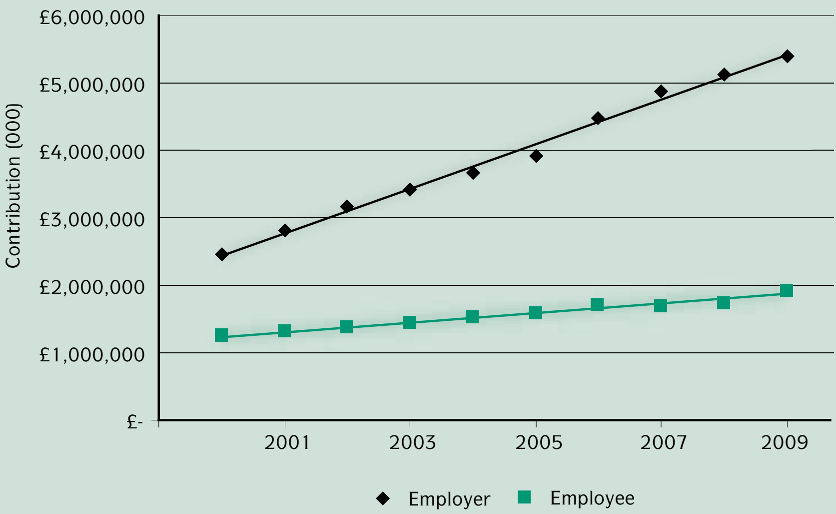


97 Pensions Week (2010) Mike Taylor, LPFA Chief Executive, 'The future of public sector pensions', 22 March 2010

98 Taxpayers' Alliance (2010), 'Council Pensions: The £53 billion black hole', Research Note 61

99 Figures are in 2008-09 monies Source: Annual Local Government Pension Scheme Form (SF3) returns

Figure 27 Real terms employer and employee LGPS contribution rates from 1999-00 to 2008-09 [100]



Employer contribution values are the aggregate of primary and secondary contributions. Data have been fitted with linear trend lines, with coefficients of determination as follows: employee contribution; $R^2 = 0.9676$; employer contribution; $R^2 = 0.9926$.

This very strong correlation between year and contribution values implies there is little linkage between stock market performance (and thus returns on fund investments) and the contribution rate of local authorities to their scheme funds. Therefore it is possible to relatively easily forecast local authority contribution levels over the short-to-medium-term. This regression analysis predicts that by 2014-15 councils will be contributing a total of £7.32 billion to the LGPS, with employee contributions in the same period of £2.11 billion. It is important to remember that this prediction assumes no change to the regulatory framework governing

100 Ibid.

the LGPS: if councils were forced to close their funding gaps sooner than they have been anticipating contributions would have to increase commensurately.

The next triennial valuation is due in Autumn 2010 and many councils fear they will be forced to increase their employer's contribution to the scheme. One County Council Chief Executive we interviewed is budgeting for an additional £20m contribution per year (Council 3), while one District Council Chief Executive we interviewed estimated that it would cost the local authority between an additional £400,000 and £1m per year (Council 2).

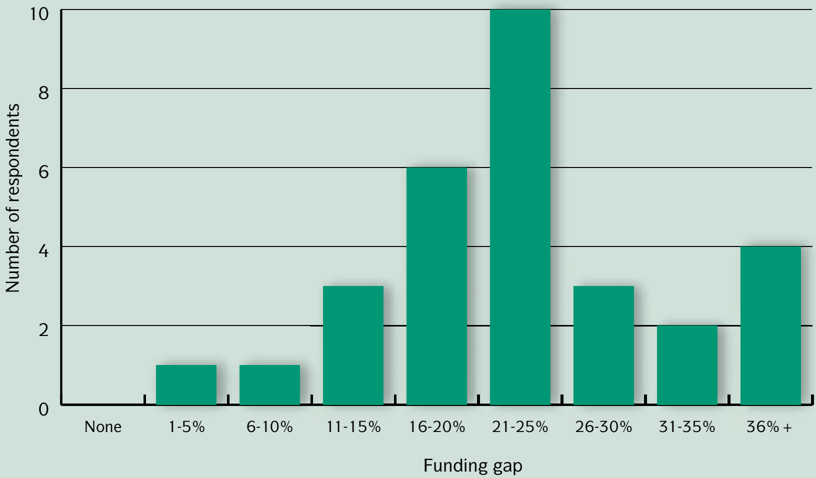
The Funding Gap

This chapter has highlighted some of the major expenditure pressures that the local government sector is likely to face over the coming years. Coupled with the falls in income that our quantitative modelling projected in chapter one, the scale of the financial challenge facing local government over the next few years is profound. With income falling and demands on expenditure rising, councils will face a substantial funding gap.

The respondents to NLGN's online survey of Finance Directors[101] found that the most common funding gap anticipated by councils is 21-25 per cent by 2014-15. Two thirds anticipate a funding gap of over 20 per cent, one third anticipate a 21-25 per cent funding gap and almost a third anticipate a funding gap of over 25 per cent. Just under a third predict a cut of 11-20 per cent.

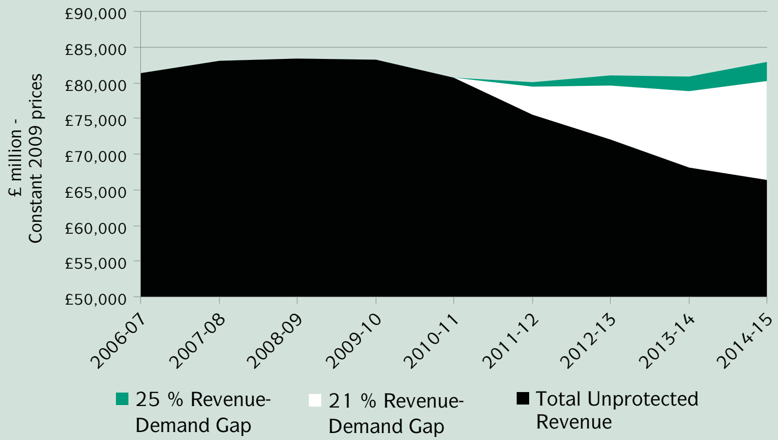
101 See Research Methodology Appendix

Figure 28 'Given increasing demands on local authority expenditure over the coming years, what do you anticipate the overall funding gap will be if you failed to make any efficiency savings between now and 2014-15?'



There is a large degree of variation in the funding gap councils anticipate they will face because of the uncertainty and lack of clarity regarding levels of income that they will receive from central government in future years. In our interviews with Local Authority Chief Executives and Finance Directors, many were clear to point out that the lack of information made it hard to predict up to 2014-15. As a result, some had not yet formed detailed financial strategies to 2014-15. One local authority Finance Director we interviewed to had not planned beyond 2012-13 (Council 6) and another described the five per cent per annum cut in central grant the council had modelled for the medium-term as "just a working assumption that could change" (Council 4).

Figure 29 Medium term funding gap anticipated by local authorities and NLGN middle scenario income predictions



The total unprotected revenue figures are in 2009-10 prices, with demand modelled to change linearly to 2014-15 levels. Trend is indicative only. Middle case revenue income projections used.

Figure 29 highlights that according to the most common funding gap anticipated by councils, when contrasted to our middle case income scenario, demand in 2014-15 would be roughly equivalent to current levels. Given that this chapter has highlighted the growing demands on council expenditure, this suggests that councils are underestimating the scale of funding gap they may face by 2014-15.

Conclusion

The lack of certainty over which central government funding streams will be reduced, the amount they will be cut by and the rate at which this will take place up to 2014-15 makes strategic financial planning difficult for councils. Nonetheless, our research suggests that councils will face, and most are anticipating, a substantial funding gap as demands on expenditure increase and income falls. There is a pressing and urgent need for significant efficiency savings to be made by 2014-15 if local services are to be protected. Later this report will explore the opportunities for major efficiency savings and service redesign, but the following chapter focuses on how cuts could be distributed between services in the coming years if these are not achieved or prove insufficient to close the funding gap.

4 *How is the axe likely to fall?*

In the Chapter 5 we explore the options and opportunities that local authorities have to make efficiency savings. First, however, this chapter will outline which services will be most vulnerable to cuts if councils fail to make efficiency savings on the scale required, or within the timescales needed. We explore which broad service areas and specific services Local Authority Finance Directors identify as most exposed to budget reductions. We also look beyond these findings to explore the issues, challenges and tensions that Local Authority Chief Executives and Finance Directors suggest would underlie these difficult choices and trade-offs. Finally, we analyse public opinions on cuts and citizen expectations about the services their council will provide in the future.

Service vulnerability

NLGN conducted a survey of Finance Directors to gather their views on which services they saw as most vulnerable to cuts.[102] We presented the following table,[103] which shows the broad service areas and specific services councils provide.[104]

Services delivered by local government

Broad Service Area	Specific Service
Education	Schools – nursery, primary, secondary and special Pre-school education Youth, adult, family and community education Student support

102 See Research Methodology Appendix

103 CLG (2009), 'Local Government Financial Statistics No.19'

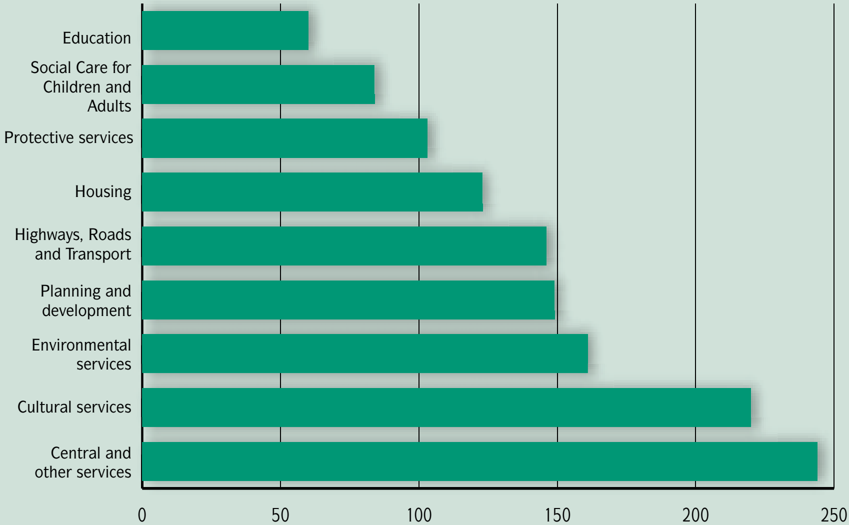
104 This table provided a summary of the main local government services and is not a comprehensive list of the several hundred local services that councils provide. Different types of councils, single tier councils or councils in two tier areas, have responsibility for a different mix of services.

Highways, Roads and Transport	Highways – construction and maintenance of non-trunk roads and bridges Street lighting Traffic management and road safety; new line parking services Public transport – concessionary fares, support to operators, co-ordination Airports, harbours and toll facilities
Social Care for Children and Adults	Children's and families' services – support; welfare; fostering; adoption Youth justice – secure accommodation; youth offender teams Services for older people – nursing, home, residential and day care; meals Services for people with a physical disability, sensory impairment, learning disabilities or mental health needs Asylum seekers Supported employment
Housing	Council housing (Housing Revenue Account) Housing strategy and advice; housing renewal Housing benefits; welfare services Homelessness
Cultural services	Culture and heritage – archives, museums and galleries; public entertainment Recreation and sport – sports development; indoor and outdoor sports and recreation facilities Open spaces – national and community parks; countryside; allotments Tourism – marketing and development; visitor information Libraries and information services

Environmental services	Cemetery, cremation and mortuary services Community safety, consumer protection, coast protection, trading standards Environmental health – food safety; pollution & pest control; housing standards; public conveniences; licensing Agricultural and fisheries services Waste collection and disposal; street cleansing
Planning and development	Building and development control Planning policy – including conservation and listed buildings Environmental initiatives Economic and community development
Protective services	Police services Fire and rescue services Court services – coroners etc.
Central and other services	Local tax collection Registration of births, deaths and marriages Elections – including registration of electors Emergency planning Local land charges Democratic representation Corporate management

Our survey found that two broad service areas stood out as particularly vulnerable to cuts: Central services and Cultural services. Highways, Roads and Transport, Housing, Planning and Environmental services emerge as mid-priority areas in terms of vulnerability to cuts. Education, Social Care and Protective services are seemingly at the bottom of the list in terms of service areas that may be vulnerable to cuts.

Figure 30 'How would you rank the following broad service areas in terms of the percentage cut in funding that you anticipate they will face between 2011-12 and 2014-15?'*

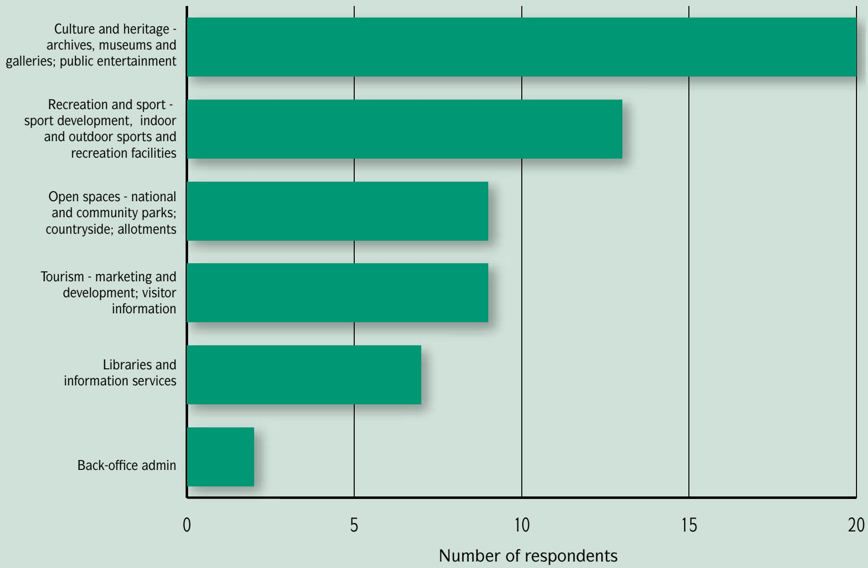


** Note: We asked respondents to rank each of the broad service areas with a number from 1 to 9 – with 1 facing the most cuts and 9 facing the least cuts – ensuring that no two service areas have the same number. In order to present the data here in as clear a manner as possible, the numbers assigned in reflection of the service areas' vulnerability to cuts were reversed. The graph can be interpreted as follows: those services with the highest cumulative scores are those viewed as most vulnerable to potential cuts. With 29 of the respondents answering this question, the maximum score, equating to maximum vulnerability to service cuts, that could be attained by any service was 261; the minimum score, equating to minimum vulnerability to service cuts was 29.*

We then drilled into the detail of the specific service areas, within the broad service areas, that respondents identified as most vulnerable to cuts. The table of services provided a reasonably extensive list and respondents where given latitude to include their own suggestions.[105] This analysis found that specific services within Cultural, Central, Environmental and Highways services were particularly vulnerable.

Within the broad cultural services area the 'culture and heritage' category encompassing archives, museums, galleries and public entertainment was identified by two thirds of the respondents as most vulnerable to cuts. The 'recreation and sport', 'open spaces' and 'tourism' categories were highlighted as areas that were most vulnerable to cuts within 'cultural services' with each identified by around a third of respondents. Library and information services were also identified as relatively vulnerable to cuts compared to specific services within other broad service areas. (see Figure 31).

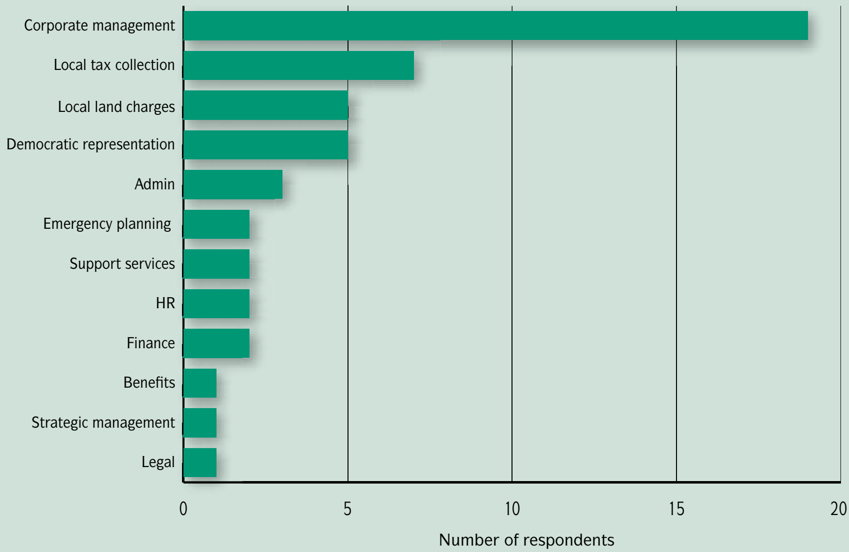
Figure 31 Service vulnerability within cultural services



105 We asked 'What specific services within the broad service areas that you numbered 1, 2 and 3 in the previous question do you anticipate are most vulnerable to face cuts? (Please list specific services in the boxes below – for 'highways, road and transport', for example, you could list bus subsidies, road maintenance, street lighting, and for 'cultural services', for example, you could list libraries, parks, museums. A list of specific services is provided above this question)'.

Whilst within the category of cultural services there was broad support for a range of cuts to be made, within the category of central and other services, the pattern was more focused. Corporate management was identified by respondents as particularly vulnerable to cuts. Around a sixth of respondents did, however, highlight vulnerability for cuts in local tax collection, local land charge collection and democratic representation.

Figure 32 Service vulnerability within central and other services



Within the broad service area of Highways, Roads and Transport, the specific service area of 'highways – construction and maintenance' was highlighted as particularly vulnerable to future cuts, with around a third of respondents identifying it as an area most vulnerable to cuts. Around a sixth of respondents indicated that 'street lighting', 'traffic management' and 'public transport' services were service areas most vulnerable to cuts.

Figure 33 Service vulnerability within Highways, Roads and Transport

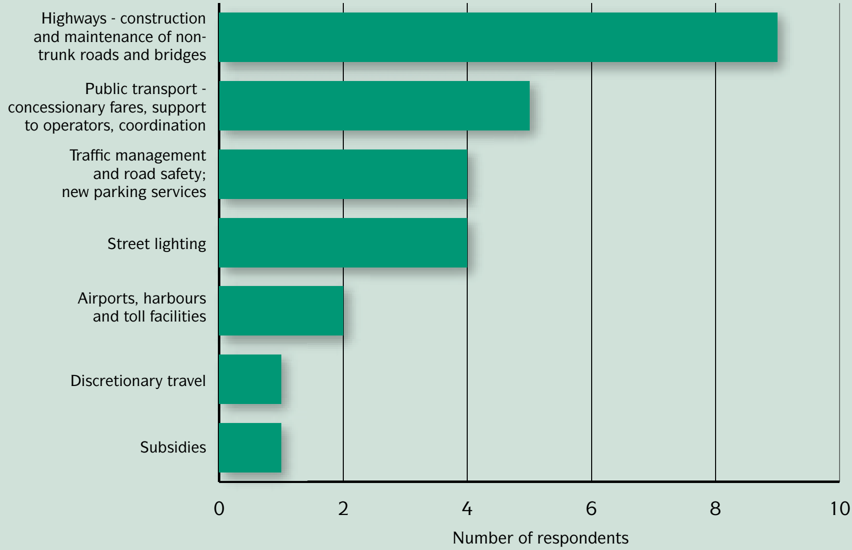


Figure 34 Service vulnerability within Environmental Services

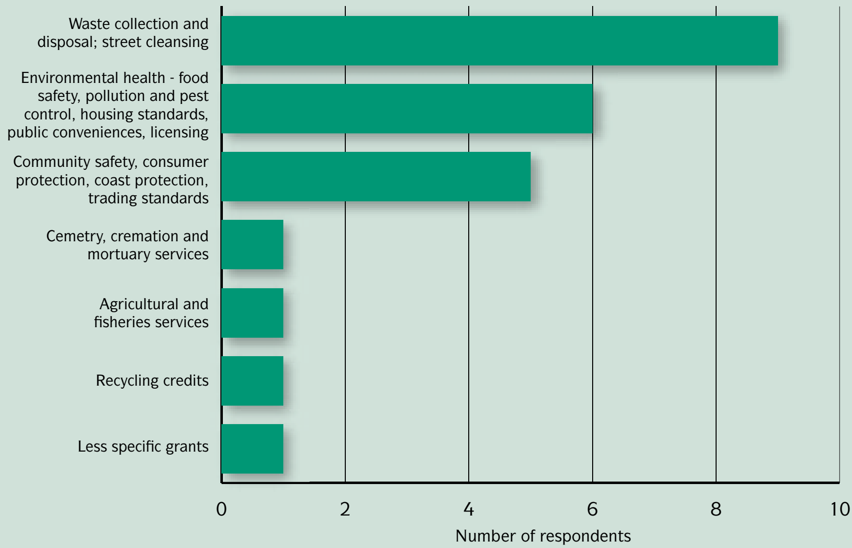


Figure 34 displays levels of support shown for cuts to specific Environmental services. The area most vulnerable to cuts is that of 'waste collection', though the categories of 'environmental health' and 'community safety' also scored relatively highly in terms of vulnerability.

Based on the results of our survey, Local Authority Finance Directors identified the five specific service areas most vulnerable to cuts. Here (1) signifies the service area identified by the most respondents and (5) the service area identified by the fewest respondents as vulnerable to cuts.

Figure 35 Specific Services most Vulnerable to Cuts

The findings of a recent BBC survey of councils identified a similar hierarchy with arts, leisure, libraries, highways and environmental services shown to be most at risk of cutbacks.[106]

Looking beyond the survey findings

Although the views of Financial Directors expressed through our survey provide a fascinating insight into the services they regard as most vulnerable, there are a number of issues, challenges and tensions that were uncovered in the in-depth interviews and scenario planning we conducted with Chief Executives and Finance Directors, and which must be considered.

106 BBC (2010), '25,000 job cuts', http://news.bbc.co.uk/1/hi/uk/8528836.stm

Tyranny of the majority

One of the issues that arose in our onsite scenario planning exercises was that many of the services that councils provide are not visible to, or used by, the majority of the population. A county council chief executive made it clear, that after efficiency savings, if the council was forced to make 10 per cent cuts that:

"…you then genuinely have a situation where the public can't see anything that they are getting for their money… only 13,000 adults get adult social care, there are only 800 looked-after children." **(County Council Chief Executive, Interview 3).**

How tenable such a situation would be for local politicians is questionable. It is likely that there would be pressure from the electorate to fund the more widely used services, at the expense of those services aimed at a smaller, often vulnerable, sections of society.

One Finance Director gave the example of the issue of female circumcision, which he described as *"rusty blade backstreet stuff, young girls brought by their families, ruining their sex lives and infecting them with terrible diseases from rusty blades"*. He said *"…now we are cutting a budget on counselling for that… what do we do about these really important things?"*.

Tyranny of the vocal minority

Another concern that emerged in our interviews was that some smaller sections of society had a disproportionate amount of influence compared to others. Some vulnerable groups, such as victims of domestic abuse, for example, are less likely to have the ability or opportunity to come together and campaign as effectively library users.

"…the worst part is that it is a very small group of people who use it [concessionary travel] but it is a very vociferous group of people. The other service, which is a tiny example and exactly the same, is community swimming pools. Nobody uses them except for a small group of retired people who go for an early morning swim, and we talked about shutting the pool down, but they are incredibly effective at campaigning… There are far more problems in cutting community swimming and concessionary travel than there are in children's services." **(County Council Chief Executive, Interview 5)**

Certain groups with the time, finances, organisational networks and campaign experience may be able to protect funding for a particular service at the expense of other, arguably more important, services. Councils and local politicians alike may be nervous about the reputational consequences and impact on their popularity if they stand up to strong local campaigns.

Visibility rather than need

Many of the Chief Executives and Finance Directors we interviewed highlighted the difficulties there are in making cuts to services that are highly visible to the public. This is likely to cause tensions because many of the services identified by our online survey of Finance Directors fall into the "highly visible" category, such as museums, galleries, sports and recreation facilities, libraries, parks and waste collection.

"There are some [services] you would want to protect and increase spending on like safeguarding children and looking after older people but then it forces you down the route of environmental services, which politically are much more difficult than those big spending areas because of what people see when they open the curtains - the fact that the grass hasn't been cut and there is litter, along side things like libraries and parks." **(Metropolitan Borough Chief Executive, Interview 6)**

The potential for conflict between the council and the public if more visible local services are cut is problematic, but so too would be a decision to direct resources based on the grounds of visibility, rather than a balanced assessment of need.

Cutting from already thin slices

The services NLGN's survey of Finance Directors identified as most vulnerable to cuts are relatively small spending areas within the spectrum of services that local authorities provide. In 2008-09 social care expenditure alone (£19,478m) was only slightly less than all cultural, environmental, planning services, central services and highways and transport revenue spend combined (£20,157m).[107] As two County Council Chief Executives put it:

107 CLG (2009), 'Local Government Financial Statistics No.19'

"What we spend on libraries is only about £1million per year so you could close them all which would be a daft idea because all hell would break lose and in fact hardly any money goes into them to begin with. The big money is all in adult social care." **(County Council Chief Executive, Interview 3)**

"…schools would be protected, vulnerable people would be, children and families would be, so we would have to find 10 per cent [of cuts to the total budget] from about a third of the budget… recreational sport, culture and heritage, like libraries are most vulnerable, but if you made substantial cuts in that fringe stuff the impact is massive because the margins of spend aren't huge at all." **(County Council Chief Executive, Interview 5)**

The savings that could be delivered from cuts to cultural services, for example, are relatively small compared to the savings that could be delivered by cuts in social care services because of the relative size of these budgets. Therefore, potentially cuts could be felt by some of the bigger spending service areas, because a small percentage cut in such a budget would be the equivalent to a substantial cut in smaller spending areas.

Letting central government take the blame

Another factor that should be considered when forecasting where cuts could fall is the dynamic between central and local government. Services that are currently provided by specific grants could be vulnerable, because of the temptation of councils to lay the blame at the door of Whitehall.

"I think that there is a reality here that where we have services that are funded directly by government programmes, if the government decides that it is going to cease to fund that programme, then the government has decided to cease that service." **(Unitary Council Chief Executive, Interview 4)**

Discretion within mandatory service: Mandatory discretion?

The services provided by councils fall in to two broad categories. First, 'statutory' services and second, 'discretionary' services. Discretionary services are those that a council can choose to provide, but it has no statutory obligation so to do. Statutory services are those that have to be provided under law by the council. However, many statutory services have some degree of flexibility regarding the type of service the council provides.

"There are some statutory services we have to provide but even those, very few, have a statutory level of service and cost." **(Metropolitan Borough Chief Executive, Interview 6)**

"…you only need one food safety officer, so we would be complying with the law in terms of our provision for food safety, checking food safety, but actually we've only got one person doing it. At the moment we've got ten." **(London Borough Chief Executive, Interview 7)**

Statutory status does not necessarily shield a service from cuts as there is a large amount of discretion within many mandatory services. However, some local authorities are concerned that they could not make any more substantial savings in social services without failing to meet their statutory obligations:

"We have already been very focused on who should get care, I don't see how the money could be squeezed much more without having to say 'it is no longer safe', then what would we do?" **(County Council Chief Executive, Interview 3)**

Over-arching Tensions

Cutting across a number of the issues and challenges that have been highlighted are two over-arching and interrelated tensions, which if not addressed have the potential to cause friction and conflict in the coming years.

Politically difficult versus managerially hard

A number of decisions about service reprioritisation are likely to be both politically tough for local councillors and challenging for council managers and staff. However, some decisions are likely to be more difficult for one group that the other. Take, for example, the issue of political representation.

"One of the areas is the cost of democracy. That will have to be an issue, the number of councillors and the cost of underpinning decision making etc. When you go abroad they have far fewer councillors… they wonder how you get any decisions made." **(County Council Chief Executive, Interview 5)**

"An area maybe for us is looking at democratic representation – talking to members about what we can do with them, like meetings and elections, as well as corporate management." **(Shire District Council Chief Executive, Interview 2)**

Reforms to reduce the number of councils and officer support provided to councillors might be popular with local authority managers, but whether they would have the same support from politicians is questionable. Similarly, for example, de-layering management and making staff redundancies may be popular with politicians but less popular with council managers.

There are also differences in views between councillors and council managers about which frontline services are most vulnerable to cuts. Our survey of finance directors indicated that they thought that street cleansing was one of the areas most vulnerable to cuts. This is in stark contrast to a LGC/ComRes survey (2009) of elected councillors who considered street cleansing services to be one of the least vulnerable service areas to cuts.[108]

This discrepancy indicates a difference in attitude between the two groups of poll respondents. Councillors are likely to feel that street cleanliness should be protected from cuts more than other services because maintaining aesthetic and hygienic standards in public areas is highly visible to the public, relatively well recognised as a council service, and important to the electorate.[109] Meanwhile our survey suggests that finance directors believe other services are more likely to be maintained at the expense of street cleansing. As one Chief Executive candidly put it:

"…politicians are reluctant to do something which might make sense in terms of budget planning but doesn't make sense in terms of being re-elected." **(Unitary Council Chief Executive, Interview 4)**

Immediate repercussions versus future repercussions

Another key tension is between cutting services that will be immediately felt by the public and cutting services that will have a delayed negative impact in

108 LGC (2009), 'Museums top councillors' hit list', David Blackman, 24 September 2009, http://www.lgcplus.com/finance/efficiency/museums-top-councillors-hit-list/5006526.article

109 A Populus Poll commissioned by NLGN for this research project found that 65 per cent of people opposed cuts to "Environmental services (refuse collection, environmental health, street cleaning)". The full findings of this poll are presented later in this report.

future years. In a time of decreasing rather than increasing public spending the question is not how much additional money you divert from dealing with immediate problems to preventing future problems, but how much of the shrinking money being spent on immediate problems should be diverted away to prevent future problems? 'Invest-to-save' activity has increased over the past decade, but it is still not widespread and may be even harder to adopt in the coming years given the funding cuts the public sector faces.

"…the acute is overwhelming and it's immediate, the preventative, which we all know is the right thing to do is the thing that suffers." **(London Borough Chief Executive, Interview 1)**

A number of chief executives and finance directors highlighted the issue of economic development and infrastructure. This report is focused on revenue income and expenditure, rather than capital income and expenditure[110], but some of our interviews suggested strategic economic policy and research units within councils will be vulnerable to cuts because their output is not immediately visible to the public.

"…looking at economic development… you could cut that, which would be terrible, but does Joe Bloggs notice if you haven't got an economic development unit? Well not for a long time. Actually it's not like a direct service that you can see on the street, there is a longer legacy of cutting that sort of stuff." **(London Borough Chief Executive, Interview 7)**

Our interviews also found that some Local Authority Chief Executives were concerned that short-sighted approaches would be likely and perhaps necessary, although highly undesirable and damaging both economically and socially over the longer term.

"Good highways, roads, transport, good refuse collection, good streets etc. mean that businesses want to come here and business creates wealth and jobs etc. and we will probably start disinvesting in those… and that's a vicious cycle. Similarly, cultural services, libraries, are things that make us wealthier, wise, healthy, sustainable, those are the things that you attack. Why would you attack them? Because they're not of immediate benefit." **(London Borough Chief Executive, Interview 1)**

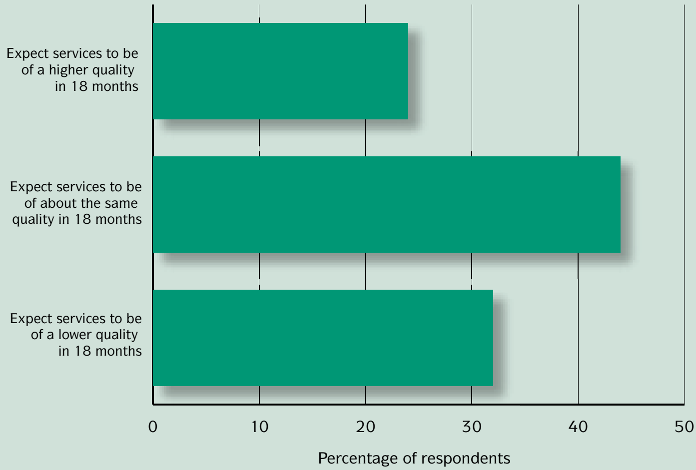
110 This is a separate NLGN workstream. See Symons, T. and Leslie, C. (2009), NLGN, 'Capital Contingencies: Local capital finance in an era of high public debt'.

The tensions between 'immediate repercussions v future repercussions' and 'politically difficult v managerially hard' decisions are often inter-related. Some of the Chief Executives interviewed, for example, were conscious of the impact of elections and political cycles on the decision-making process. It would take courage and leadership from councillors to go to their electorate on a platform of cutting highly visible services in order to invest in projects that will not save or generate money before the election, or indeed for several years or terms of office.

The Public View

NLGN commissioned a Populus poll to survey public attitudes to the future of local authority services.[111] Our poll found that two thirds of people expect that 18 months from now local services will be of the same or of a higher quality, with only one third of people expecting local services to be of a lower quality.

Figure 36 *Citizen expectations of services in 18 months time*



Most of the Chief Executives we asked the same question of in our interviews said that they also expected the services they continue to be of the same or higher quality, but that the council would provide fewer services.

111 See Research Methodology Appendix

"…what we do we'll do well, we just won't do everything we do now.", **Interview 1**

"My view is overall about the same. With some reductions.", **Interview 2**

"If pushed I would say relatively stable, but I think there are issues about quantity", **(Country Council Chief Executive, Interview 3)**

This is broadly consistent with the findings of a LGC/Liberata survey of Chief Executives and their deputies carried out last year, which found that the majority of councils anticipated a 'little less' of a service or a service 'equal to now' in adult services, children's services planning, waste and street cleaning and a 'minimum service' or a 'little less' of a service in adult services, roads and libraries.[112]

However, public recognition that some services will have to be cut is low. Evidence from a recent Ipsos MORI poll suggests that 75 per cent of people believe service provision can be maintained by making efficiency savings.[113] This is perhaps a product of the "more for less" rhetoric used by national politicians, as well as perhaps a lack of understanding of the number of services that local authorities provide, combined with a lack of awareness about the scale of financial challenge public services will face in the coming years.

Favourability towards cuts

Given that most citizens expect services to remain the same quality or improve over the next 18 months and the belief widely held by the public that services can be maintained through efficiency savings, it is perhaps unsurprising that they oppose cuts to local services.

Our poll also tested public favourability to cuts in six broad service areas, for which we provided examples of the main services:[114]

- Cultural services (leisure facilities, libraries, parks, museums)
- Highways, roads and transport (public transport, street lighting, road maintenance)

112 LGC/Liberata (2009), Future of Local Government Survey, September 2009.

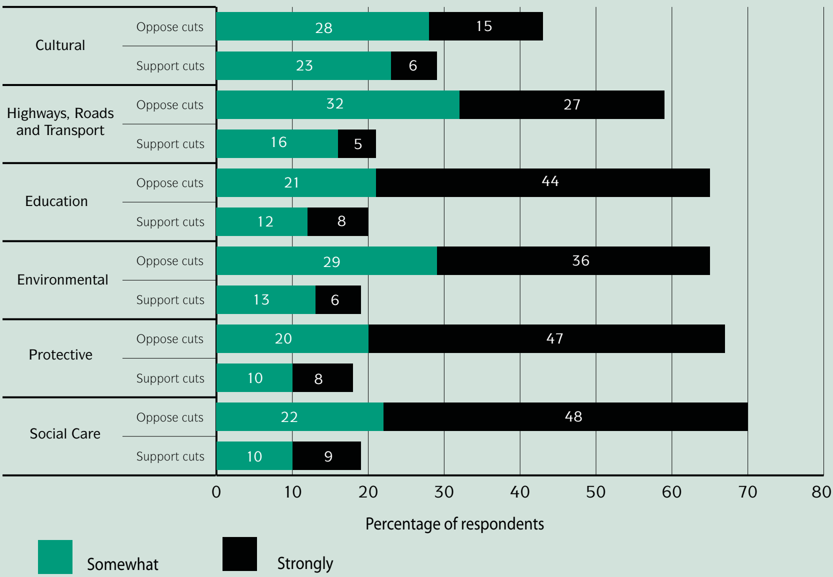
113 Ipsos MORI/2020 Public services Trust (2010), 'What do people want, need and expect from public services?'

114 This was based on the service areas used in the NLGN survey of Local Authority Finance Directors, which were simplified, and 'central and other services' excluded because of the complexities of communicating what this service area includes to the public.

- Education (nurseries, schools, adult education)
- Environmental services (refuse collection, environmental health, street cleaning)
- Protective services (police, fire and rescue, courts)
- Social care (care for older people, children and families, and people with difficulties)

The following graph illustrates the clear public opposition towards cuts in all of the local service areas we proposed.

Figure 37 Levels of public support and opposition for cuts to service areas



Polling Question: *'There has been much speculation recently about how the next Government will reduce Britain's deficit, and possible cuts to public services in order to save the country money. Please read the following list of services provided by your council and, for each, say whether you would support or oppose cuts to this service'.*

These findings indicate that the public would be least opposed to cuts in cultural services. Our survey of Finance Directors also suggested that this area was particularly vulnerable to cuts, which suggests that cultural services could be the most obvious candidates for cuts.

Cuts to Social Care Services would be overwhelmingly unpopular with over 70 per cent opposing cuts. However, cuts to Protective, Environmental, Education and even Highways services would prove similarly unpopular with between 60 per cent and 67 per cent of those polled registering their opposition to potential cuts.

Interestingly, the public oppose cuts to Environmental Services as much as they do to Education Services, yet our survey of finance directors found that Environmental Services were one of the areas most vulnerable to cuts.

Funding options and service cuts

Our polling found that there is little support for charging for local services or cutting local services, with maintaining service levels – even if taxes have to be increased – the most popular option with respondents.

Figure 38a Levels of public support and opposition for methods of reducing the deficit

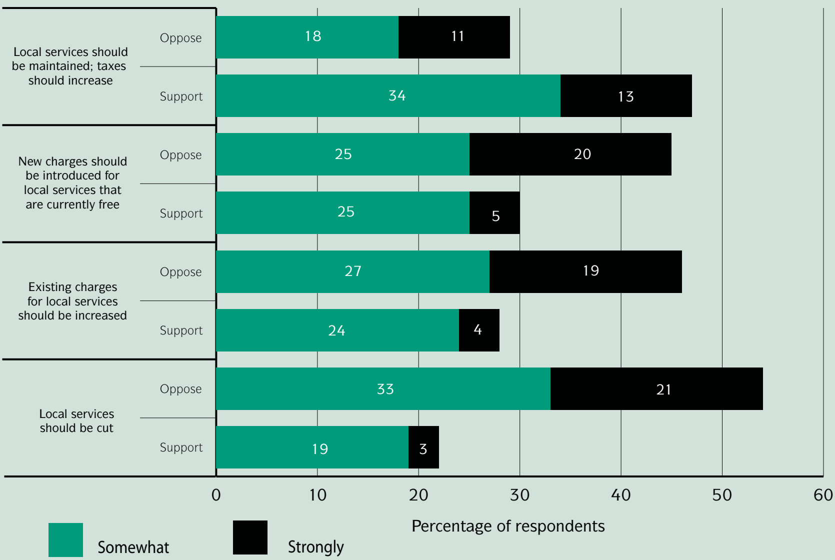
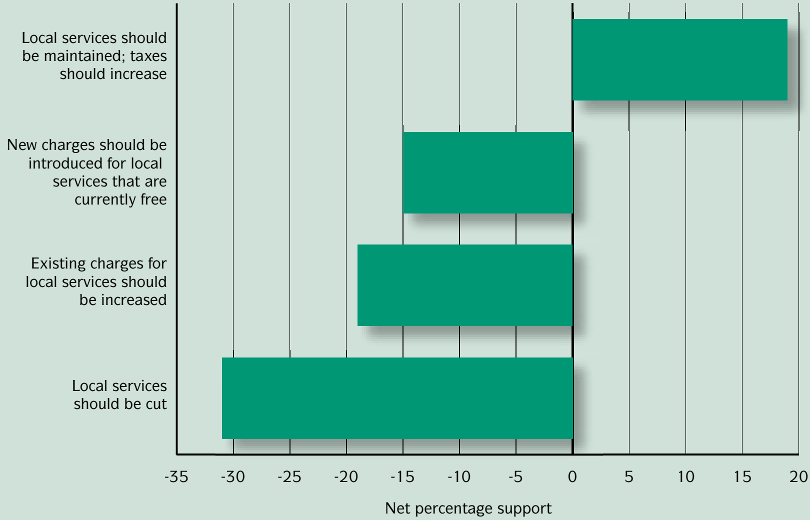


Figure 38b Levels of public support and opposition for methods of reducing the deficit



Polling Question: *'Government borrowing is now at record levels, and the government will have to pay this off over the coming years. Please read the following list of options and, for each, say whether you would support or oppose it'.*

The only one of the four options to register any net support was for taxes to be increased in order to maintain public services. The option of cutting local services was the least popular with over half of people opposing it. Of the three options, other than increasing taxes, the most popular was the introduction of new charges for local services that are currently free. Just under one third of people supported this option.

A poll by Ipsos MORI found that when forced to make the choice between increased taxes or decreased public services, 53 per cent of people believed taxes should rise to support continued levels of service provision, and 42 per cent believed service provision should decrease to prevent tax rises.[115] Other

115 Ipsos MORI (2009), 'Public Spending Index', Nov 2009 polling data also shows that if taxes are to be increased, people prefer rises in taxes that do not affect them, such as inheritance taxes, rather than taxes that affect nearly everyone, such as fuel duty. When confronted with the flowing tax options 'tax on business', 'Council Tax', 'inheritance tax', 'income tax', 'fuel duty' and 'VAT', Council Tax was the one people were least in favour of being increased.[116]

As local authorities have little option in terms of increased tax revenues other than to increase Council Tax (if they have not been centrally capped) any tax increases are likely to be highly unpopular, especially given the large gearing ratios involved when funding budget increases through Council Tax rises. Therefore local authorities face the difficult situation of a public that are opposed to service cuts and also opposed to increases in the Council Tax.

The need for public engagement

The lack of public understanding of the underlying framework of local government public service financing represents a substantial challenge to local authorities in terms of public relations. The Lyons Inquiry found a significant overestimation by the public of what current levels of Council Tax can provide, caused by "limited awareness that local authorities receive grants from central government to support services".[117] Therefore, if councils are forced to make cuts to services because of substantial reductions in centrally derived grant they are likely to face most of the blame, rather than central government. Public satisfaction with their local authority and the services they provide is likely to suffer.

An important factor in determining the level of user satisfaction with a service is the extent to which their experience matches their prior expectations. This has been modeled for local authority services using the Expectations Disconfirmation approach, whereby the level of user satisfaction is compared to the performance of the service minus their prior expectations of performance.[118] In short, performance minus expectations is positively

116 Ipsos MORI/2020 Public Services Trust, (2010) 'What do people want, need and expect from public services?', p38-39

117 HMSO (2007) 'Lyons Inquiry into Local Government: Place-shaping: a shared ambition for the future of local government. Final Report', Lyons Inquiry, p95

118 James, O (2007), 'Evaluating the Expectations Disconfirmation and Expectations Anchoring Approaches to Citizen Satisfaction with Local Public Services', Journal of Public Administration Research and Theory related to the predicted probability of satisfaction and negatively related to predicted probability of dissatisfaction. At the same time, the predicted probability of dissatisfaction falls more rapidly than the predicted probability of satisfaction rises as performance increasingly meets expectations. Therefore by modulating both performance and users' prior expectations it is possible for local authorities both to maintain public satisfaction and limit dissatisfaction with service provision in the face of budget cuts.

Unless local authorities can manage citizen expectations of what they can feasibly provide with the funding available to them they are likely to find the public increasingly dissatisfied with the services they receive.

There is a strong correlation between customer satisfaction with a service and how much they feel they know and understand that service.[119] A recent poll found that 47 per cent of people 'just want more information' about local public services and 24 per cent 'want more say', compared to only 5 per cent who 'want involvement', 5 per cent who are 'already involved' and 16 per cent who are 'not interested as long as they are doing their job'.[120] This suggests that if budget cuts necessitate decreases in service provision negative impacts in customer satisfaction could be minimised through active communication with the user of the reasons behind the cuts and what form the service now takes.

Effective council communication with the public of how public services are funded, the costs that are involved, and exactly what is provided, how and why, is essential. Some local authorities have already embarked on consultation and engagement exercises about service prioritisation in the coming years, but the scale of the educative task is profound and extensive, ongoing, dialogue with residents is required about the choices and trade-offs that need to be made.

Conclusion

This chapter has highlighted the service areas that local authority finance directors identify as most vulnerable to cuts and the levels of opposition there are to cuts in different service areas. Our research suggests that cultural

119 Ipsos MORI (2001), 'What do the Public Want to Know?' in Donovan N, Brown J and Bellulo L, 'Satisfaction with Public Services: A discussion paper', Performance and Innovation Unit (2001)

120 Ipsos MORI (2009), 'Understanding Society', Social Research Institute

services will be particularly vulnerable to service cuts. It also highlights the tensions that could emerge if councils cut environmental services, which finance directors regard as one of the service areas most vulnerable to cuts and to which two thirds of the public oppose cuts.

Two thirds of citizens expect local services to be of the same or higher quality eighteen months from now, and three quarters believe service provision can be maintained by making efficiency savings. There is little public support for charging for local services or cutting local services to help reduce the deficit, with the greatest net support expressed for maintaining local services, even if taxes had to be increased.

Most local authority chief executives we interviewed believed that the council services that were prioritised would be of the same or higher quality eighteen months from now, but suggested that there would be reductions in the range of services that their local authority provided. Underlying the difficult choices and trade-offs that local authorities would have to make if they do, as anticipated, have to cut the range of council services are a number of issues and tension that will be hard to reconcile.

Navigating a course through all of this will be challenging and councils must educate citizens and manage their expectations. Intensive and ongoing public engagement must take place for this to be achieved. It will also be crucial if a new and credible settlement between local authorities and their residents is to be negotiated about what the council can provide and where empowered participation by individuals and communities must play a greater role in service provision.

The following chapter will later explore in detail how services can be redesigned and reshaped to involve the public more in delivering and improving public services. Such reforms must take place within the wider context of major efficiency savings and it is through this lens that they are considered.

5 *Unlocking efficiencies*

Given the reductions in local authority income in the coming years indicated by our modelling and the growing demands on services, further efficiency savings and service redesign will be vital if councils are to minimise the impact on local services. While cuts to services and increases in service charges may be unavoidable, they are also unpalatable for the public and politicians. It is the role of efficiency to reduce this gap.

Below we seek to ask:

- What is the historic, political and operational context within which efficiencies are likely to be made over the next parliament?
- What are the principal methods by which councils are seeking, and should seek, to respond to the funding gap?
- How might ambitious councils aim to maximise efficiencies?
- How could local government be positioned and enabled to achieve greater efficiencies?

What do we mean by 'efficiency'?

At the heart of the efficiency debate is the concept of making the most of the resources available. However, there can be little question that the political discourse that dominated the recent general election failed to provide sufficient delineation between concepts of 'efficiency' and reductions to public services. Indeed, as one Finance Director noted, *'actually efficiency has become the new word for filling the gap. And when it's used in that way it's terribly frightening and actually dishonest'* **(London Borough Finance Director, Interview 1)**. In part this confusion is the result of the border between efficiency and cuts being hazy and often based on political or ideological bases. The broadening out of the ambition of the efficiency agenda from traditional to transformative methods can blur this distinction further.

The meaning of 'efficiency'

An efficiency gain is an improvement in the productivity of resources used to deliver services. Cashable savings refer to those where reduced inputs result in the same outputs as previously, or reduced prices receive the same outputs. This can be done through measures such as reducing expenditure on staff, contracts and running costs. Non-cashable savings are those which see greater outputs or improved quality for the same inputs.

Historic context for efficiency savings

Efficiencies are nothing new to the local government sector. In 2004, the Gershon Review proposed that all government bodies should cut their operating costs to make savings of £21.5 billion by 2007-08. Improved procurement, more effective IT and an 84,000 reduction in civil service staff were identified as areas where savings could be made.[121] Of the savings, local government took responsibility for achieving efficiency gains of £6.45bn, equivalent to 2.5 per cent of their net budget. As the Audit Commission has reported, councils exceeded the 7.5 per cent efficiency target set in the 2004 spending review.[122]

Following the success of the savings made under Gershon, the 2007 Comprehensive Spending Review set efficiency targets at 3 per cent: a total of £4.9bn for local authorities by 2010-11. This was subsequently increased under the 2009 Budget to £5.5 billion with 4 per cent efficiency savings for the same time frame.[123] The Treasury also called for an additional £9bn per annum of efficiency savings across the public sector as a whole by 2013-14.[124]

121 M. Conrad (2008), 'Life after Gershon', http://www.supplymanagement.com/analysis/features/2008/life-after-gershon/

122 Audit Commission (2008), Back to Front. See table, p. 11.

123 LGA (2009), 'Budget 2009 – On the Day Briefing'. Available at http://www.lga.gov.uk/lga/aio/1829536

124 Ibid.

The focus and implications of these previous approaches

A number of areas received particular focus for driving out these savings. Most especially, attention was given to procurement (which represents £54bn of council spend), business process improvements, collaborative initiatives and asset management. Changes to back office activities (which cost approximately £4.3bn) made up an average of 28 per cent of councils' total 2004 Spending Review savings. However, the Government was clear that within these areas there was both significant variation in performance and also additional room for savings.[125]

The Comprehensive Performance Assessment showed that 80 per cent of local authorities were rated three or four star by the Audit Commission in 2008; 78 per cent of councils performed consistently or well above the minimum requirements for value for money in 2008; and 90 per cent of councils scored three or four on overall use of resources.[126] At first glance, the previous efficiency regime and the comparative success of local authorities compared to other parts of the public sector should provide reassurance that local government can rise to the challenge of financial saving.

At the same time, a number of important factors distinguish the current circumstances from those faced in the last five years. First, only 79 per cent of the savings between 2004 and 2008 were cashable.[127] Yet, over the life of the next parliament only cashable savings will assist in filling the funding gap. Second, historic inefficiencies have already been reduced significantly – we are therefore in a game of diminishing returns. For instance, the proportion of spend on corporate (or back office) functions has seen significant reductions over the last decade.[128] Third, although previous efficiency drives have achieved significant cost savings in recent years, these did not match the scale now required. Fourth, it would be naïve to believe that the multiple barriers that prevented reform in the past have vanished overnight.

125 For Back Office functions, contributions ranged from six per cent to 91 per cent, meaning that some councils could do more to increase efficiencies, including through greater use of shared services, which in many cases can save 20 per cent of the cost of back office operations. (Communities and Local Government 2009: 2)

126 CLG (2009), 'Budget 2009: Value for Money Update'

127 Audit Commission (2008), Back to Front, p.13.

128 Ibid, p. 16

In light of these issues, the question remains, what scope for efficiencies remain? Are there low-hanging pickings still within easy reach? The scope for 'traditional' actions to deliver efficiencies, in areas such as shared services, procurement, outsourcing and asset management – that allow the same level of service while reducing costs – should not be ignored. However, as one chief executive noted:

"I think that the degree to which we can do those things that don't impact on front line services, is getting quite limited now. A lot of councils that haven't been through that first layer of delayering management, they've got quite a bit of scope to do that work. We've removed that scope… and I think we're nearly, almost automatically into reprioritisation, de-prioritisation…" **(London Borough Chief Executive, Interview 7).**

Below, we argue that there is still scope for efficiency savings, including in more traditional areas such as back office functions.[129] Nonetheless, whilst these areas should continue to be squeezed, more transformative change must underpin the next wave of savings. Innovative service redesign is necessary given the scale of the challenge. Prevention, demand management, full integration of frontline services and back office services, and a 'Total Place' approach of pooling budgets and services across the wider public sector, all have the potential to deliver significant savings. Yet, these reforms will require a radically different approach by councils; they will also, to a large extent, be reliant on the co-operation and 'buy-in' of the wider public sector. This will require devolution of powers from central government and new freedoms and flexibilities for local authorities.

Opportunities are presenting themselves with the new Coalition Government pledging to devolve and decentralise responsibilities. While previous efficiency programmes have been driven by centralised performance management regimes, will councils be given the scope to activate savings across their local areas? Early indications are that the Government will continue to emphasise a number of straightforward efficiency approaches alongside more complex methods. For instance, pay restraint and reduction among top managers has continued as a priority beyond the general election campaign. National and local political considerations are likely to ensure the

129 Ibid, p. 6.

focus on shared services and back-office efficiencies remains.[130] The localist rhetoric, legislative programme of the Coalition Government and policy debate around devolution, at least, suggests that the next generation of efficiencies will be managed and executed at the local level.

Options and drivers for reducing expenditure

Exploring the options for efficiency

There is a spectrum of options open for cost reduction in the public sector. These range from crude opportunities such as recruitment freezes, through to radical and complex service redesign. Identifying and isolating discrete efficiency methods is a challenge in itself. As one Chief Executive noted, *"we've got about thirty-five different [efficiency] initiatives and that's just the big ones. … everything you can think of at the moment is where we're going"***(London Borough Chief Executive, Interview 7).**

Understanding the complexities of efficiencies

The range of efficiency approaches is daunting. The landscape is further complicated by the relative managerial complexity involved in designing and implementing each efficiency option. The different time-frames and potential scale of savings involved require consideration, with certain reforms delivering immediate savings and others taking a number of years, only bearing fruit over the longer term.

There are also different levels of political difficulty and sensitivity relating to each method of activity. Budget reductions are likely to be felt with differing degrees of pain and challenges: managerial complexities and difficulties; and political sensitivities in their relationships with their community. As one chief executive astutely put it, *"If you think in three or four years time a politician is going to go to the electorate and go "look I've done such a good job I've cut this and I've cut that, closed this and that library and done that", who's going to vote for them?"* **(London Borough Chief Executive, Interview 7).**

The following diagram provides a graphic illustration of these key dynamics, which must inform the strategies local authorities adopt:

130 Interview 7.

Figure 39 Features and dynamics of efficiency options

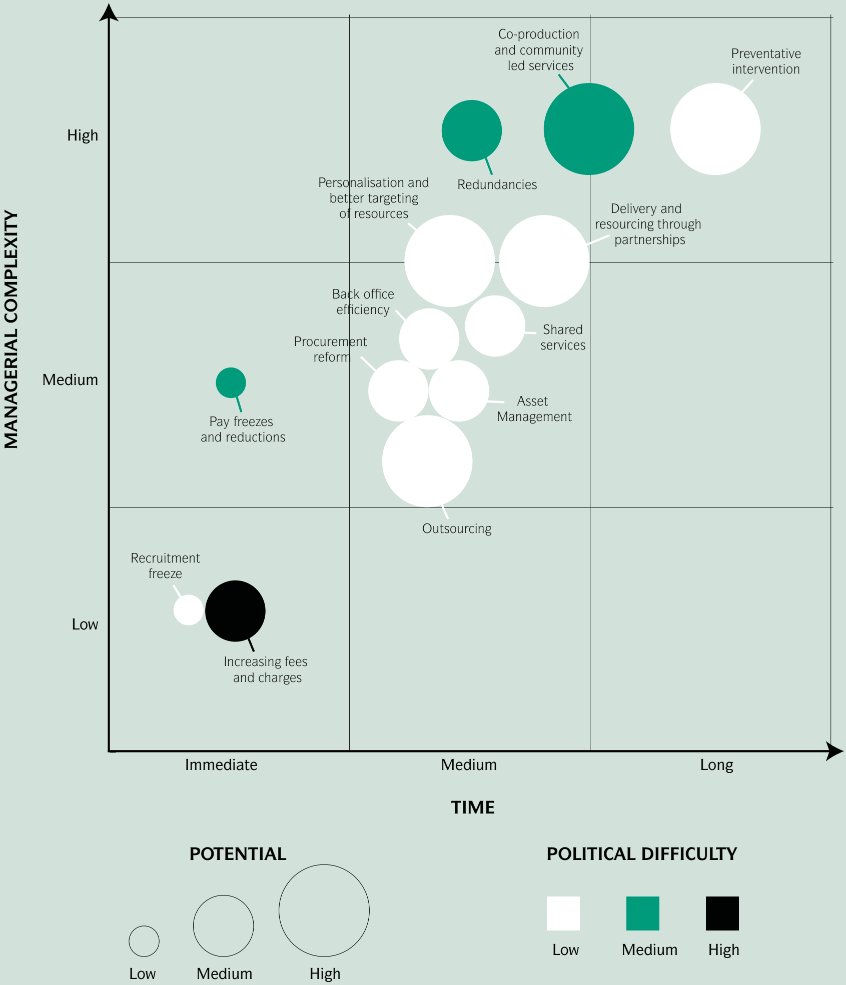


Figure 39 provides an indication of the relative features of each efficiency option. It is important to note that this is primarily a conceptual framework for thinking about efficiencies. Different local authorities will be at different starting points and face different challenges, which will affect how the various efficiency options they are considering can be mapped. However, our mapping pattern suggests that many of the efficiencies that have low political difficulty, but are managerially of medium or medium-to-high complexity, could deliver savings over the medium-term. Importantly, some of the reforms that have the highest potential to deliver savings will only do so over the longer-term, but are more politically difficult and managerially complex.

Local authorities will have to combine more traditional efficiency measures that will deliver savings in the immediate and medium term with more ambitious options that deliver transformational change through radical redesign of services over the longer term.

Defining the drivers of efficiency

Efficiencies can be conceptualised in terms of productivity, allocation and resource maximisation. Across all the efficiency options, a number of key drivers should be recognised. Citizen and community focus must underpin any approach allowing the best matching of supply to demand and to enable other drivers.

A focus on outcomes ensures that all contributors to a goal can help develop the best solution and reduces the scope for distorted and wasteful activity. It also enables effective prioritisation of community needs.

Access to the fullest availability of resources – and alignment of activity and investment – offers the potential for economies of scale and scope, and the reduction and elimination of inefficient and duplicated activity. This may involve pan-public sector collaboration, consolidation, or private and Third Sector partnerships. It may also involve unlocking the capacity of the workforce and communities, or exploiting the market mechanism to introduce competitive pressure.

Such drivers can best be harnessed as councils move from traditional operational efficiencies to major service re-design. This is where the opportunity lies.

Maximising Operational Efficiencies: the art of better production

Operational efficiencies are the art of producing the same desired outcomes for less. Such approaches conceptualise the nature of public services as predominantly static. Centralised efficiency regimes driven through the 2004 CSR and the 2009 Budget's Operational Efficiency Programme focused heavily on the production of outputs for a reduced cost.

Re-modeling the procurement process

The public sector as a whole spent approximately £220bn in 2008-09 through procurement.[131] Local government revenue expenditure on procurement alone was over £50bn.[132] However, the current procurement process suffers from significant inefficiency. A recent analysis has indicated that savings of well over 10 per cent are achievable on current procurement practices.[133]

Contract re-negotiations offer scope for unlocking savings in established contracts and those up for renewal. Through effective dialogue with providers, financial gains can be opened through reductions in quantity or quality of provision, or by offering fresh options for economies of scale or scope. Streamlining contract oversight can create a more positive and proactive relationship between the provider and buyer.

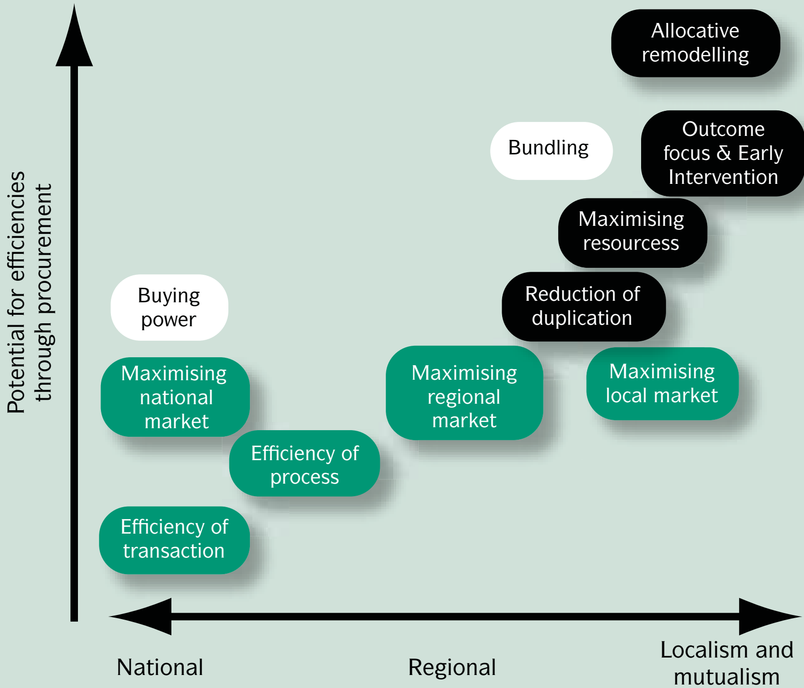
Figure 40 on the following page sets out a series of options for achieving savings through procurement.

131 NAO and Audit Commission (2010), 'A review of collaborative procurement across the public sector', p. 4.

132 CLG (2007), 'Local Government Financial Statistics England No.17', http://www.local.odpm.gov.uk/finance/stats/lgfs/2007/h/chapter3.html

133 Colin Cram (2010), Towards Tesco – improving public sector procurement

Figure 40 Potential for efficiencies through procurement



Savings through collaborative procurement

In the drive for efficiency, collaborative procurement has advantages and disadvantages. Simply aggregating to a national or regional scale may overlook quality of provision, geographically sensitive supply markets (such as in adult social care) and strategic and corporate alignment.[134] However, there are significant benefits to be gained. More than nine out of ten local authority staff surveyed by the National Audit Office felt that collaborative arrangements had led to better value for money options for their local authority.[135] Integrated

134 Keohane, N. (2009), NLGN, 'Procuring for Place'

135 NAO and Audit Commission (2010), 'A review of collaborative procurement across the public sector', Survey Results, p. 4.

procurement approaches have unlocked significant savings in the past. Hampshire County Council leads a joint procurement approach to construction procurement, which has delivered improvements of 28 per cent on key services and value for money indicators.[136] Benchmarking can raise awareness of comparative costs.[137] Economies of scale can drive down costs where the objects or services procured are standard. Processes can also be streamlined and reduced in number through framework agreements.[138]

Shared services and beyond

If collaboration can underpin a range of efficiency responses in procurement it is no less pertinent, though harder to accomplish, in more general local authority activities. The Operational Efficiency Programme 2009 set out by the Treasury includes a significant broadening of the collaborative agenda across public services, including finance, IT and HR.[139] Thus far, shared services have enjoyed very mixed success. Despite the hope that was set out for the scale and type of collaboration over the last decade (for instance under the Gershon efficiencies), many challenges and barriers have prevented its widespread adoption.[140] Political, geographic and managerial protectionism have sat alongside genuine concerns about the agility of incorporated bodies to respond to the demands of their community.[141]

Doubts have been raised about the sustainability of some existing projects.[142] Underlying arguments around shared services is the issue of how far they rely on standardisation, whether they decouple the front office from the back office and the level of risk associated with such ventures.[143] Investment may be required upfront to provide standardisation of processes (especially IT) to ensure common operating systems. As the NAO has recognised, the cost of failure in shared services in the public sector can be drawn out and painful.

136 Colin Cram (2010), 'Towards Tesco – improving public sector procurement'

137 For example, lack of collaboration currently sees a 745 per cent variation between the highest and lowest price paid for black toner cartridges. See NAO and Audit Commission (May 2010), 'A review of collaborative procurement across the public sector'

138 The NAO and the Audit Commission has estimated that the public sector could have saved the contracting cost on more than 2,500 OJEU tendering exercises. Ibid, p. 6.

139 HMT (2009), 'Operational Efficiency Programme: final report'

140 Deloitte (2010), 'Stop, start, save. Shared Service delivery in Local Government '

141 Brand, A. (2006), NLGN, 'The Politics of Shared Services'

142 LGC (2010), Kerry Lorimer, 'Making less go further', LGC Supplement, 25 March 2010

143 LGC (2010), John Seddon, 'Why I'm suspicious of shared services', LGC, 12 January 2010

Some do not feel that the shared service agenda could be driven forward in a major way without compulsion because of the strength of vested interests.[144] As one Chief Executive noted:

"There's been next to no mileage in [shared services], there is so little sharing going on, basically because the officers in local authorities aren't that interested. They see it as an attack on empires and jobs. The only way you're going to get shared services savings ... is through some form of compunction or fiscal drive in local authorities to do that and I just wonder if that will come through. … Some of the easy shared services around enforcement, bringing together trading standards services, that's easy because it's not political a lot of it. People are not interested at the moment and there's got to be something about well, we can't tell you to do it but if you do it you get x, or if you don't do it we'll take the money away." **(London Borough Chief Executive, Interview 7)**

As another improvement expert commented, *"people have got to lose some of their sovereignty and actually start working for the betterment of the whole rather than themselves"*[145]

The current fiscal context is likely to provide more fertile ground for such activity. Indeed, in a survey last year, local government respondents indicated that shared services had considerable potential (compared to many other options) and 65 per cent professed it as a sound opportunity for payroll services.[146]

What is more, a new wave of more practical and implementable shared agreements have been emerging in recent years – these underline the fact that collaboration need not undermine local democracy, strategy or agility. Joint senior executives and management teams are being explored successfully by a significant number of district authorities.

144 Deloitte (2010), 'Stop, start, save. Shared Service delivery in Local Government'
145 NLGN Research seminar (see research methodology appendix)
146 Nabarro (2009), 'Savings potential: Future efficiency in local government', p. 9

Sharing strategic leadership

Staffordshire Moorlands and High Peal Councils have reduced their combined SMT from 37 to 21 with estimated savings of £560,000 per annum.[147] Shared directors across councils' care divisions and PCTs are being adopted widely as methods not only to save money but also drive common approaches to public health. These approaches may also facilitate better collaborative working between the involved councils or partners. [148]

It is likely that in the context of the emerging funding gap, these will be stepping stones to more integral and fundamental rationalisation of the functions and activities replicated across local authorities. As a starting point, councils can explore functions that sit outside of their 'Core Competency' (as defined by C.K. Prahalad) or corporate purpose.[149] NLGN has argued that wider collaboration nationally on activities such as payroll and benefits should be considered, in the form of pan-public sector platforms for shared services.[150]

Other parallel prospects and opportunities are presenting themselves. Alternative approaches can sidestep some of the more complex employee-related barriers. For instance, a recent shared service agreement for legal services in Cambridgeshire is focusing on building specialist capacity, to reduce the previous costs of commissioned legal advice, rather than questioning the size of the pooled legal team.[151] Westminster City Council's well established trading model for communication services represents a good example. A new generation of efficiency approaches can be seen emerging along mutual and trading lines rather than straightforward shared services. Councils could play to their strengths and make an offer to other authorities and partners. Kent's procurement capability for energy provision and the

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147 CIPFA (2010), 'Sharing the Gain: Collaborating for Cost Effectiveness', p. 13.

148 IDeA (2009), Shared chief executives and joint management: a model for the future?

149 C.K. Prahalad and G. Hammel (1990), 'The Core Competence of the Corporation', Harvard Business Review, vol. 68, p. 79-91.

150 Keohane, N. and Smith, G. (2010), NLGN, 'Greater than the sum of its parts: Total Place the future shape of public services'

151 LGC (2010), Ruth Keeling, 'Councils adopt shared legal service', LGC, 27 April 2010.

London Authorities' Mutual Limited are other procurement solutions that rely on mutual and trading solutions.

More for less from the workforce

Approximately half local government revenue expenditure goes on employee payroll. A Director of Finance in a London Borough added this realistic note:

'Actually, the important thing that [the Chief executive] looked at is where we spend our money. But actually one of the biggest things we spend on is employees … in effect whether its down to who we're working with, there'll be less people.' **(London Borough Chief Executive, Interview 7)**

In policy-making terms, redundancy has had little discussion publicly because of its sensitivity. This sensitivity is not limited to employment relations but also potentially to the local economy. Reports from the Centre for Cities and the Audit Commission have both set out the local variation relating to the proportion of employment in different areas that is funded by the public sector and therefore especially vulnerable to unemployment.[152] Any decision to reduce public sector employment therefore should be taken as part of a strategic consideration of its wider impact on the local economy.[153]

This is just one principal reason why major redundancies have yet to be contemplated in many areas. However, there are others. In the first place, redundancies are obviously emotionally, socially and financially harmful. In addition, the costs of redundancy are significant and have to be factored into any decision. The depletion of reserves witnessed across the sector since the onset of the recession has reduced the buffer for carrying out major redundancies.

Notwithstanding these sensitivities, a number of councils have already engaged with significant reductions in their headcount. Last year, an LGA survey reported that three fifths of local authorities had undertaken redundancies and the same number were considering redundancies. Middle management teams were the most vulnerable to these reductions.[154] In March 2010, it was estimated that up to 170,000 local government jobs might be vulnerable.[155]

152 Larkin, K., (2009), Centre for Cities, 'Public sector cities: Trouble ahead'

153 Public Finance, Guy Clifton, 'Not the total story, Public Finance', 29 October 2009

154 LGA (2010), 'Survey of Local Authority Staff Reductions'

155 The Guardian (2010), Polly Curtis, 'Councils consider plans to shed 170,000 public sector jobs', Guardian, 1 March 2010.

Sensitivities and implications have seen a shift towards other mechanisms to manage payroll expenditure. These include:

- Increasing the 'Vacancy Rates'
- Introducing a recruitment freeze
- Pay freezes or pay reductions

Whilst avoiding many of the sensitivities around the size of the workforce, such methods are not without their problems. As one chief executive noted,

'there is a false economy in having a vacancy rate. If you look like you are dragging your feet you can drive down morale and productivity.' **(Shire District Council Chief Executive, Interview 2)**

Formal recruitment freezes are also only a short-term option for saving money as there can be implications for the spread of talent and the age profile of the workforce because of the arbitrary timing of the freeze. The costs of temporary staff and the shortage in some specialisms could therefore become further entrenched.[156] In addition, recruitment freezes are likely to further entrench institutional recruitment focus and undermine the aims of the Coalition Government and others to see greater diversity of workforce across the public sector.

Longer term options include maximising the talent available through effective performance management and adoption of lean management processes that improve staff morale and a focus on the customer.[157] Meanwhile the London Borough of Barnet is exploring different methods to drive workforce performance including employee-owned buyouts and mutuals that would free creativity and introduce a new performance incentive.[158]

Outsourcing

Outsourcing remains an option where strategic partners can contribute initial financial investment and also expertise and specialist infrastructure. Service

156 Cornes, L. et al., (2009), 'Temporary Agency Workers in the Adult Social Care Workforce' http://www.kcl.ac.uk/content/1/c6/03/79/99/CornesAgencyWorkers17Nov09.ppt#331,13,Business as usual
157 Keohane, N., (2008), NLGN, 'Leading Lights: recruiting the next generation in local government'
158 LGC (2010), Nick Walkley, 'We need to do things differently', LGC, March 2010

re-design, shared services and preventative investment all require external expertise and upfront investment – this can be sourced from private sector partners through joint ventures or simple outsourcing procedures. Lessons from successful outsourcing schemes have seen Haringey Council reduce its reliance on agency staff and drive out £3.75m of savings through a gain-share pricing model over the last four years.[159] As one district chief executive noted, the option of outsourcing remains a future scenario if sufficient savings are not found through less radical methods.[160]

Unlocking efficiencies through service re-design

The savings set out earlier are likely to make inroads into the funding gap identified earlier. To make more fundamental savings more radical service re-designs will have to be forthcoming. As the scope for productive efficiencies reduces, an underlying question becomes ever more relevant: what is the purpose of public services? How can the public sector add value to the communities it serves?

Effective service re-design allows a new product to emerge that can galvanise and energise the public workforce in a way that simple efficiency savings cannot. It is important that re-design is not simply viewed as a cost-reduction exercise. It offers new ways to improve people's lives and to re-connect public servants and professionals with the people they are supporting thus improving morale and productivity.

Many councils have been undergoing transformation exercises over the previous five to ten years. At their heart these have sought to place the citizen at the centre of the council's activities and they have looked to develop whole council or corporate responses to local challenges. Over the last year, these have been overtaken by innovative Total Place approaches that take an area-based approach to resourcing and delivering public services.[161]

The Coalition Government's commitment to the 'Big Society' and decentralisation offers a new wellspring through which to refresh public services and reinvigorate the efficiency agenda. The commitment to reduce

159 CBI (2010), 'Time for action: Reforming public services and balancing the budget', p. 10.
160 Interview 2.
161 Keohane, N., (2010), NLGN, 'Greater than the sum of its parts: Total Place and the future shape of public services'

regulation and legislation, and a power of general competence will, as one Finance Director noted, 'give us more confidence'.[162] The question is how these approaches can be harnessed to drive efficiencies.

To engage in significant cost reduction, councils and their partners are likely to have to look to redefine the relationship between the citizen and the state. To articulate exactly the dimensions and contours of the future service, local councils must position themselves, starting from the perspective of citizens, neighbourhoods and communities of interest and seek to understand the full resources available (including talent and resources within the community).

Major service re-design may mean:

- transforming the nature of the service provided and received;
- shifting radically the point, timing and nature of the intervention;
- switching or substituting the provider, especially away from officially contracted and resourced public services to those provided or sustained by the community itself;
- Opening up different markets of users.

Personalisation and Connecting with the customer

Public service reform has, over the past decade, placed an increasing emphasis on connecting and communicating with the customer in a new way that provides efficiency of purpose on the part of local authorities and gives added convenience to the citizen.[163] Technology provides new opportunities for re-designing the interaction between the citizen and the state.

Case study

Westminster Council Car Parking

Increasing financial pressures and poor customer satisfaction in a highly visible public service led WCC to rethink how they could better optimise their parking service. In a strategic partnership with Vertex,

162 Letter from Grant Shapps MP; Interview 1.
163 For instance, see the Transformational Government agenda.

WCC decided to take a lifecycle view of parking that would strive to deliver increased revenues while lowering the overall cost. By recognising vehicle drivers as the end customer, WCC set out to create a safer environment with less illegal parking and a quality-driven and more efficient parking service. Redesigning the service around the individual led to the following enhancements:

- *Online payments through the web*
- *Introducing touch tone telephone payments*
- *New parking tickets focussing on easier ways to pay*
- *Introducing a single parking service telephone number*

Through reconnecting the on-street function with the back-office process, Westminster's vehicle drivers now encounter no less than 12 touch points, a reduction from a previously cumbersome 37. Increasing automation through technology and re-engineering the service experience through the customer has led to greater productivity at lower cost.

Changing the channels of communication to cut out unnecessary communication and the wastage it generates also provides exciting opportunities. Channel shift allows councils to change the terms of engagement and incentivise certain forms of communication and activity.

Case study

Vertex and Customer Interaction and Channel Shift at Thurrock

Thurrock Council's Strategic Services Partnership with Vertex has transformed the authority's revenues and benefits service with a customer services focus. Vertex used a "lean" approach to optimise the numerous processes involved, and empower more frontline workers to handle benefits claim processing. Handling claims with greater expediency is as important as optimising collection of payments owed to Thurrock. Taking a "prevention rather than cure" approach, Vertex has worked with the council to take steps at the earliest possible stage to prevent debt accruing. By issuing bills on time and ensuring the correct amount payable at the first time of asking, Thurrock now has an effective *debt management system allowing it to maximise its cash flow.*

Thurrock's achievements have led to a significant improvement in their revenues and benefits service, including:

- *Dramatically reducing the time taken to process benefits claims from 98 to 20 days, with 84 per cent of claims processed within 14 days*
- *Resolving 90 per cent of customer enquiries at the first point of contact*
- *Customer feedback is averaging at 97 per cent positive, with the performance of the benefits system moving from a one Star CPA rating to four stars*

When executed appropriately, personalisation and community focus open up a number of key cost saving opportunities. Savings in adult social care through individual budgets have been estimated at 7 per cent; growth costs of the NHS in the Netherlands have been reduced significantly through personalisation. [164]

Co-design and Co-production, Civic Renewal and the Big Society

Mobilising social capital or civic talent as new designers, providers and supporters of services is now becoming a pressing concern. As one Chief Executive interviewed commented: *'if [the recession] is going to affect services and the provision of services then [we] will need more people that can provide services voluntarily almost. I mean in adult care we are looking to the Third Sector and Voluntary Sector to do some of the things we used to do with paid employees.'* **(County Council Chief Executive, Interview 3)**. New challenges will emerge around governance, funding and risk management, but substantial potential savings could be realised through greater citizen involvement in services.

Financial savings flow indirectly from co-design and directly from co-production. Customer insight and involvement in the design of the service is likely to ensure that supply is better matched to demand and that resources are allocated appropriately. Co-production involves citizens alongside managers and professionals in designing and executing the service themselves. The adult

164 Keohane, N. (2009), NLGN, 'People Power' social care market offers lessons for how government's role may be changing from a provider to an enabler and commissioner, and from a simple menu of services towards guided self-help. This may involve developing self-help platforms through which citizens can assist and guide each other.

Case study

Hertfordshire and Co-Production with Older People

Hertfordshire County Council is pioneering its own Big Society in action, with its First Contact service. Helping older people to become more assured about the everyday services they use can help to prevent critical incidents occurring. Recruiting and training a mix of paid and volunteer Community Agents to provide networks of support for the elderly, Hertfordshire CC is playing an enabling role in connecting communities. First Contact empowers frontline workers to carry out a needs assessment for the older population and act as a gateway to vital services in the community.

First Contact is an ambitious way for Hertfordshire to facilitate positive peer-to-peer relationships and generate social value in the networks of empathy formed. Social wellbeing and health outcomes are improved by the participation of adult social services and Hertfordshire PCT stakeholders respectively.

Other examples also offer fresh ideas and avenues to explore:

Some Emerging Approaches

- *In Patient Hotels in Sweden, a greater onus is put on the family to take care of their relatives. This has improved the quality of services for patients who would be taken care of by their family, and has reduced costs by 60 per cent by freeing up medical staff and hospital facilities.*[165]
- *The National Trust model has recently been posited as a prototype for how parks and green spaces could be maintained at reduced cost.*[166]

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165 Innovation Unit (2010), Radical efficiency Programme

166 The Guardian (2010), Peter Hetherington, 'Council Services in our hands', Guardian, 12 May 2010.

This includes the idea of a London Trust that could be accountable to local authorities but be managed and run by interested parties, communities and volunteers. Such lessons have crossed the seas from countries such as Sweden where patients and families take on additional responsibilities for maintaining green spaces.

- *A project in Southwark has started to use the whole user-community as both suppliers and customers of care. This has allowed older people to be supported in staying at home with assistance from their peers for specific help.*[167]
- *Lambeth and its Co-operative Council model.*[168]

Changing Behaviours

Just as the state seeks to involve citizens more intimately in the design and delivery of public services, so the government is looking to embed more positive social norms that can lead to a healthier, wealthier, happier and more sustainable society whilst reducing costs.

Behavioural change and 'nudge' economics are increasingly becoming part of the language of policy-making as government seeks to reduce harmful behaviours. Behind the philosophical arguments about whether it is the role of government to protect society from itself or to mitigate behaviours that are self-harming lie practical arguments around financial efficiency. While some of the dimensions to behavioural change are associated with long-term shifts that could see reductions in obesity or smoking cessation,[169] others are more immediate. For instance, the high costs of landfill - identified earlier as a major pressure on councils and their waste strategies - offers quicker returns.

Case study

The Somerset Waste Partnership

The Somerset Waste Partnership is moving from a traditional refuse collection policy to a system called 'Sort It' where recyclables and food waste are collected and sorted at the kerbside every week with

167 Keohane, N. (2009), NLGN, 'People Power'
168 Lambeth Council (2010), 'The Co-operative Council', http://www.lambeth.gov.uk/NR/rdonlyres/CA6C2E2F-33E4-48CE-82C1-D7E0E82EEF9E/0/CooperativeCouncilWhitePaper.pdf
169 The Young Foundation (2009), 'The Capital Ambition guide to behaviour change'

the remainder collected every fortnight. This has halved the tonnage of residual waste sent to landfill and seen overall volumes of material collected reduced by 15 per cent. This is resulting in a saving of a fifth on the costs of waste collection.[170]

Such approaches are likely to lead to new charging policies that create new or additional revenue streams for councils. The Government's commitment to a General Power of Competence has been heralded as a major change that will transform the way in which local government operates and the scale of its ambition.

Optimising income through fees and charging

The approaches set out above may involve a new suite of incentives and charges to shape public behaviours. London Borough of Barnet's 'Easy Council' model is adopting new charging structures that set out to question what should be paid for through general taxation and whether some people would be prepared to pay extra for an enhanced service. Such a model opens up further lines of potential activity to reduce the need for cuts in public services, though the social justice implications and potential risks of creating a two-tier system require careful consideration.

More efficient debt recovery and raising charges on existing services such as planning or parking fees is one approach. Beyond this lie opportunities for the entrepreneurial council to engage in new activities and develop new markets. The Government's proposed General Power of Competence will open the prospect for new activities whether in-house, as joint ventures, in partnerships with the market, or in collaboration with other authorities and agencies offering new services to residents and lines of subsidy for Council Taxpayers.

Swindon's 'Digital City UK' Wi-Fi venture provides an offer to the local community which can both act as a strategic economic driver and could potentially provide an income stream further down the line.[171] This project involves an innovative partnership venture between the council and private partners. The new General Power of Competence will also be likely to unleash pent up energy and innovation in the form of new joint ventures such as the local asset backed-vehicles.

170 LGC (2010), 'A better service with less waste', LGC, March 2010
171 See Hope, N. and Turley A., (2010) 'We Can Work it Out', p. 109-112

Many local authorities are exploring potential avenues to increase their income from fees and charges, but it is important to note that there are limits to what the market will allow:

"We are looking to increase it [fees and charges] substantially in the future so searching for additional sources of income, whether we can bump up our fees and charges as much as the market will bear really." **(County Council Chief Executive, Council 3)**

"… we won't push them [income streams] to the most we can go because it won't make sense in the system." **(County Council Chief Executive, Council 5)**

"…it's difficult because the law of diminishing returns comes in at some point. I mean you can increase the per-unit charge to such an extent that income starts to go down. I think it's important to be careful of your local market and understand it." **(Shire District Council Finance Director, Council 8)**

Whole area working and service re-design

It is becoming increasingly evident that not only must public services be localised but also that efficiencies, citizen focus and community participation can only thrive when a wider lens is applied.

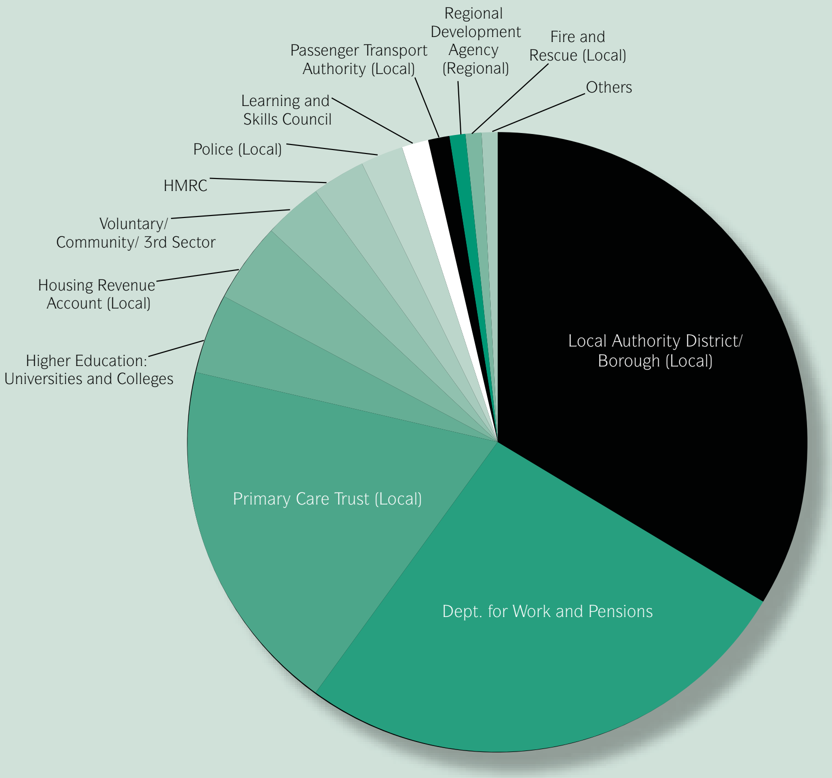
Lessons from across the country explored in recent NLGN research found that financial savings could be unlocked if a place-based approach to public services were to be undertaken and if all public resources were looked at collectively at a local level. By applying strategic commissioning principles at the local level, major opportunities emerge.

- Estimates of savings in asset management are of 10 per cent revenue and 10 per cent capital;
- London Councils has estimated that £11bn of the £71bn spent in the capital could be saved by re-designing services and intervening in a more sophisticated way;
- Worklessness pilots and NLGN research has indicated that significant savings of over 10 per cent could be unlocked by commissioning programmes at a sub-regional level and intervening earlier to get people back to work.[172]

172 Keohane, N. and Smith, G. (2010), NLGN, 'Greater than the sum of its parts: Total Place the future shape of public services'

These efficiencies are predicated on the ability to tap into existing public sector resources in a new and fuller way. In turn, this allows duplicated activity between the myriad of public bodies to be aligned and for the state to intervene to resolve problems as they arise rather than at the crisis point.

Figure 41 Example of a local public spending profile



Underpinning this is the need for wider democratic reform at the local level and a radical devolution of funding. The imposition of cuts from the centre through a conventional department-orientated approach may be a traditional vehicle for deciding spending reductions.[173] However, 'salami

173 PST 2020 (2010), Delivering a Localist Future: A route-map for change, p.11-12.

slicing' is not the right approach to best exploit the resources put into public services at present and to minimise the negative impact of budget reductions over the period of fiscal consolidation. The protection of specific budgets nationally denies local policy- and decision-makers the necessary discretion to prioritise in the interests of their local communities. To revert to a departmental and siloed approach to budget reductions would be to reinforce the negative tensions and forces that distort activity and reduce cross-agency productivity. In addition, it would serve to undercut the partnership working that has incrementally provided solutions to some of these cross-government problems.

However, winning the argument for pooled area budgets through local persuasion is likely to become harder rather than easier as protectionism over funding sharpens.[174] One Chief Executive argued:

'Everything around social care in particular we find prevalent and problematic, particularly with our interface with our PCT, because the reality is that our continuum of care is a continuum of social care and health. … They're kind of going "yes it's difficult out there, might not be a lot of growth next year," we're kind of going "phwah, great wow, you know," so that misalignment between their concerns and our concerns puts us in a different place.' **(London Borough Chief Executive, Interview 1)**

As another Chief Executive noted about winning the argument on Total Place:

'Whatever the system is, what we are aiming to demonstrate is, why would you? Why would you as a public agency continue to pour this money out for no outcome, no benefit – and how do you justify that to the taxpayer? So it's a dare-them scenario if you like, rather than put your arm around their shoulder and saying we could be doing this differently.' **(County Council Chief Executive, Interview 5)**

Therefore, without additional levers on other public sector providers and democratic oversight of local public spending, the challenge of efficiencies through integration and collaboration are likely to intensify rather than diminish.[175]

174 The response of PCTs to budget overspends in 2007 indicated the same.

175 Keohane, N. and Smith G. (2010), NLGN, 'Greater than the sum of its parts: Total Place the future shape of public services'

Opportunities, barriers and ways forward

The opportunities for efficiency savings are significant. However, the complexities of prioritisation, of managing change, of resource maximisation are such that the fragmented nature of the public sector is becoming increasingly anachronistic. As the prospect of a negotiated settlement between national and local government is advanced, so councils have to be in a position to respond to the needs and priorities of their communities in the round. This involves maximising the scope for alignment of activity and for accessing all the available resources to intervene in the right way at the right time. Local councils must be facilitated to engage and understand the needs of individual citizens and communities. The arguments for greater collaboration across the local government community are becoming irresistible. The forces bringing accountability and leadership together locally are also converging to require a radical re-think of the shape and structure of public services.

6 *Conclusion*

Our quantitative modelling of local government income streams suggests that local government faces substantial falls in revenue funds between 2010-11 and 2014-15. If demands on local government expenditure were to remain static in this period then meeting them would be tough, but demands on expenditure are likely to grow substantially over the next few years, making the scale of the challenge even greater. Local government will have to climb up a downward moving escalator if services are not to hit rock bottom.

Funding Certainty, Clarity and Control

There are three core funding "asks" that we make of central government to help councils face this challenge head on:

1. Funding Certainty

Funding certainty for at least three years in the 2010 Comprehensive Spending Review and an extension of 'in year' balancing – where councils have to match their income to their expenditure every year – to a new 'three year' statutory balance requirement. This will give local authorities greater latitude, allowing them to be more sophisticated in their financial planning.

The complexity of efficiency reforms and service redesign that will deliver the greatest savings and the best possible outcomes will require a more strategic approach that will be hampered by insufficient local financial flexibility for councils. The statutory requirement to balance over three years would ensure that Finance Directors and Section 151 officers take all the necessary legal steps to deliver sound budgets over the medium term, rather than within a prohibitive and restrictively narrow annual timescale.

2. Funding Clarity

At the earliest possible opportunity, central government should provide details about how different funding streams and grants will be cut. The local government finance review, which the coalition Government has committed itself to, has the potential to create a more autonomous and much needed financial framework for councils. However, it should not be used as an opportunity by HM Treasury to devolve further unanticipated cuts to local authority budgets. Central government should give immediate assurances that they will not raid business rates or be explicit about their intention to do so and the scale of such a cut.

Failure to provide transparency and predictability will hamper strategic planning, which will ultimately be likely to result in severe, damaging and frustratingly avoidable cuts to service quality and provision.

3. Funding Control

Local authorities should be given greater control over wider public resources, particularly those currently controlled by quangos and by central government, and responsibility should be devolved for local outcomes through the negotiation of new “Place Agreements”. These radical new shared agreements between the national and local state would allow innovative deals to be struck in the devolution of budgets and powers, built on agreed outcomes such as reductions in unemployment or criminal reoffending, or reduced acute healthcare costs.

This far more ‘place-based’ and local approach to policy will harness the potential for greater efficiency across services and better delivery for citizens, allowing more local democratic strategic coordination and better integration of the public sector as a whole in a particular area.

The recently announced review of local government finance provides a rare chance to weave this “democratic thread” throughout the services provided in communities. There is a window of opportunity for a bold and substantial shift at the centre, with HM Treasury and other big spending departments de-ringfencing funding and giving greater control to local areas through “area budgets” negotiated through “place agreements”. This opportunity should not be missed.

Strategic Planning and Leadership

For local government, detailed forward planning is essential and many councils have already made important progress. All local authorities should undertake detailed scenario planning exercises with local partners from the public, business, community and voluntary sectors. They should also make in-depth financial forecasts for the medium and longer term to facilitate a strategic response to the changes in different income streams and demands on expenditure they are likely to face. Engaging with issues now and preparing in intelligent ways will help to minimise the impact of the expected funding gap on frontline services and public dissatisfaction.

Strong internal vision, leadership and management are needed within councils to further embed efficiency and service redesign throughout local government. It will be important for local authorities to strike the right balance between the different options for efficiency savings, as well as ensuring the workforce can be adapted to undertake the new revised roles and responsibilities of the organisation. This will require clear direction, strong relationships between management and other staff, and co-operation, dialogue and compromise between politicians and officers

A new level of ambition from many councils is needed if they are to take on new risks and wider responsibilities, so that all the services in their locality are properly orchestrated to meet the needs of citizens. Local authorities must be proactive in positioning themselves at the heart of public services, demonstrating their willingness to lead, take risks, innovate and drive efficient and transparent services in their local area, demonstrating to Whitehall that local government is uniquely and often best placed to respond to the priorities of their local communities.

Public Engagement and a New Service Settlement

Local authorities should actively engage with the public about the financial challenges and difficult choices that will have to be made. A full and public debate should take place and the fundamental role and purpose of the local authority should be reassessed in order to redefine and renegotiate the relationship between councils and the public. This reshaping of services must take place as part of a wider redesign of public services and within a broader strategic programme of efficiency savings.

A redefined relationship between councils and the public must be negotiated, so that the local community can arrive at a feasible new service settlement about what the council can provide and where empowered participation by citizens and communities must play a greater role in service provision. In doing so, local politicians will have a vital role and responsibility in framing the debate and managing the tensions that emerge from competing demands and priorities for services.

Double Devolution and Double Directness

'Double devolution' is a term used to describe the devolution of power from central government to local government, and from local authorities to individuals and local community groups.[176] This has become a central plank of the coalition Government's plans, with their 'Programme for Government' stating that '...it is time for a fundamental shift of power from Westminster to people. We will promote decentralisation and democratic engagement, and we will end the era of top-down government by giving new powers to local councils, communities, neighbourhoods and individuals'.[177]

This double devolution has to go hand-in-hand with double directness. Central government must act with transparency about the planned scale and nature of funding reductions to local government, and local government must be open and honest about the difficult trade-offs between services that have to be made and the need for citizens and communities to rely less on direct service provision by the council.

Failure of both central and local government to be direct and candid from the outset will risk avoidable sharp cut-offs in local services, a public backlash and a legacy that could have profound and damaging implications for communities across the country. The benefits of a new settlement between central and local government and local government and citizens are clear. The costs of inaction will be severe, both economically and socially. There is no time to waste.

176 The Guardian (2006), 'Full text of David Miliband's speech', 21st February 2006, http://www.guardian.co.uk/society/2006/feb/21/localgovernment.politics1

177 HM Government (2010), 'The Coalition: our programme for government'

Appendix 1 *Research methodology overview*

This research project sought to model the consequences of changes to central government grant and locally generated income on local authorities over the current Parliament. It also aimed to scope the main cost pressures on council services in the future and analyse how reductions to overall expenditure would be likely to fall on different services. In addition, NLGN wanted to explore how efficiency savings and reforms to how services are delivered could minimise the impact on the frontline. The main research methods were:

1. Desk-based analysis, which included a literature review and detailed quantitative data analysis and modelling of local authority income streams.

2. A panel discussion and research seminar with 30 attendees from local authorities and experts from Vertex and the South East Regional Improvement and Efficiency Partnership.

3. An online survey of local government Finance Directors (including Treasurers, Heads of Finance and Strategic Directors of Resources). This survey was live between 11 May and 18 May 2010. Overall we had a response rate of approximately 11 per cent (31 out of 291).

4. Onsite in-depth interviews and scenario planning exercises with Chief Executives and Finance Directors from eight councils, including two Shire Districts, one Metropolitan Borough, two London Boroughs, one Unitary Council and two County Councils. These were spread across seven of the nine English regions and had a mix of political control by the main three political parties. They were conducted between 12 May and 27 May 2010. All were recorded and transcripts made from the audio files.

5. A Populus poll to survey public attitudes to the future of local authority services. Populus interviewed 1485 adults aged 18+, and results were weighted to be representative of age, gender, social-economic class and region. The poll was conducted immediately after the 2010 General Election between 7 May and 10 May.

Populus Poll Questions

Q. Looking ahead 18 months from now, do you expect public services provided by your council, like schools, social care and public transport…

- To be of a higher quality in 18 months than now
- To be of about the same quality
- To be of a lower quality in 18 months than now

Q. There has been much speculation recently about how the next Government will reduce Britain's deficit, and possible cuts to public services in order to save the country money. Please read the following list of services provided by your council and, for each, say whether you would support or oppose cuts to this service.

	Would strongly oppose cuts to this service	Would somewhat oppose cuts to this service	Would neither support or oppose cuts to this service	Would somewhat support cuts to this service	Would strongly support cuts to this service
Education (nurseries, schools and adult education)					
Highways, roads and transport (public transport, street lighting, road maintenance)					
Cultural Services (leisure facilities, libraries, parks, museums)					
Environmental Services (refuse collection, environmental health, street cleaning)					
Protective Services (police, fire and rescue, courts)					
Social Care (care for older people, children and families, and people with disabilities)					

Q. Government borrowing is now at record levels, and the government will have to pay this off over the coming years. Please read the following list of options and, for each, say whether you would support or oppose it.

	Would strongly support	Would somewhat support	Would neither support nor oppose	Would somewhat oppose	Would strongly oppose
Local services should be maintained, even if taxes have to be increased so that Britain's deficit can be reduced					
New charges should be introduced for local services that are currently free to help reduce Britain's deficit					
Existing charges for local services should be increased to help reduce Britain's deficit					
Cutting local services to help reduce Britain's deficit					

Appendix 2 *Macroeconomic forecasting for GDP and inflation*

GDP

We used historical GDP data from the Office of National Statistics database[178] and applied growth figures projected by the Treasury's own consensus forecasts of leading banks, think tanks and experts to create best, middle and worst case scenarios.[179] These consensus figures contrasted dramatically with the optimistic projections provided by the Treasury in the March 2010 Budget. For example, the previous budget predicted the economy would be approximately £44bn larger, in 2009 prices, by 2014 than the independent middle case consensus. The creation of the Office of Budget Responsibility has eased our concerns about politically questionable projections for growth and the June 2010 Budget's growth forecasts, as used here, are more in line with our middle case projection. However, the differences between even these small percentages can seem dramatic with an approximate difference of £14bn difference in GDP (at 2009 prices) still evident between the Budget and our middle case scenario by 2014.

	Middle Case Projection	Best Case Projection	Worse Case Projection	Budget June 2010
2009	100	100	100	100
2010	101.1	102	100.3	101.2
2011	103.2	105.5	101.2	103.5
2012	105.7	109.7	102.5	106.4
2013	108.6	113.9	104.2	109.5
2014	111.3	117.5	106.3	112.5

It is also important to note that the faster deficit reduction will adversely affect growth over the short term, although the Office of Budget

178 ONS Data Series CGCE http://www.statistics.gov.uk/statbase/TSDSeries1.asp
179 Tables M1 and M3 http://www.hm-treasury.gov.uk/d/201005forcomp.pdf

Responsibility believes (as confidently as it can be at the time of writing) that this will not affect output over the time of the forecast horizon envisaged by the June 2010 Budget.

Inflation

Inflation is a vital variable because it is necessary to deflate future income figures to give an accurate impression of the size of future reductions in income in today's prices.

In line with the inflation projections used by the Treasury and the IFS all our projected information has been rebased to 2009 prices and deflated using the GDP Deflator.[180] This is a broader measure of inflation than that measured by the Consumer Price Index (CPI) although they largely indicate the same movements in prices. Projections for the future numbers for the deflator are taken again from the Treasury's consensus of independent experts projections.[181] To extend the projections beyond the available experts' predictions, an average error between the Deflator and CPI was taken and used to extend the Deflator beyond 2013.

To this end it is important that the Bank of England will maintain its 2 per cent CPI target under the new Coalition Government and given the recent historical achievement of the Bank of England in maintaining a figure only ±1.5 per cent of that target, we have assumed that the Bank is correct in its mid-term assumption that CPI will stabilise at, or around, 2 per cent by 2014.[182]

The Bank provides a quarterly update of projected CPI figures which show a sharp fall in CPI over the next 12 months, below 2 per cent, before a gradual return to 2 per cent. The increase in VAT in January 2011 will increase CPI and raise the price level by approximately 1 per cent,[183] but that information came too late to include in our model. We simply note that the June 2010 Budget projections for CPI are marginally higher than ours and therefore also higher than the Bank of England's in May 2010.

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180 See http://www.hm-treasury.gov.uk/data_gdp_guide.htm for more details on the GDP Deflator

181 See reference 178

182 http://www.bankofengland.co.uk/publications/inflationreport/irlatest.htm; http://www.bankofengland.co.uk/publications/inflationreport/10mayirprob.xls

183 James Browne, Personal taxes and distributional impact of budget measures, Institute of Fiscal Studies, 23 June 2010 http://www.ifs.org.uk/budgets/budgetjune2010/browne.pdf

The Bank also provides an error table, identifying the weighted range of inflation expectations above or below the predicted mode inflation level. By weighting the error of these probabilities we were able to construct higher and lower levels of probable inflation, within acceptable degrees of uncertainty, beyond which the Bank of England believes the chance of inflation being recorded at that level, at that time, is less than 50 per cent.[184]

184 For more information on the probabilistic calculations used by the Bank of England to project CPI see http://www.bankofengland.co.uk/publications/inflationreport/irprobab.htm and Britton, Fisher & Whitley, The Inflation Report projections: understanding the fan chart, Bank of England, 1998 http://www.bankofengland.co.uk/publications/quarterlybulletin/qb980101.pdf

Appendix 3 *Local government income revenue streams*

A. Grants from Central Government

Non-AEF Grants

'Grants outside the AEF are mainly demand-led but passed through local councils. The most important are for housing and Council Tax benefit. This money is passed to individual claimants and does not fund local services.'[185]

Aggregate External Finance (AEF)

'The total level of revenue support the Government provides to local authorities for their core functions. This support is normally made up of Revenue Support Grant, Police Grant, Area Based Grant, specific grants and the amount distributed from NNDR.'[186]

Dedicated Schools Grant (DSG)

From 2006-07, local authorities have received their schools funding through a specific AEF grant known as the Dedicated Schools Grant (DSG), rather than as previously from the Formula Grant.

Area-Based Grant (ABG)

'Area Based Grant is a general grant allocated, since 2008-09, directly to local authorities as additional revenue funding to areas. It is allocated according to specific policy criteria rather than general formulae. Local authorities are free to use all of this non-ringfenced funding as they see fit to support the delivery of local, regional and national priorities in their areas.'[187]

Formula Grant

Formula Grant is the main channel of government funding to local authorities. This includes NNDR, RSG and Police Grant.[188] It is calculated annually by central government via the 'Four Block' method. This method takes into account each local authority's socio-economic and demographic 'needs'

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185 Audit Commission, (2010) Surviving the Crunch, p.13
186 CLG, (2009) A guide to the Local Government Finance Settlement, p.13
187 http://www.communities.gov.uk/localgovernment/localgovernmentfinance/areabasedgrant/
188 CLG, (2009) 'Local Government Financial Statistics England No. 19', Annex G

and resources (in terms of Council Tax base), with an additional *per capita* grant component and a floor dampening mechanism to ensure no authorities experience extreme swings in grant between years. This method has been in operation since 2006-07, and replaces the previous system where each authority's means-based 'formula spending share (FSS)' was adjusted for Council Tax and NNDR levies to give the Revenue Support Grant (RSG).[189] However, despite the new methodology underlying the Formula Grant's allocation CLG continue to split the grant into an RSG and NNDR component for accounting purposes. As with ABG councils have discretion to spend Formula Grant to provide local services according to their priorities.

Nationally-set Non-Domestic Rates (NNDR)

NNDR (more commonly referred to as Business Rates) 'are the means by which local businesses contribute to the cost of providing local authority services.'[190] Local authorities collect NNDR based on the rateable value of business properties, and a nationally-set rate 'multiplier'. These revenues are then passed to a centrally administered fund at HM Treasury. The total NNDR revenue fund is then re-distributed back to local authorities as part of the Formula Grant. The rate 'multiplier' value is set in legislation[191] and central Government monies are used to make up any collection short-fall, such that the total yield of NNDR should remain roughly constant regardless of the nation's economic performance.

Revenue Support Grant (RSG)

'A Government grant which can be used to finance revenue expenditure on any service.'[192] It is a further component of the Formula Grant.

Greater London Authority (GLA) Grant

The GLA Grant funds the operation of the GLA and its provision of London-specific services. While counted as part of the Formula Grant, it is received by the GLA alone.

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189 See 'Lyons Inquiry into Local Government' (2007), Appendix; 'Understanding the current grant distribution system', at: http://www.webarchive.org.uk/wayback/archive/20070428120000/http://www.lyonsinquiry.org.uk/docs/final-A.pdf

190 Ibid. ref. 185

191 *Local Government Finance Act 1988*. (Schedule 7, Part I), London: HMSO

192 Ibid. ref. 185 p.17

Police Grant

The Police Grant funds the service provision and operation of local Police Authorities, and is ringfenced to policing activities. The amount each Police Authority receives is determined annually using a needs-based formula similar to that used in the calculation of Formula Grant allocations.

B. Self-Generated Income

Council Tax

Council Tax is a tax on domestic properties, based on those properties' values, designed to make up the short-fall between a council's planned spending and its revenue income. 'A local authority's planned spending, after deducting any funding from reserves and income it expects to raise (other than general funding from the Government and the Council Tax), is known as the budget requirement. The amount of Council Tax an authority needs to raise is the difference between its budget requirement and the funding it will receive from the Government'[193] in the form of grants.

Fees and charges

Local authorities provide multiple services, some of which entail a fee or charge to the user. Which services can or cannot be charged for is defined in legislation: 'for some services, charges are mandatory and the fee is set nationally, while for other services the council may be expressly prohibited from charging. The Local Government Act 2003 gave local authorities the general power to charge for discretionary services which are not covered by any other legislation with the following restrictions:

- the income from charges for a service should not exceed the cost of providing that service (over a "reasonable" but unspecified period, e.g. three years);
- the recipient of the service must have agreed to its provision and to pay for it;
- authorities may provide discretionary services for free if they so decide;
- Different people may, where it is fair to do so, be charged different amounts.'[194]

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193 Ibid. ref. 185 p.12

194 Sandwell Metropolitan Borough Council, 'Policy Review of Fees and Charges', 10 Dec 2008, Appendix A. Available at: http://cmis.sandwell.gov.uk/CMISWebPublic/Binary.ashx?Document=30788

Classic sources of fees and charges income for councils are planning application and development-related charges, parking charges and fines, school meal charges, and charges from council-run leisure facilities.[195]

Investment Income

Local authorities have historically held sometimes considerable amounts of money in the form of cash reserves and investment portfolios. These will return a sum of money that depends upon the general level of the stock market, interest rates and the investment type, and which can be used either to increase the total level of investments, or be spent on service provision.

195 In our analysis we have followed the Audit Commission's methodology from 'Surviving the Crunch', by taking 'fees and charges' income to be the total outturned 'Fees and charges' income, minus fees and charges income from courts, police, and fire and rescue service activities.

Appendix 4 *Council Tax*

Council Tax yield varies according to three factors: changes in the chargeable rate (usually expressed for a Band D property), changes in the number of chargeable dwellings and changes in the number of exempt/discounted properties (e.g. households with students or having only one occupant).

The March 2010 Budget openly admitted that future income from Council Tax is projected simply by assuming that linear changes in the last three years continue into the future[196], but this ignores the impact of the recession. Our analysis of historical yields of Council Tax identifies that approximately 85 per cent of the year on year change in yield has been due to increases in the chargeable rate. However, there has been a consistent and persistent increase in yield due to other exogenous factors, amounting to an extra 0.7 per cent average increase in yield per year regardless of rate changes.

As Council Tax, introduced in 1993, had not been through a recession prior to this downturn there is a dearth of evidence to identify how these exogenous factors will respond. We have therefore decided to assume that these factors remain unaltered, although we suspect this will not be the case when the numbers are finally tallied and the number of exempt dwellings increases, for example.

As explained in Chapter 1, we have considered three future scenarios for Council Tax rate changes over the medium term. The worst case scenario assumes an absolute terms freeze in rates from 2011-12. This would lead to a large 15.5 per cent cumulative real terms decrease in tax revenues from 2009-10 to 2014-15. In our middle case scenario we assume Council Tax will rise by 1.8 per cent each year from 2011, as this is the average increase councils planned in 2010-11.[197] This may come from a Council Tax top-up grant to facilitate a Council Tax freeze in 2011-12, but for the purposes of

196 HMT, Budget March 2010 'Securing the Recovery', HMSO, p.197

197 It is important to note that Council Tax is one of the taxes people would be least willing to see increased (see Ipsos MORI/2020 Public Services Trust, (2010) '*What do people want, need and expect from public services?*', p38-39) and new powers from the Coalition Government will give residents the power to veto "excessive" Council Tax increases.

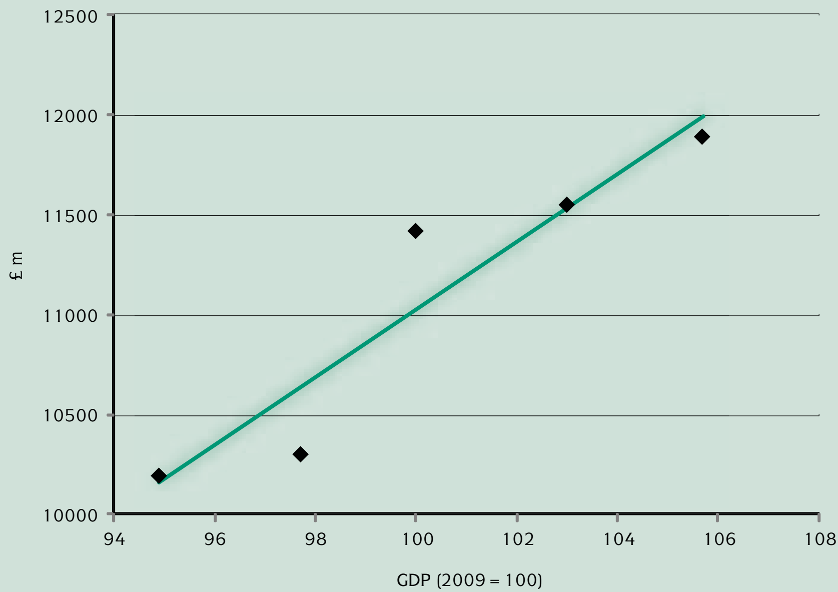
our forecasting will appear as Council Tax income. In our best case scenario the rate increases from 2012 by the pre-recession average (4.4 per cent[198]) so that councils would enjoy a 15 per cent or more real terms cumulative increase by 2015.

198 This average is taken over the complete lifetime of Council Tax before the recession

Appendix 5 *Fees and charges*

The process for calculating fees and charges income was based on a correlation between business activity (measured as GDP) and previous yields. Sensitivity to changes in other factors, most obviously sensitivity to the rapid changes that occur to net investment and capital spending during periods of rapid growth and recession, mean that there are a number of points off the trend line but overall the connection is acceptable. Broad changes in GDP mean a move along the trend line, indicating probable yields from business rates. The slope of the trendline provides a simple arithmetic formula into which we can input predicted GDP numbers to get probable yields in business rates.

Figure 42 Income from Fees and charges Correlated with GDP



Appendix 6 *Investment income*

The Bank of England records the interest rates received on Government deposits and this provides us with a median interest rate received between 2004 and 2008 of 4.29 per cent.[199] The historical data also gave us a median figure for the real interest rate of 2.27 per cent. We assumed that over time, as markets stabilise and local government's appetite for balanced risk returns, interest rates received on deposits would return to this long term figure.

To calculate the probable median annual interest rates to 2015 we added the historical real interest rate spread to base rate projections drawn from the Bank of England data as shown in Appendix 2.

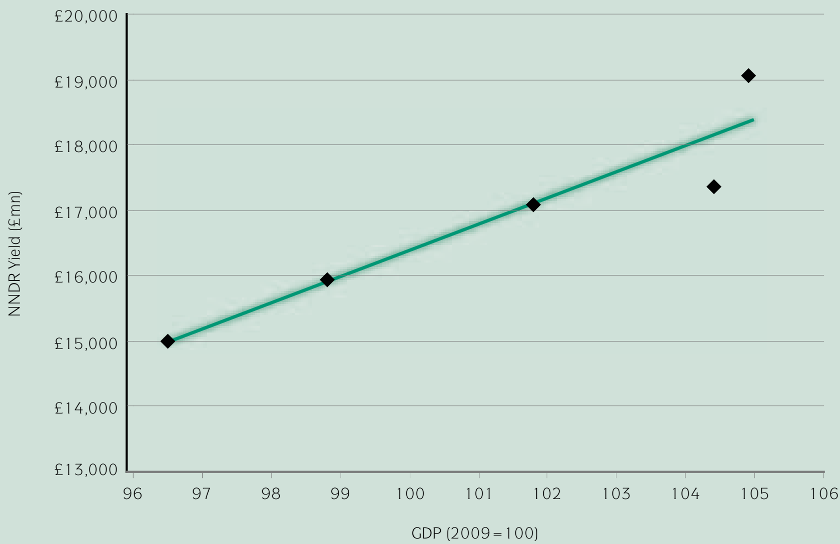
	Median Interest Rate Received
2009	4.56
2010	1.93
2011	2.28
2012	2.92
2013	3.57
2014	4.21
2015	4.29

199 Monthly average of UK resident monetary financial institutions' (excl. Central Bank) sterling weighted average interest rate, time deposits from General Government (in per cent) not seasonally adjusted CFMBI23 http://www.bankofengland.co.uk/statistics/index.htm

Appendix 7 *Business Rates*

Business Rate yield is closely connected to economic activity, as shown in the graph below. However, the total redistributed amount of NNDR does not correlate with GDP as the Government has added to that amount to cover shortfalls in anticipated yield, especially over the period of the recession. For example in 2008 the difference between net yield (after reliefs and deferments) and the amount redistributed to councils was £1.5bn.[200]

Figure 43 NNDR Yield correlated against GDP



The Government has completed a revaluation of Business Rates, unlike for Council Tax, but this should affect only the distribution of payment by the different demographic groups of taxpayers, not the total yield.

200 CLG, 'National Non-domestic rates collected by local authorities in England 2008-09 (Revised)', http://www.communities.gov.uk/publications/corporate/statistics/nondomesticrates200809rev

In our model, changes in GDP relate to movements along the trend line, resulting in consequential changes in yield from NNDR. By simulating future changes in GDP from our GDP predictions we have projected net yields over the next five years. We have also assumed that HM Treasury will be unable to compensate for local authorities' under-collection of NNDR, and have assumed best, middle and worst case policy scenarios for this. In our worst case scenario we have modelled that all 'topping-up' ceases as of 2011-12 and in our middle case we have predicted that the cessation of 'topping-up' is phased in over the period to 2014-15. In our best case scenario 'topping-up' continues up to 2012-13, to hold the redistributed amount at 2010-11 levels. After 2012-13 'topping-up' ceases as the net yield (under our best case economic growth projections) will have surpassed the 2010-11 redistributed amount.

Appendix 8 *Specific AEF grants assumed to be 'protected' or 'unprotected' for our analysis*

Between years there has been a large degree of variation in the full list of specific grants with AEF, due to the creation, abolition, renaming or merging of individual grants to suit specific policy priorities of the last Government. The following list relates to grants received by local authorities in 2008-09; the source of the revenue outturn data used in our financial analysis.

Semi-Protected, and therefore excluded from our analysis

Education and Children's Services
Dedicated Schools Grant
Schools Standards Grant (including Personalisation)
School Development Grant (Schools Element)
Standards Fund
Sure Start Early Years and Childcare Grant
Ethnic Minority Achievement
School Lunch Grant
Targeted Support for Primary & Secondary Strategy
Music Grant
Playing For Success
City Challenge
Making Good Progress
Youth Opportunity Fund
Contact Point
Aiming High for Disabled Children
Early Years: Increasing Flexibility of Entitlement for 3-4 Year Olds
Extended Schools - Sustainability
Extended Schools - Subsidy
Extended Schools - Academic Focused Study Support
eCAF
Targeted Mental Health in Schools Grant
Aimhigher

Fresh Start and New Partnerships
Children's Services
UASC Leaving Care
Treatment Foster Care
Parenting Support
Parenting Practitioner Grant

Unprotected, and therefore included in our analysis

Adult Social Services
AIDS Support
Social Care Reform
Learning Disability Campus Closure Programme
Preventative Technology
Partnerships for Older People Projects
Individual Budget Pilots
CSCI Reimbursement Grant
Access & Systems Capacity
Delayed Discharge

Police
Police Grant
Neighbourhood Policing Fund & CSOs
Basic Command Units
Crime Fighting Fund
Initial Police Learning & Development Programme
Counter Terrorism
Rule 2 Grants

Fire Services
LFEPA Civil Contingencies
Fire Control

Environmental, Protection and Cultural Services
Housing and Council Tax Benefit Subsidy Admin Grant
Homelessness
Concessionary Fares
Urban congestion

Housing and Planning Delivery Grant
Housing Market Renewal Fund
Animal Health and Welfare Enforcement
Waste Management Pilots
Waste Performance & Efficiency Grant
Bus Challenge and Kickstart
Beacons
Enforcement of Smokefree Legislation

Cross Service Grants
Growth Areas, Points and Eco Towns
Supporting People
LAA Reward Grant

Other Service Grants
Area Based Grant
GLA General Grant

Appendix 9 *Correlating in year cuts for 2010-11 against deprivation methodology*

In June 2010 CLG published a detailed breakdown of in-year revenue and capital grant reductions for all local authorities for the financial year 2010/11, totalling £1.165bn.[201] They outlined the breakdown of the cuts with a total of £805m being cut from specific revenue grants and £360.9m from specific capital grants. CLG provided figures for reductions in specific revenue grants to local authorities, along with a commitment to capping overall cuts at a maximum of 2 per cent for any given local authority. This meant that in certain cases the cumulative figure of cuts for some local authorities had to be adjusted to reflect this cap.

It is worthwhile noting though that the details provided by CLG of cuts to specific local authorities only cover around £449.8m of potential savings. This leaves a further £355.1m of specific revenue grant cuts yet to be allocated.

Deprivation data was taken from the Index of Multiple Deprivation 2007 which combines a number of indicators, chosen to cover a range of economic, social and housing issues, into a single deprivation score for each small area in England.[202] Each single deprivation score essentially equates to the equivalent of a district or borough at the local government level.

Data detailing every local authority that received an in-year cut was included. As the social deprivation data was complied prior to the formation in 2009 of unitary authorities, 'average' deprivation figures were calculated for the purposes of this analytical exercise from the data given for the local authorities which combined to form unitaries.

Cuts data was available for districts and county councils. As social deprivation data was only available at the district level, again average

201 Local government contribution to efficiencies in 2010-11, CLG, 10 June 2010
202 Indices of Deprivation 2007, DCLG, http://www.communities.gov.uk/communities/neighbourhoodrenewal/deprivation/deprivation07/, accessed 23 June 2010

figures for counties were calculated by putting together available districts data. Working out relevant figures for unitary and county councils allows for more comprehensive analysis which does not solely focus on districts and metropolitan borough councils.

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