

CIPFA BRIEFING

November 2015

pre comprehensive spending review

It has continued to be a very challenging time for the public sector since the last Comprehensive Spending Review in 2010. Those who manage the public purse have had to deal with substantial cuts to funding coupled with an increased demand for many statutory services. With expected funding reductions of as much as 30% in the upcoming Spending Review, it is likely the pressure on services will only increase as providers find their resources stretched even further.

CIPFA, as the professional body representing those working in public finance, is concerned about the stark decisions public services face as a result of the Spending Review.

Through recent surveys and feedback from its members, CIPFA has highlighted some of the main areas of concern and key financial risks facing public services in the medium term.

Survey approach

CIPFA has consulted its members and internal policy experts on what their biggest areas of concern are ahead of the Spending Review.

CIPFA's response has also been shaped by analysing the results of its annual Local Government Chief Financial Officer Confidence Survey and Local Authority Half-Year Outturn Survey.

Key finding from CFO figures

The results of CIPFA's local authority CFO confidence monitor show a further decline in the confidence of finance leaders to reach a balanced budget and to continue to deliver services. More than half (56%) said they were less confident in their position for the next financial year (2016/17) – up from 44% in the previous year for 2015/16 and from 20% for 2014/15.

CFOs were also asked how confident they are over the ability of their organisation to continue to deliver public services. This year, 49% responded that they were less confident in their organisation's ability to continue delivering services in the next financial year. This has increased from 41% in 2014/15 and 27% in 2013/4. These figures reflect the deepening sense of concern in local authorities.

Key areas of concern

CIPFA has identified specific areas of risk in health, local government and central government, which the Institute believes should be recognised in the Spending Review.

In health these are:

- The financial pressures facing the NHS are understated and further unrealistic budgeting will only increase the burden on the health service.
- 90% of local authorities, who provide social care, in CIPFA's Local Authority Half-Year Outturn Survey said that adult social care was one of the areas under the most amount of pressure. It is unclear how further cuts can be made without increasing these pressures.
- A reduced public health budget is likely to have significant financial knock-on effects on other services.
- The cost of the National Living Wage must be factored in to any funding decisions.

In local government:

- Full retention of business rates is welcome news for many local authorities but the support for high-need authorities must be clarified.

- Reserves are now commonly being used by local authorities to off-set gaps in funding. This is likely to increase with further cuts to budgets.
- Local authority spending on housing will most likely fall and this, combined with the extension Right to Buy Scheme, may mean there is less social housing stock available.

In central government:

- More needs to be done to encourage a move away from annual budget allocations to a multi-year or whole life approach.
- Public and other funding to voluntary organisation's and social enterprises is sometimes wasted because of the lack of interconnectedness across departments.
- Over a five year period, net liabilities – the gap between what the country owns and what it owes – increased by £624bn to £1.85tn. Pensions liabilities increased by £130bn placing further pressure on public service spending. The triple-lock scheme must be reassessed to ease this burden.

Health and Integration

NHS

NHS England's Five Year Forward View, published late last year, set out a vision for the service during this parliament. The headline figures are an expected £30bn shortfall in funding, offset by £22bn of savings to be made and £8bn extra funding.

CIPFA believes that the shortfall is understated, notably assuming a cost neutral move to fuller seven day working and that the savings expectations are overambitious being double the best rate previously achieved. The fear is that further unrealistic budgeting in the Spending Review will only increase the burden on the NHS.

This in turn will have a knock-on effect on other services, as they will have to care for those whose needs are not being met.

It is critical that in this Spending Review there is a realistic and transparent assessment of spending pressures and savings capability. As a minimum, the £8bn of additional resources promised in the Conservative Party's manifesto needs to be front-loaded so that the anticipated savings from developments, including new models of care, are given time to work through.

Consequently, the Government must look at either increasing health funding, introducing more charges or explicitly reducing services. A choice needs to be made.

Social Care and Benefits

Some 90% of local authorities, who provide social care, in CIPFA's Local Authority Half-Year Outturn Survey said that adult social care was one of the areas under the most amount of pressure.

Over the past six years, local authorities have had to exercise greater cost control due to austerity measures and, as a result, spending on adult social care has fallen by 30% in real terms. As the cuts have been so significant, it seems unlikely that the pay and price constraints which have underpinned that reduction in spending can be taken further.

CIPFA and ADASS (Association of Directors of Adult Social Care) have found that to maintain the social care system an additional £0.7bn per year is needed and this is without factoring in the introduction of the National Living Wage.

Moreover, any failure to underpin social care adequately is likely to increase the financial pressure on the NHS as people are then likely to be admitted to hospital earlier and leave later.

The pressure on social care is also likely to be increased by the changes to the benefit system – not just for adults, but for children's social care, an area which local authorities have had to prioritise given the ongoing safeguarding concerns.

The signs are that spending requirements for children's social care will persist, which will only intensify the impact elsewhere of overall reductions in local government spending power.

Public Health

Cuts in July saw this year's public health budget reduce by £200m. In CIPFA's view this is an extraordinarily short-sighted approach considering the potential long-term cost benefits which investment in preventative measures could have across public services.

For instance, evidence shows that for every £1 invested in particular areas, such as tobacco control or psychosocial treatments for alcohol addiction, the public sector saves £5.

The Faculty of Public Health claims that the £200m cuts could cost the NHS £1bn in knock-on costs, at a time when current healthcare funding is already struggling to meet demand.

The Government must commit to public health budget increases above inflation each year, to help the system move towards prevention, rather than simply funding remedial care.

National Living Wage

It is estimated that the introduction of the National Living Wage will cost the publicly funded care sector £1bn. Provider margins are already acutely squeezed, and so domiciliary and residential care prices will have to rise to cover that. These costs must be factored into future funding decisions.

Local Government

Local authorities were one of the worst hit in the last Spending Review in 2010, with data from CIPFA showing that council spending fell by almost a third over a duration of the last parliament.

We know that local government has already agreed to cuts of 30% over the next four years. According to the Local Government Association, this is happening at a time when councils face almost £10bn in cost pressures by 2020.

Reduction in funding may mean that councils will have to review the delivery of services to see where money can be saved. As many services are currently statutory this leaves those on the non-statutory list as highly vulnerable.

Business rates

In October, the Chancellor proposed major changes to the retained business rates system. By the end of this parliament, local government will be able to retain 100% of revenue from business rates to spend on local government services. It is expected that the Spending Review will contain more information on how the proposals will work.

Further clarification is urgently needed on how high-need authorities, who currently have a net reliance on central funding, will be supported under the changes to the scheme.

The Government will also need to elaborate on whether there will be a safety net policy like the one that exists in the current scheme. There is also concern around the replacement to the safety net mechanism that currently protects local authorities against the worst impacts of business rates loss.

CIPFA supports the retention of this mechanism as a future fall in business rates revenue may be beyond the control of the public sector.

As more detail emerges on the devolution process, CIPFA will continue to support this move as it encourages local authorities to thrive, but it is important its introduction does not place even greater pressures on the public purse.

Reserves

Since the beginning of this year, the amount of reserves that local authorities have of drawn down on has been £0.5bn more than expected this year.

This significant increase demonstrates the uncertainty local authorities are facing as they are having to use a larger amount of their reserves to plug the funding gap.

CIPFA has long pointed out the need for reserves to fund the transformation of future services and unforeseen emergencies. It is clearly imperative in the Spending Review that the Government does not encourage using them to offset any gaps in funding. They must also clarify totemic policies, such as the council tax freeze grant, to give local authorities more certainty over their financial position.

Housing

The combination of policies currently having an impact on housing is threatening to decrease the amount of low cost social housing even further putting increased pressure on those seeking to find accommodation. This is particularly acute in London but nowhere is unaffected.

Plans to extend the Right to Buy Scheme to housing associations were analysed by CIPFA and we conclude that it will greatly reduce the ability of local authorities to retain local social housing provision.

Additionally, the requirement to sell of high value local authority housing will only intensify the shortage unless the Government guarantees, at least, one-for-one replacement for every house sold in the high-need areas. Evidence suggests, however, that this is unlikely.

Figures show that in 2013/14 11,261 properties were sold under Right to Buy compared with 961 started on site or acquired in the same year.

Housing is an essential element of a cohesive community and without diverse and affordable choices for property tenure, other policy objectives such as economic growth and improved education will suffer.

Central Government

The Chancellor's Spending Review reflects the Government's ambitions for a smaller State and to achieve a surplus budget by 2019-20. It is not surprising that while the Chancellor seeks to protect some departmental budgets the burden will be even greater for those that are unprotected.

Given the significance of cuts between 25-40% (in real terms) of departmental budgets, it is inevitable that this will result in staff cuts as this represents a significant part total expenditure.

Cuts on this scale will demand that departments will have to find new ways of working and of doing things differently to deliver both efficient and effective services well into the future.

The current appetite by Government to decentralise may well be part of the solution, alongside new service delivery models, but success will very much depend on individual government departments' appetite for giving up some financial accountability and control.

With reducing resources, but increasing pressure to deliver services, effective financial management has never been more important for public sector organisation's.

Historically, the government's investment in improving financial stewardship has not lived up to expectations, but, since the Treasury's Financial Management Review, significant progress has been made.

To ensure this continues, investment must be maintained in the finance profession across government.

Sustainability

A central issue to the Spending Review is how the Government is planning to address environmental and sustainable development objectives. More needs to be done to encourage a move away from annual budget allocations to a multi-year or whole life approach.

Adopting a longer term integrated approach to sustainable development, whether its infrastructure investment and maintenance, service delivery or building a sustainable economy, will lead to improved long term sustainability.

The third sector

Public and other funding to voluntary organisation's and social enterprises is sometimes wasted because of the lack of a connected approach, resulting in poor social return on investment and/or unnecessary duplication. Previous spending reviews have sought to address this but more could be done to develop effective working between statutory, voluntary and private enterprise.

Government support for innovation in social finance is encouraging but change is also needed to improve co-ordination between funders, and to ensure the smaller local voluntary and community organisation's also have access to the developing funding models and income sources.

These smaller organisation's are easily overlooked, but often play a key role in supporting enterprising and cohesive local communities as well as preventing decline and reducing pressure on public services.

Liabilities

Prior to the Spending Review, the Chancellor made a play of reducing the size of the government estate in his Summer Budget, referring to the need to reduce state owned land and property of £300 billion as set out in the Whole of Government Accounts (WGA) 2013-14. But he was less forthcoming on his plans to reduce the growing liabilities on the WGA balance sheet.

Over a four year period, net liabilities have increased by £623.9 billion (51%) to £1.85tn. £1.3 trillion of liabilities relate to pensions alone. One of the biggest challenges ahead for this Government and future governments is to address the issue of an ageing population, who are placing great strain on both elderly and children's services and the NHS.

Along with expenditure on health and social benefits, the numbers of older people drawing the state pension are increasing significantly. Schemes to win votes from older people, such as the current triple lock on state pension, are only serving to exaggerate the problem.

The Chancellor is running the risk of storing up problems for future generations unless specific attention is given to securing long-term financial sustainability.

CIPFA's Position

Ahead of the Spending Review and in light of CIPFA's research into the pressures facing public services, the government needs to address the following priorities:

- Invest in preventative measures to improve the nation's health and well-being.
- Assess the impact the extension of the Right to Buy scheme could have on local authorities' ability to retain local social housing provision.
- Make funding decisions based on the outcomes and delivery of services rather than on current spending and deficit reduction.
- Not conduct short-term savings in one area if they only intensify the funding pressures on others.
- Departments must adopt a long-term approach on how services can materially be delivered better. Service transformation should be encouraged, as should learning from best practice.
- The negative consequences of ring-fencing should be reconsidered and the barriers between departments broken down. By doing this, the Government can look at the whole of the public sector and the interconnectedness of services.

CIPFA hopes that the forthcoming Spending Review recognises the realities public services are facing and undertakes measures to ensure funding is allocated in a fair and sustainable way.



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