

Austerity and beyond:

**a local government
discussion paper**

This paper is the first step in a project by CIPFA to promote debate on the future shape and operations of Local Government. This paper will be followed by a formal consultation culminating in a ‘think piece’ that will set out our vision for the future.

Whilst recognising that the future will be difficult and resource constraints are significant, the aim is to present a positive picture of how local government can adapt to its new reality and what the sector needs from Central Government to allow it to continue to thrive.

At this stage we are seeking comments on whether the ‘thought starters’ set out in this paper are the correct questions to ask and any initial thoughts on the answers. We would also welcome comments on whether there are opportunities for local government that have been missed. Comments and input will help inform the consultation paper to be published later this year. Please address any comments to **Alison Scott** at **alison.scott@cipfa.org**

crisis averted?

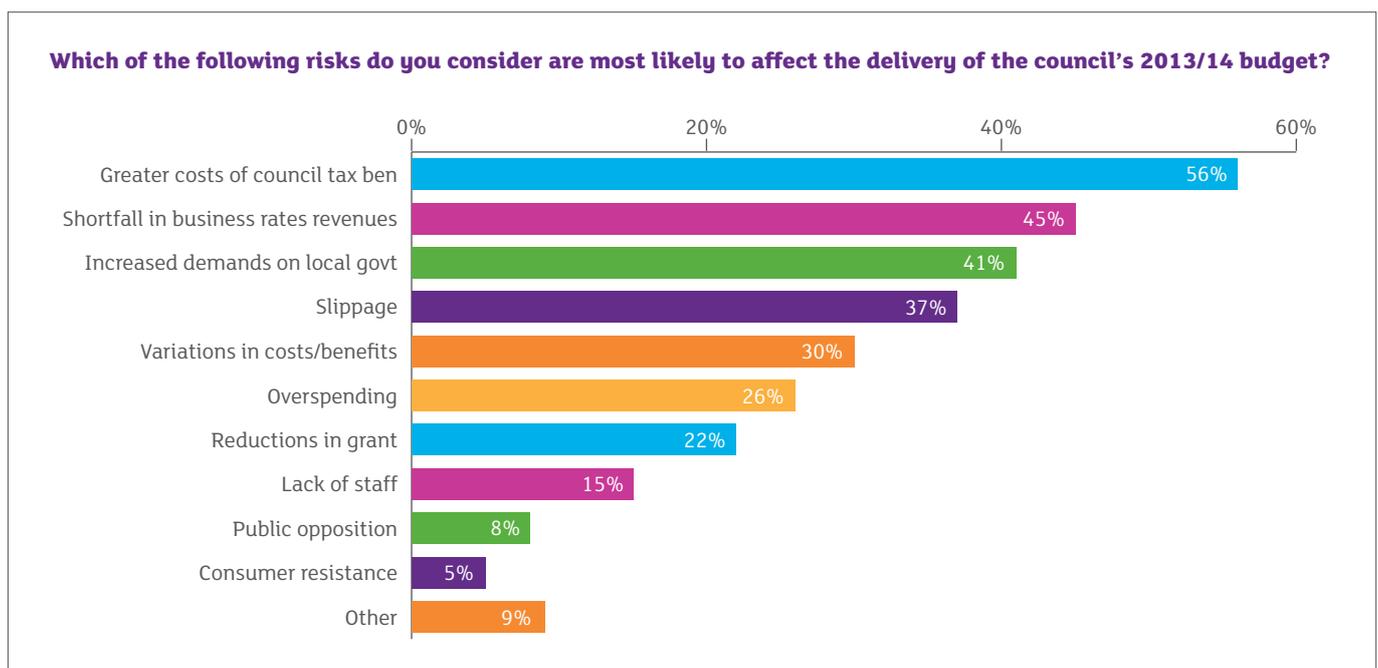
Local government has coped with unprecedented budget reductions since 2010, along with the arrival of localism and major new responsibilities for public health and council tax benefit.

It is also starting to work with new partners – Local Enterprise Partnerships, Public Health England, clinical commissioning groups, police and crime commissioners and academy schools – whose own roles are embryonic.

There has also been a switch in financing emphasis from grant to retained business rates and the New Homes Bonus. All have tested the capacity of local authorities to respond.

However, both the Public Accounts Committee and recent reports by the NAO on Financial Sustainability of Local Government and the Audit Commission on Tough Times 2012 have concluded that local government has coped well to date.

CIPFA's 2013 CFO Budget Survey identified the biggest risks to budget delivery as council tax benefit and business rate income.



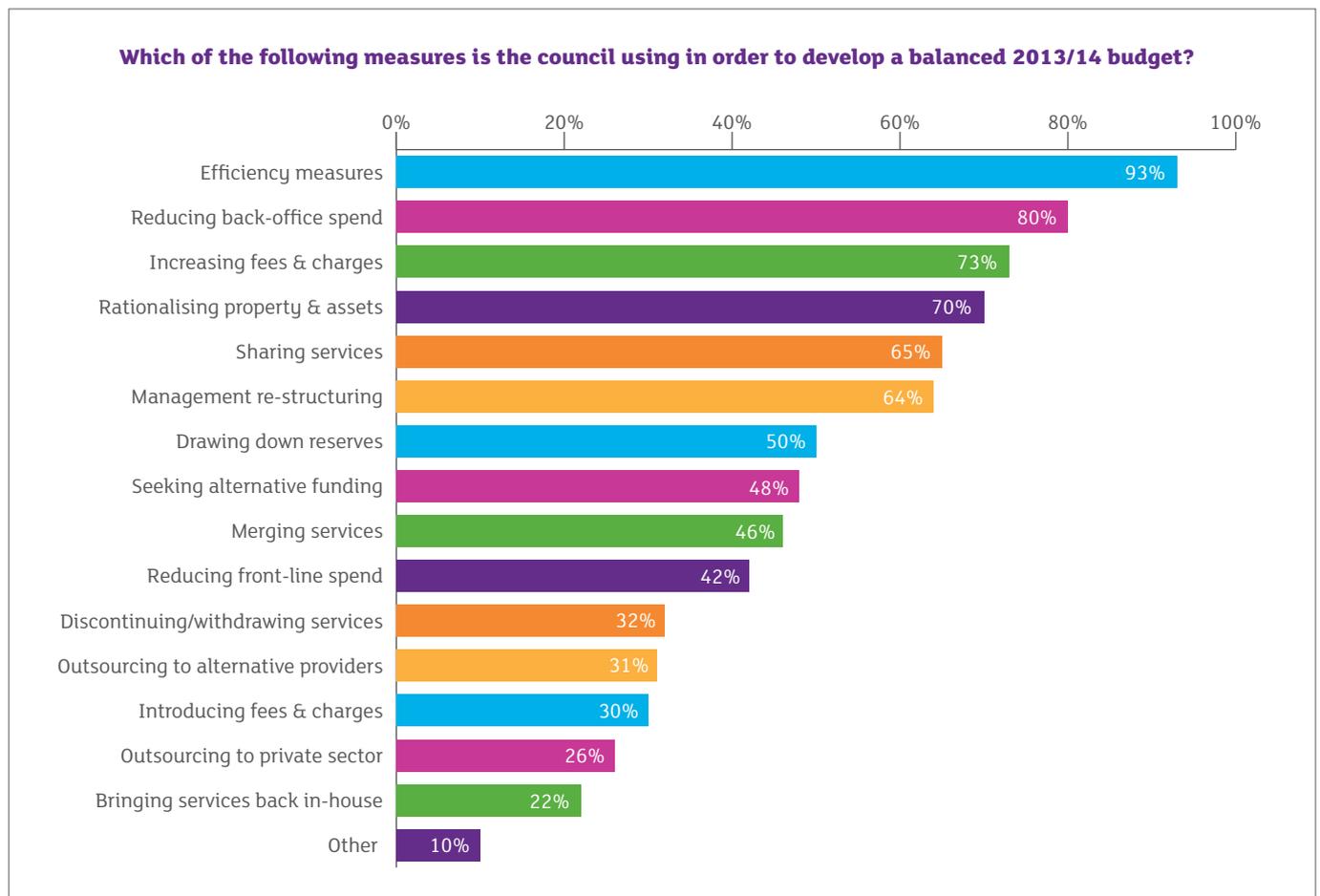
Spending Round 2013 confirmed the downward trajectory of local government spending with a 10% reduction in central support for 2015/16, equivalent to a 2.3% reduction in spending power.

Against this background, CIPFA asked a sample of finance directors their views on the way forward.

Talk of 'Crisis' was notably lacking, but there was an acceptance that radical changes will be unavoidable.

Local government's response to cuts has to date left front line services largely intact and the Local Government Association frequently reminds Whitehall that it is "the most efficient part of the public sector", having absorbed the public sector's largest cuts with the least damage.

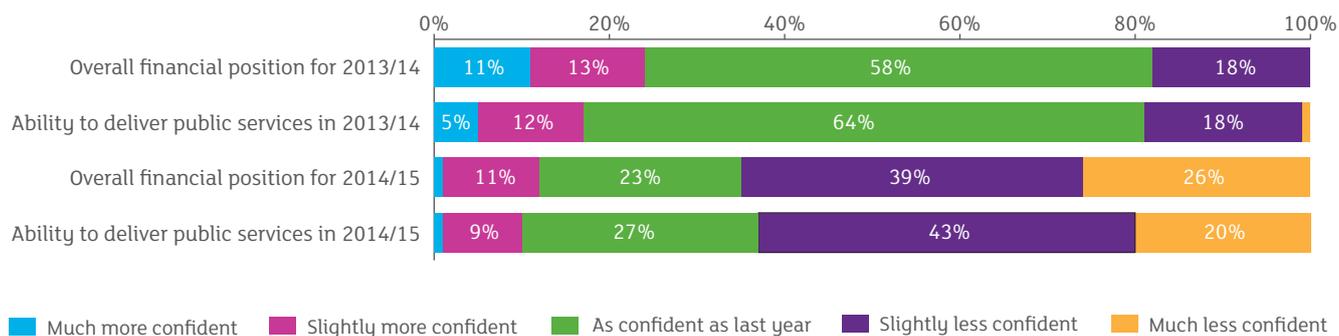
The chart below from CIPFA's 2013 CFO Budget Survey shows that in 2013/14 efficiency savings and back office cuts continued to be made by the majority of councils. What is clear however is that front line services are beginning to be impacted with 42% reducing front line spend and 32% discontinuing or withdrawing services.



The Public Accounts Committee recognised local government's achievement in managing cuts in its May 2013 report *Financial sustainability of local authorities* despite the fact that grant funding to local authorities will fall by more than 25% in real terms – some £7.6bn – between 2011 and 2015. It warned though: “To date, councils have, as a whole, managed to cope, but with reductions likely to continue for several years, the pressures on the sector are set to increase”.

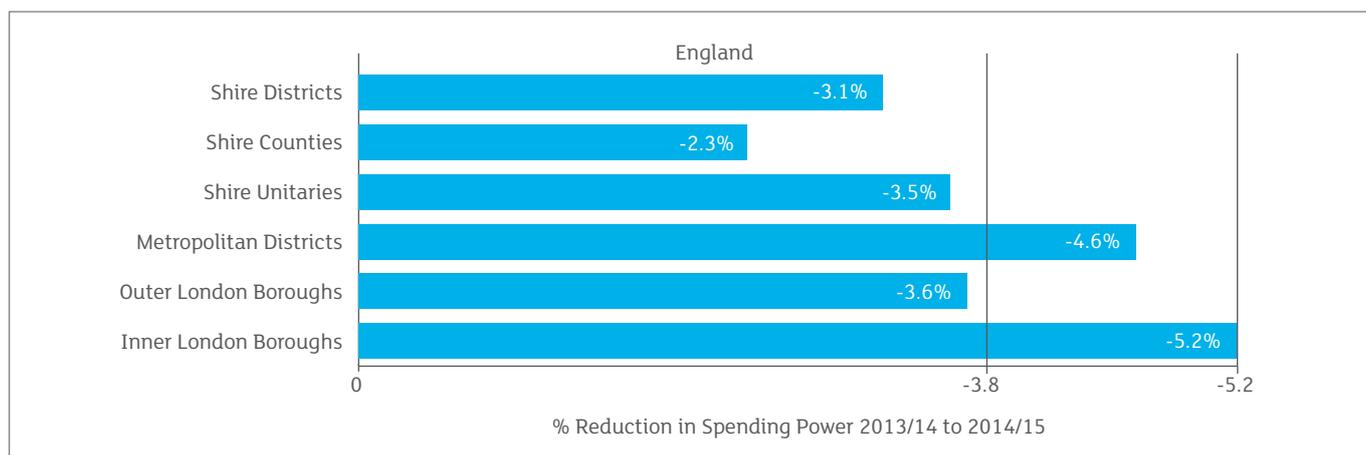
This message was echoed in the CFO survey with confidence over delivery of cuts reducing substantially as we move into 2014/15 and beyond.

How confident are you in your organisation's financial position and its ability to deliver effective public services in comparison to 2012/13?



The PAC also expressed concern that spending reductions were falling hardest on councils with the highest deprivation, and that some might cease to be viable.

The graph below clearly illustrates this concern, showing the change in spending power from 2013/14 to 2014/15 as announced in the 2013/14 Local Government finance Settlement. The change in spending power varies from -2.3% in shire counties to -5.2% in inner London boroughs compared to a 3.8% average reduction across all English authorities.



The differential impact of further spending cuts on individual councils will only increase under the system of local rates retention, with those authorities less dependent on Revenue Support Grant and able to maintain business rate growth facing much lower cuts than those authorities with traditionally high needs. There is therefore a real fear that, without some form of additional redistribution, the gap between relatively well resourced authorities and those facing the brunt of the cuts will become unsustainably large by the time of the business rate reset.

Thought Starters

- Which services are the most vulnerable to cuts?
- Can councils just keep coping with cuts without drastic surgery, or have the limits of this approach been reached?
- Is the financial viability of some councils really in doubt?

citizen and the state

The relationship between the state and the individual is certainly changing. We can see this in many of the welfare benefit reforms which aim to reduce dependency and incentivise work. It is also vivid in service areas where fees and charges have been introduced or increased significantly.

Initial expectations that “Big Society” initiatives and organisations might emerge, enabling Government to shrink the scope of its activities without adverse impacts on communities and users of public services, have to date failed to materialise on any significant scale.

The Civil Exchange Big Society Audit 2012 illustrated this. It found genuine public interest in getting involved in local issues and in supporting charities but also a ‘Big Society gap’ between deprived and affluent communities, with cuts in public sector support for charities hitting hardest in the most deprived communities that needed that support the most.

Community workers?

A related aspect of localism has been the government’s drive to see local services and assets taken over by community groups, even though their ability and capacity may be limited.

Where such transfers do happen, local authorities must find the resources to maintain a strategic overview, manage a plethora of small voluntary bodies, and intervene in the event of financial or service failures.

There was considerable doubt among the CFOs interviewed about the implicit government assumption that large numbers of people wish to run council services. Some felt even parish councils were reluctant if it meant levying an unpopular additional precept.

‘... for one smaller district ... it is quite onerous, so the register of community assets ... is just one more thing that you need to do and it’s hard to see what the actual point of it is really.’

(Borough council)

‘... whilst the Government may well think that people are gagging to get involved in the running of local services, on the ground I don’t necessarily think that is something we’re experiencing.’

(Borough council)

There was also concern about the legitimacy of groups or charities taking over local services, when they did not have the democratic mandate enjoyed by councillors, and might be ‘captured’ by unrepresentative minorities.

‘They [the government] want the public to have a greater say in the way councils are run and what we do and services we provide, even though we have elected representatives.’

(Borough council)

Thought Starters

- Do local /voluntary groups really want to take over services?
- What conditions are needed for community groups to take over services?
- Can any such group be legitimate when not elected?
- What happens if such a group fails financially or delivers poor quality?

A drop in the ocean?

Ministers often point to possibilities in increasing charges for services, or charging for those previously free, but how significant this can be is debateable. Such charging can engender public hostility, and so causing problems for local politicians, for comparatively little return when set against the scale of the problem.

On the other side of the equation, councils must spend what they have as effectively as possible, which requires a clear understanding of what their communities want, the services most and least valued and so how the budget should be allocated between them.

‘...we’re losing a million pounds a year in grant funding, and there’s nothing we can do to generate that kind of income.’

(Borough council)

Thought Starters

- How can councils better understand which services the public most value?
- Set against the financial demands on councils, can new or higher fees really produce significant extra income?
- Demand management and prevention – for example by keeping older people out of residential care – could produce larger savings but can they be achieved in practice?

delaying the public sector and localism

At the most practical level 'delaying' is happening widely as the vast majority of public bodies adjust their organisation structures in pursuit of savings. A recurring theme is the removal of tiers of management and the shortening of chains of command to effect economies.

'Delaying' has also been evident in initiatives like those to reduce the number of quangos, abolish regional development agencies and also changes to the structure of the NHS. The Government has also espoused a strong commitment to 'localism', placing greater confidence in decision making at local level, free from or subject to minimal oversight.

The NAO in its report on Financial Sustainability of Local Authorities however highlights the current tension between central control and localism in local government funding;

'By reducing ring-fencing of its grants, central government aims to give local authorities greater spending flexibility. In addition, from April 2013, local authorities will have a financial incentive to achieve growth in business rates and will be able to decide which council tax payers should benefit from council tax support. Central government has also introduced policies that reduce local authorities' flexibility, for example by requiring those that wish to raise council tax by more than a set percentage to hold a local referendum'

Localism from the centre?

In a truly localist system, councils would set their tax rate without central government involvement. The same would go for business rates, and any other revenue source.

Even if some important gains came in the Localism Act 2011, this statement shows how far we still are from localism. Council tax capping remains in practice, if not in name, and business rate retention is constrained by national restrictions.

The survey drew contrasting views of localism from finance directors:

'I think within the authority it's got considerable potential. I think we've got a real appetite for it.'

(District council)

'... the current agenda is that they [central government] see us as administrators of their national policy, rather than government in our own right... clearly there has to be some sort of national framework, but it has to be much lighter touch than it is now'

(City council)

There was general concern that while in theory the long-term thrust of government policy is localism, in practice the temptation is to hold onto the reins in Whitehall.

‘... there needs to be a fundamental shift in the relationship between local government and central government if that’s going to thrive, to demonstrate that they mean it [localism] in practice ... there is real power in an appropriate relationship between local and central [government] that we just haven’t got right at the moment.’

(City council)

Thought Starters

- Should councils be allowed to set their own tax levels subject only to the judgement of voters?
- Is localism only a short-lived fashion, or is it here to stay?
- If it is, how could a fundamental shift in power from Whitehall to localities be brought about?

Doing business?

There is a fundamental shift underway from financing local authorities through government grants towards council tax, business rates, the New Homes Bonus, and fees and charges.

This is consistent with localism, but may have an unforeseen consequence for central government – the lower the proportion of a council’s income that comes from Whitehall, the less attention it needs to pay to ministers, while instead listening even more closely to those who provide resources locally.

Increasing revenue from business rates growth depends on local authorities’ capacity to grow. Those with nowhere to expand – or deprived areas with little investor interest – cannot generate significant income from this.

‘... here, we’re in a tightly bounded geographical city, with a deprived demographic. In the past we have been very reliant on, and grateful for, specific grants which tend to be based on deprivation and so our gearing is very different ... for every council, their experience of localisation of business rates is a different one.’

(City council)

Financing infrastructure projects that will encourage business investment is one way for councils to generate growth, but the infrastructure concerned might be costly while failing to unlock sufficient growth.

Signs have emerged of councils using business rate retention to ‘undercut’ each other to attract businesses. There was concern that this process could not go on indefinitely without damaging all involved.

‘... there’s cases that happens and actually all it is then is every area is undercutting each other and it’s more of a race to the bottom rather than keeping it beneficial to all.’

(County council)

Thought Starters

- Is the shift in finance from grants to local revenue sources desirable?
- Could it lead to greater local autonomy?
- Would rules be needed to prevent undercutting and other rivalry getting out of hand, and if so, what?

Beggar my neighbour?

The Government is convinced that housebuilding will kickstart growth and the New Homes Bonus was intended to take the controversy out of this by paying a bonus that councils could spend on desirable amenities, so creating public support for housebuilding.

But because the bonus is paid out of the existing local government finance system, it takes money from deprived places in which developers have little interest and redistributes it to those growing anyway.

The former are, unsurprisingly, shouting ‘foul’ as they see scarce resources migrate to richer areas.

However in wealthier areas, those authorities where most empty sites have environmental protections cannot benefit from the bonus either.

‘... little bit cautious about [new homes bonus] in terms of there’s always a possibility that this or any future government will change course ... and it will suddenly disappear from the system.’

(District council)

Thought Starters

- Should the New Homes Bonus be funded from outside the local government finance system so that beneficiaries are not paid at the expense of others?
- Can it be made to work in deprived areas in which property developers have little interest?
- Has it made the public more sympathetic to new housing applications?

Letting go?

If localism is to work and councils are to finance themselves, further reforms are needed. Everyone will have their own list but obvious ones are the council tax cap and business rates retention.

‘...we’re not even really able to determine the level of council tax that we can levy – that is centrally controlled through various measures... there should be some scope to potentially tie it [council tax] to inflation perhaps... and also links it to business rates... what we get through the business rate distribution is tied to RPI, council tax isn’t.’

(County council)

‘... the question is how far is the government prepared to go? Is it prepared to cut local government free totally and that all business rates that are generated can be retained by local government? There would need to be some sort of distribution mechanism because places like the City of Westminster and places like that would benefit massively from that, whereas places in the north and elsewhere would struggle.’

(County council)

Discounts on council tax for single or older people are mandated by central government (as indeed was the requirement that pensioners could not have their council tax benefit reduced when that was localised). Should these be matters for local decision?

‘...I think that the whole single person discount and protection of elderly people’s benefits on council tax is an enormous issue. It’s a political choice obviously, but it’s a mad one.’

(County council)

Thought Starters

- If councils could decide on single person and elderly persons discounts themselves would they have the political will to do so?
- If the council tax cap ended would the public accept that its level was not something on which central government should intervene?
- Should council tax be tied to inflation, or some other measure?

efficiency through collaboration

The Government has taken a relatively cautious approach to date in relation to the initiative which was initially branded “Total Place” and has subsequently been restyled as “community budgets”. The Local Government Association in particular continues to champion the significant efficiency and service improvement opportunities which might arise from a more radical commitment to and implementation of this policy, involving aspects of both delayering – greater delegation from Whitehall – and collaboration – across Whitehall and across local public bodies.

The Local Government Group has produced a compendium of shared services. The latest figures show 337 councils across the country are engaged in 325 shared service arrangements resulting in £278 million of efficiency savings. At least 95 per cent of all English councils are sharing services with other councils.

Sharing alike?

Resource reductions have seen the days when every authority had ‘one of everything’ rapidly disappear. Organisations have experimented with shared top management structures, shared front – and back-office services, pooled budgets and a number of other forms of cooperation. Many have taken longer to put in place than originally anticipated, and some have been abandoned along the way. A proportion also seem to have worked well and to have delivered reasonably significant savings, usually from rationalisation of staffing structures. In general, savings appear to be delivered with greater certainty where organisations, or elements of them, are formally merged, compared with arrangements which rely upon softer, more informal collaborative working between separate entities.

Attempts to share further afield than with immediate neighbours have seen economies of scale lost, some interviewees felt, while the shared service companies set up by some councils with the intention of winning work from other public bodies have had very mixed results.

‘Where you find the benefits in shared services within larger authorities is by actually finding a critical mass for the delivery of services and you can then redesign those services around more efficient and effective delivery models.’

(London borough)

Outsourcing is now a well-established route for service delivery, but authorities are increasingly looking at mixed approaches – outsourcing, sharing with neighbours and keeping some services in-house.

Most recognise the financial need to be more flexible about future service delivery.

‘... you make business decisions based on who runs your service for a whole multitude of considerations; business case, maturity of the market, the ideology of the council you happen to work for, all of that.’

(City council)

Thought Starters

- How widely can services be shared before loss of economies of scale becomes apparent?
- Is sharing beyond immediate neighbours possible?
- Attempts by council-owned shared services companies to win external work have been very patchy – is this approach worth pursuing?

Two tiers bad?

Sharing may lead logically to restructuring. The last bout of this saw the DCLG ask localities to propose changes and demonstrate local support. Some new county unitaries were created but elsewhere such proposals generated acrimony and no change.

Under financial pressure shared services and managements have become more commonplace and some districts (such as Adur and Worthing) have merged in all but name.

Can the two-tier structure survive? The failure of the 2004 regional assembly referendum in the north east suggests the regionalisation route is closed, but could local government reconfigure around travel-to-work areas, or lobby for the freedom for existing councils to formally merge?

‘...in counties of course you’ve got the parishes as well, so you’ve got three tier local government and it’s just madness, a lot of wasted time, effort and money really...anybody outside local government doesn’t understand for one minute why there’s all this complexity and all these different local authorities and why the district does these five things, and the county does these eight.’

(City council)

Thought Starters

- Can the two-tier system used in parts of England survive resource reductions?
- Should there be single tier authorities, if so, on what economic or geographical basis?
- Should there be regional government in England?



Registered office:

3 Robert Street, London WC2N 6RL

T: 020 7543 5600 F: 020 7543 5700

www.cipfa.org

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