

Supporting local government during austerity:

why we need reform following the Spending Review

Zach Wilcox, June 2013

Since the 2010 Spending Review announced significant reductions to local government funding, every council across the country has made efficiency gains, restructured and reduced services, and made staff redundancies. But, local authorities' ability to cope with the austerity measures has varied widely due to the different funding structures, community needs, local economic circumstances and demographics of their place.

Further spending reductions for local government are certain to be announced in the 2013 Spending Review. But neither the demand for local services – from social care to local transport to council tax benefit – nor the statutory requirements of local government is falling.

At the moment, too much control over local services lies in the hands of Whitehall rather than local authorities. In fact, grants from central government make up an estimated 60 per cent of local government funding for 2013/14.¹ This is higher than the OECD average for local revenues as a per cent of total local budget, which is around 50 per cent.²

Giving local government more control and freedom to manage their money would enable them to better meet the needs of local communities when faced with reducing budgets.

The aim of this report is to inform policymakers, local government and the public about how budget reductions in the 2013 Spending Review will affect places differently and in turn help policymakers recognise and manage the consequences of various spending decisions. The paper also demonstrates that local government needs more powers in order to manage austerity measures effectively and meet the needs of their local residents and businesses.

2013 Spending Review: context

The Spending Review 2013 will announce further budget reductions to **all government departments** and **all local authorities** beyond those made in the 2010 Review. In total, the Chancellor will take out around £11.5 billion from the national budget between 2014/15 and

1. Centre for Cities analysis of DCLG Local Government Finance Statistics (2013)

2. Blöchliger H & Petzold O (2009) 'Taxes or Grants: What Revenue Source for Sub-Central Governments?', OECD *Economics Department Working Papers*, No. 706, OECD Publishing. <http://dx.doi.org/10.1787/223111363085>

2015/16, with each Whitehall Department currently negotiating the precise amount they must cut with HM Treasury.³

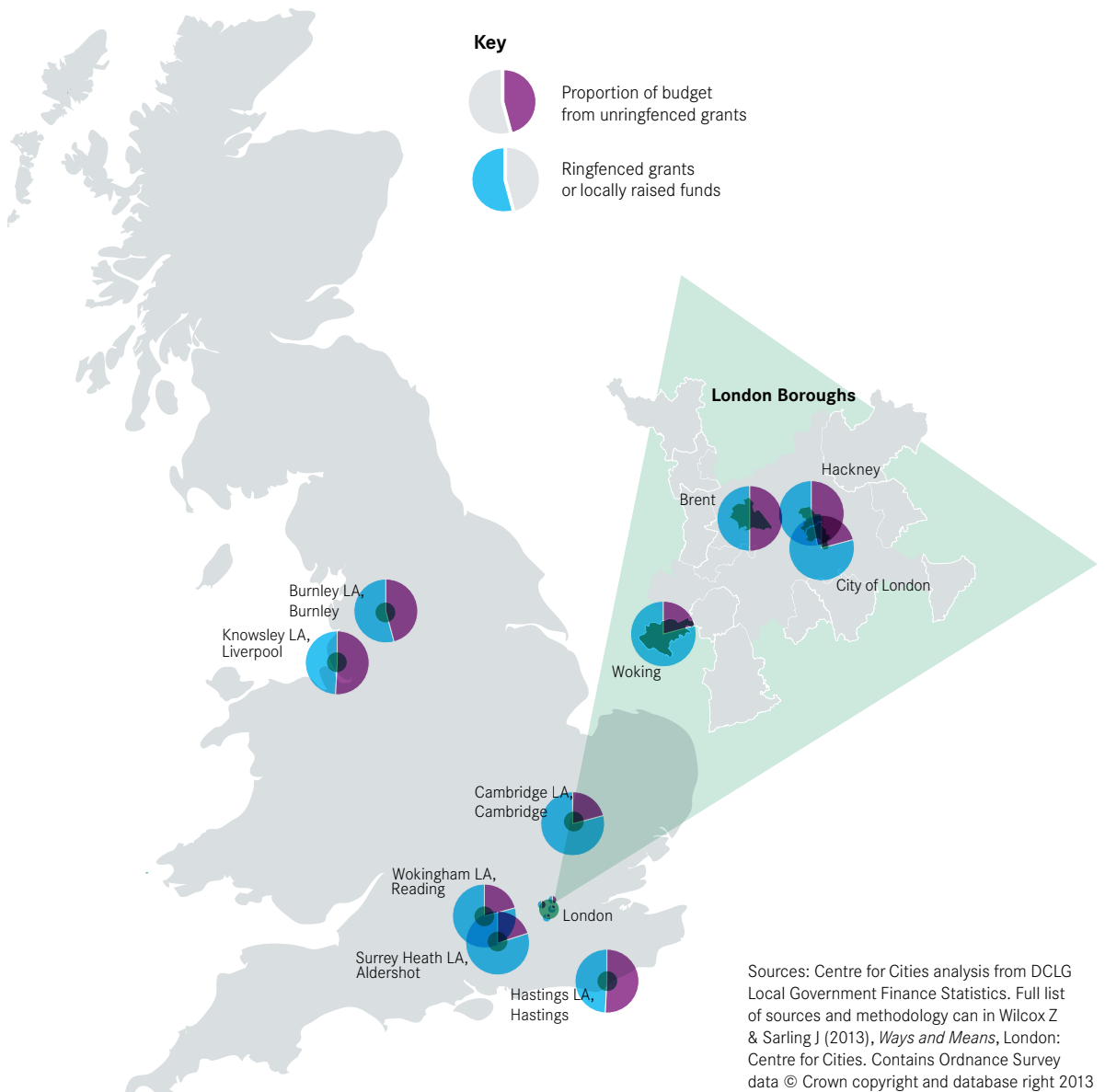
The 2010 Spending Review estimated that local government spending would fall 14 per cent in real terms from 2010/11 to 2015/16.

The Department for Communities and Local Government (DCLG) has already agreed to headline spending reductions of 8-10 per cent to 2015/16, and local government is likely to see similar budget reductions.

How will spending cuts affect local government?

Austerity measures will affect places in different ways. The more money a council receives from central government in the form of grant, particularly unringfenced grant, the more vulnerable its budget is to austerity measures. Since 2011/12, some councils have seen their spending power reduced by almost 9 per cent, year-on-year, while others have seen a fall of just 1 per cent.⁴

Urban local authorities most and least vulnerable to austerity measures



3. Sparrow A, 28 May 2013. 'Seven government departments agree to cuts of up to 10%, says Osborne' *The Guardian*. <http://www.guardian.co.uk/politics/2013/may/28/government-departments-cuts-george-osborne>
 4. <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmpublic/134/134.pdf>

The best predictor of the vulnerability of a local authority's budget to austerity measures is the proportion of its budget that comes from unringfenced central government grants (as opposed to ringfenced – or protected – grants or locally-raised revenue).⁵ For some authorities, such as Cambridge, Woking and Warrington, that proportion is as low as 20 per cent; for others, such as Knowsley, Brent (London) and Hastings, unprotected grants make up around half of their budget. Of the 30 most vulnerable urban authorities for which unringfenced grants make up 40 per cent or more of their budget, 20 are based in either London or the North West.⁶

Local taxes cannot replace grants to any significant level. Central government funding makes up much more of local authority budgets than do local taxes (Council Tax or Business Rates). For every £1 in grant, authorities only raise about 20p in Council Tax. Because of its reliance on central government funding, local government would find it very difficult to fill funding gaps from Whitehall through raising additional revenue locally.

If central government grants are reduced by 10 per cent and councils wanted to make up for this through, for example, Council Tax, then Council Tax would have to increase by 50 per cent to make up the difference. This would be neither feasible nor politically acceptable.

Because budget cuts are inevitable, reform of local government is essential

In order to manage their reducing budgets most effectively while still meeting the needs of residents and businesses, local government needs:

- More control over the money they receive from central government
- Greater freedoms over the money they raise themselves
- The means to financially benefit from the investments and savings they make

How does Whitehall control local government spending at present?

Whitehall constrains how local government can manage its budgets and services in two ways: how much money local government has and how councils can spend their money.

Whitehall determines much of the budgets of local government for both central grants and locally-raised funds. 60 per cent of local government revenue is set by and passed down from Whitehall through grant. Of the funds that are raised locally, Whitehall also uses hard and soft controls on the amounts local authorities can raise. For example, Council Tax rises of above 2 per cent must be put to a referendum, and local authorities have faced strong pressure from central government to limit council tax through the Council Tax Freeze Grant which is equivalent to a 1 per cent rise in Council Tax. Also, whilst councils can lower their business rates levels, their ability to increase business rates is greatly limited and rarely used to fund services.

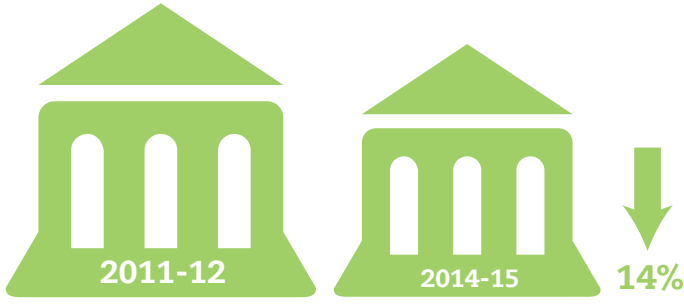
Central government also exerts control over how local government funds are used.

The money that local government gets from Whitehall often comes with conditions attached as funds must first be used to deliver statutory services set by government. In addition, taxes and revenues raised by local government operate under scrutiny, rules and regulations from Whitehall. For example, local government faces rules around how they set the prices for services they provide

5. Estimated by splitting budgets into five categories. Ringfenced funds (education and public health) are currently protected from budget cuts. Locally-raised and retained funds (Council Tax, Business Rates, Sales, Fees and Charges, and Interest, Investment and Other income) rely on the local economy, not central funding determinations. The same is true for local transfers of Business Rates and Council Tax. 'Vulnerable' areas of the budget include 'unringfenced' grants including Formula Grant, Revenue Support Grant and other specific grants as well as grants outside Aggregate External Finance that are passed on to local third parties to provide services. The portion of the budget that is 'vulnerable' is unringfenced grants and grants outside AEF.

6. DCLG (2013) *Local Government Finance Statistics* London: DCLG. Analysis and methodology by Centre for cities.

Budget cuts mean that local authority spending is falling



And the need for services is still high and growing in some areas

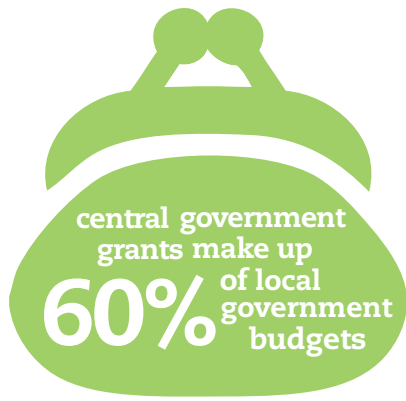


child and adult social care costs make up large proportions of local authority budgets

UK average, 22%

Highest local authority, 44%

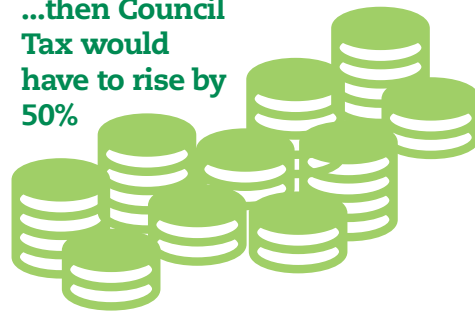
Yet Whitehall controls a large proportion of local authority budgets



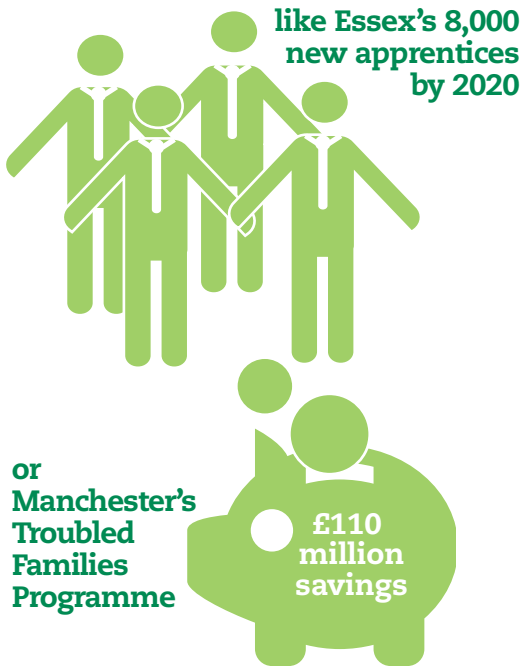
So if you relied on Council Tax to offset a 10% grant cut...



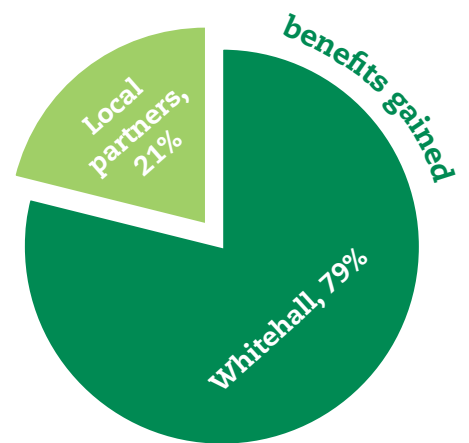
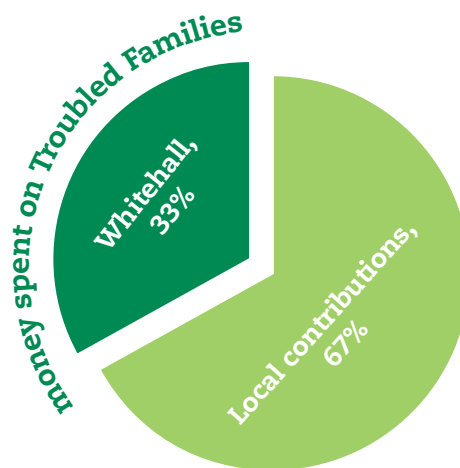
...then Council Tax would have to rise by 50%



Pilot programmes that give local authorities more control are saving money and improving services



But Whitehall disproportionately benefits from these programmes



to give local authorities **control + freedom = meeting local need**

and how service revenues can be spent. It can charge for some things, but not for others. Local authorities cannot make profit or charge for related services (i.e. using parking charges in an area to pay for improvements to the public realm).

Since the 2010 Spending Review, central government has reduced the amount of grant it gives to local government without reducing the statutory services it must provide. Whitehall has also de-ringfenced many grants, streamlining funding to councils. The result of this is that local government has less money but the same requirement of service provision, leaving little room for councils to invest in doing things better or in long-term projects that support economic growth.

What needs to change?

Central government control over local government budgets – how much they can raise and how it is spent – limits councils' ability to integrate services and work in new ways. To date, most budget savings have come from staff redundancies, pay freezes, and reductions in procured services (for example, closing libraries or reduced frequency of bin collection).

A House of Commons Report recognised that local authorities have, on the whole, managed to cope with funding reductions since Spending Review 2010; but, without significant reform to the way that local government operates and is funded, "...the danger is that they may soon have little room for further efficiency gains, meaning that future savings would increasingly have to be met by service reductions."⁷

Whitehall needs to pass down more powers and flexibility in how budgets and services are managed in order for councils to adapt to the new funding levels. To date, cuts have been handed down without corresponding powers to manage them. For example, administering Council Tax Benefit and the localisation of Housing Revenue Accounts gives local government more responsibility over these services. However, Whitehall has not significantly increased the flexibilities for local government to manage and integrate these services to achieve better outcomes. Aligning the powers and responsibilities in local government gives councils the best chance to make efficiencies, innovate, and adapt services to local needs.

Central and local government need to work together to better coordinate funding and services across departmental silos. Cost-cutting in one department can increase costs of another. If local government, for example, does not maintain health and safety services, this could increase costs for the NHS. Similarly, investments from one department rarely accrue proportionately to that department, which means capturing the benefits of investments to repay them is difficult. Skills and apprenticeship programmes paid for by local government can decrease expenditure for DWP and improve business outcomes, without additional revenues to local government to pay for the programmes in the first place. If local government and Departments could benefit from their investments, that would create a much more sustainable model for government finance.

Local authorities need to be able to recoup the financial savings and benefits that accrue from better coordination of services in order to continue investing in improving those services. As the system currently stands, most savings accrue to Whitehall departments rather than making service provision at the local level necessarily less expensive. For example, local partners in Manchester's Troubled Families Unit contribute 67 per cent of the investment for better services, but only 20 per cent of the benefits stay local with the rest accruing to Whitehall.⁸ Unless a system is set up in which local government can recoup the costs of their investment, it cannot afford to make the up-front outlay.

7. House of Commons (2013) *Department for Communities and Local Government: Financial sustainability of local authorities*, Third Report of Session 2013–14, 13 May 2013. <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmpublic/134/134.pdf>

8. Association of Greater Manchester Authorities (2013) *Troubled Families individual authority business cases* Manchester: Association of Greater Manchester Authorities

The principles and practice behind the Community Budget pilots need to be offered across the country. Although relatively new, the Community Budgets approach, which gives authorities more power over budgets and services, is already providing better outcomes and cost savings. For example, Greater Manchester expects cashable savings of £110 million through their Troubled Families Programme, and a redesign of vocational programmes in Essex is expected to add 8,000 apprenticeships through to 2020.⁹ Whilst the the emerging findings from the Community Budgets pilots are encouraging, they need to be expanded across the country for councils to form new ways of working and make efficiencies.

Supporting places throughout the Spending Review

Budget cuts are inevitable, but the way they are managed is yet to be decided. If nothing else changes, then frontline services will be affected and communities will face funding challenges for a range of services that keep them going.

Ultimately, how local government manages austerity measures will be determined by a combination of their local circumstances and the powers local authorities are granted by Whitehall. By giving local government more freedoms over how they manage and spend their budgets, central government can support local authorities to find new ways of delivering services and supporting and improving their places.

The test for government is to be as bold in local government reform as they have been in cuts to local government spending.

9. Local Government Association (2013) *Local Public Service Transformation, A guide to whole place community budgets* London: Local Government Association

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