

# Local government funding outlook (England and Wales)



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This policy briefing examines the expected financial position for local authorities in England and Wales between now and 2020, and assesses the possible approach that scrutiny can take to engaging with executives, partners and local people over the changes to services that will result.

It is based on information prepared by the LGA and the WLGA.

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## **1. Introduction: the funding outlook generally**

- 1.1 In 2010, the Government set out its funding plans for the medium-term in the Comprehensive Spending Review. This was followed, in England, by the announcement of the grant allocation for local government. These two statements of Government policy were covered in a previous Policy Briefing.
- 1.2 Since then, the longer term outlook for the nation's finances has become clearer. A commitment has been made to ringfence spending on health (in England – in Wales health has not been protected)<sup>1</sup>. Social care spending is expected to be protected and, if the recommendations of the Dilnot Review<sup>2</sup> are implemented, increased. However, spending overall is still expected to decline, and in advance of the 2012 Autumn Statement Government departments were asked to identify further potential savings. A period of stagnation in spending

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<sup>1</sup> "An Invitation to Join the Government of Britain" (Conservative Party, 2010), p45

<sup>2</sup> See <http://www.dilnotcommission.dh.gov.uk/> - see also "Health and Social Care Act 2012: briefing for members and officers" (CfPS, 2012)

on public services which had been expected to end by around 2014/15 now looks like to continue to the end of the decade at least – and to involve further significant cuts, in both England and Wales.

## 2. In England

- 2.1 The 2010 grant allocation saw a cut in the formula grant to all English authorities (with one exception)<sup>3</sup>. Further cuts are expected, year on year, between now and 2020. Demand in many areas is however expected to increase.

### The LGA research

- 2.2 The LGA has carried out research<sup>4</sup> to establish the impact of these twin pressures on nine different local authority service areas – education (excluding the Dedicated Schools Grant), children's social care, adult social care, highways, roads and transport, housing (including the HRA or HB), culture, recreation and sport, environment (including waste), planning and development, and central services.
- 2.3 Pressures downwards: income - The model looks in detail at likely income pressures through to 2020 – principally, the assumption that there could be a further reduction in the revenue support grant (RSG) to around £17.6 billion by 2020. The 2010/11 figure was £29.7 billion.
- 2.4 The model also makes assumptions that councils will choose the transfer money to reserves, as a safeguard. Also considered are income from council tax (growing at 2% per year beyond 2014/15), business rates (assuming 3.5% growth, based on OBR projections) and investment income.
- 2.5 In total it is anticipated that total council income will fall by £9.5 billion in cash terms by the end of the decade. This is 19% in cash terms or 23% in real terms.
- 2.6 Pressures upwards: expenditure - Factoring in assumptions about rising fees and charges, and efficiency savings, the LGA anticipates an increase in demand of only £7 billion (a real terms fall of 6%). The LGA questions whether this optimistic projection is realistic, but wanted to present a best case example of containing spending pressures.
- 2.7 The funding gap - Mapping income against spending thus reveals a funding gap, which begins at about £1.4 billion in 2013/14 and widens to over £16.5 billion in 2019/20. It should be noted that the £16.5 billion figure is the figure for 2019/20 only – it is not a cumulative amount.

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<sup>3</sup> Policy Briefing 7: “Localism Bill and grant allocation” (CfPS, 2010)

<sup>4</sup> “Funding outlook for councils from 2010/11 to 2019/20: preliminary modelling” (LGA, 2012)  
[http://www.local.gov.uk/c/document\\_library/get\\_file?uuid=01a7770d-ed32-4bac-ae43-8fb4090e5d65&groupId=10171](http://www.local.gov.uk/c/document_library/get_file?uuid=01a7770d-ed32-4bac-ae43-8fb4090e5d65&groupId=10171)

- 2.8 Effects of statutory obligations - The LGA looked at what they termed “unavoidable statutory obligations” – in this model, covering social care and environmental services only, to determine how increases in demand for these services might impact on other services whose provision is discretionary.
- 2.9 It was found that taking social care and waste alone, funding for other council services drops by 66% in cash by the end of the decade. This is a real terms cut of 80%. If capital financing costs and concessionary travel (both pressures that councils cannot avoid) are also taken into account, a 90% cut in all other services is required. The LGA says that this, “in real terms, leaves practically no funding for them at all”.
- 2.10 There will be wide national variations in these figures<sup>5</sup>.
- 2.11 Savings from working better - The model demonstrates that savings through efficiency, sharing services, finding savings through commissioning or cutting back on central services will not have any meaningful effect on the likely shortfall.
- 2.12 Solutions - The LGA ends its report by considering some of the options for ameliorating the problem. These are:
- Reforming adult social care involving simplification and integration of services (although recognising that fundamental change will take years to implement, and increased funding is inevitably cited as a part of the solution here). DCLG and DH have recently announced an approach which will involve far more joined up working at national and local level<sup>6</sup>;
  - Better joint working between local public services. This is a restating of the ideals of Total Place – the LGA is currently carrying out further research on exactly what this might look like<sup>7</sup>. Shared services alone would contribute around £2 billion of savings, one-tenth of the likely reduction in services;
  - Proper dialogues with residents about the taxes they pay. The LGA suggests more local autonomy on council tax and business rates, and allowing a more open conversation with local people about what they pay, and what services they receive in return;
  - Cutting services out, not back. This is about complete decommissioning of certain services, which will no longer be run by local government. In some instances this will need to involve a review of local government’s duties under law<sup>8</sup>.

## Response to the research

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<sup>5</sup> Ibid, p10

<sup>6</sup> DCLG/DH submission to Communities and Local Government Select Committee, <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmcomloc/writev/694/m19.htm>

<sup>7</sup> LGA 2012, p16

<sup>8</sup> Ibid, p17

- 2.13 While the report was covered in the national press it failed to gain much traction outside of specialist publications (the only major newspaper to pick it up and run a detailed report was the Guardian<sup>9</sup>).
- 2.14 DCLG initially responded to the report by noting without dissent its central conclusions and findings – particularly the challenges around social care<sup>10</sup>. More recently, however, giving oral evidence to the CLG Select Committee, officials were more critical of the report, claiming that it presented an overly pessimistic view of the future<sup>11</sup>.
- 2.15 In November 2012, research carried out by the Local Government Chronicle revealed that nearly a third of English authorities are at, or just below, the lower limit of where their financial reserves ought to be (based on the assumption that reserves should sit at 5% of operational expenditure)<sup>12</sup>. DCLG is already in detailed talks with one shire district which is expected to have a significant financial shortfall in 2013/14.

### 3. In Wales

- 3.1 In Wales, the Welsh Local Government Association (WLGA) has also carried out modelling on the future finance situation, with a particular focus on the impact of the welfare reforms. It should be noted that the methodology for this analysis is different; some service areas (such as education) excluded from the LGA's study are included in the IFS/WLGA study. This naturally has a significant effect on the end figures. As an example, 42% of local government expenditure in Wales is on education<sup>13</sup>.
- 3.2 The WLGA asked the IFS to carry out research for them, examining the outlook to 2020. There are two main factors in Wales that make the situation different to that in England (in the context of local government in Wales being devolved):
- The Welsh Government has chosen not to ringfence health spending (unlike the Department of Health in Whitehall);
  - The Barnett Formula provides Wales with an element of protection to its public sector spending (or, at least, predictability), and it is unlikely that the formula will change in the near future.

<sup>9</sup> "Local government is doomed – it's official" (The Guardian, 6 July 2012)

<http://www.guardian.co.uk/local-government-network/2012/jul/06/local-government-is-doomed-lga>  
<sup>10</sup> See [http://www.local.gov.uk/web/guest/ebulletins/-/journal\\_content/56/10171/3720238/ARTICLE-TEMPLATE](http://www.local.gov.uk/web/guest/ebulletins/-/journal_content/56/10171/3720238/ARTICLE-TEMPLATE)

<sup>11</sup> Evidence given to the Communities and Local Government Select Committee by Sir Bob Kerslake, November 2012 (transcript not yet available)

<sup>12</sup> "Councils forced to live on financial brink", LGC 17 November 2012

<http://www.lgcplus.com/finance/councils-forced-to-live-on-financial-brink/5037848.article>

<sup>13</sup> "Local government expenditure in Wales: recent trends and future pressures" (WLGA/IFS, 2012)  
<http://www.wlga.gov.uk/english/123/ifs-briefing-note-bn131-local-government-expenditure-in-wales-recent-trends-and-future-pressures/> p24

- 3.3 The IFS looked at the cuts to grant funding since 2010, and the likely cuts through to 2020. Cuts made so far remove a relatively small proportion of the large increase in public funding that occurred between 2001 and 2010, but this is in the context of increased demand for services.
- 3.4 The research extrapolates four scenarios – two that see the economy performing in line with current projections and two that see the economy performing poorly. One of each of these two sets envisage welfare cuts being made, or not made.
- 3.5 The IFS predict that total funding to Wales (the Wales DEL, or Departmental Expenditure Limit as assigned by central Government) will be cut year on year until 2017 at a rate of between 1.4% and 3.2% a year. This may be higher if no cuts to the welfare budget are made towards the end of this period.
- 3.6 If passed on to local government, these cuts would see councils' spending power falling by 2.9% per person per year from 2015 to 2017, year on year. If welfare spending is ringfenced this increases to 3.8%. It increases further if the possibility of ringfencing of NHS budgets is brought in to the equation.
- 3.7 The IFS's most optimistic projection to 20/21 assumes that spending will be 1.6% lower in real terms than in 2012/13. Their most pessimistic projection predicts a cut of 18% (22% per person). The IFS then looked at this projection, examining how an 18% cut might need to be halved for particularly vital services such as social services, environmental services and education – which would suggest a 52% cut to all other services.
- 3.8 The IFS looks at the broader context for spending cuts – principally, the welfare reforms and changes to demography. Both are seen as placing additional pressure on certain key budgets.

#### **4. Scrutiny's response**

- 4.1 This is an issue into which scrutiny should be looking right now. It will have a profound impact on the way that local services are delivered well into the next decade, involved significant decisions that will need to be subject to constructive challenge. A wide range of partners will also be involved in these decisions, necessitating the need to think intelligently about the way in which scrutiny can join up with the non-executive functions of such organisations where they exist.
- 4.2 While the need to make cuts has dominated much of the debate in local government over the past couple of years, it has tended to be in the context of short and medium term planning. The assumption has been made (not universally) that economic improvements would lead to a more generous funding settlement in future, and that the current

austerity for public services would be ending in around 2014 or 2015. More recent developments – the economy's moves back into recession, the Government making clear plans for spending until the end of the decade, and so on – mean that, as we have seen, this will not be happening. The LGA and WLGA have both predicted that this means that local government will have to undergo some profound changes over the next eight to ten years. Effective scrutiny of these changes is of course critical.

- 4.3 There are short, medium and long term aspects to this agenda. Short term aspects will look in detail at the financial situation and budgets. Longer term reviews will look more broadly at what the council and its partners do together, examining the opportunities for transformative changes which – while they will necessarily involve the removal of some services – may also protect services that would otherwise be cut, by suggesting the adoption of innovative ways of providing services.

#### Short term

- 4.4 Short term issues relate to the financial year 2013/14 and any steps that an authority is taking to find savings over the next eighteen months. A short term review of this nature is likely best considered as an enhanced version of the budget scrutiny that already takes place in many authorities.

- 4.5 We have written about scrutiny of finance in our publication “On the money”<sup>14</sup>, but the nature of the changes that many authorities will be bringing in suggest a reinvigorated approach to budget scrutiny. This could include:

- Scrutiny involvement at key milestones as the budget is prepared – principally, in late July, November/December, January and March. Some of this might take the form of information sharing. Some would be more formal, set piece events – testing assumptions, examining risks and challenging priorities;
- Involvement in the public consultation process as the budget is developed;
- Highlighting any potentially controversial changes (eg those involving major service redesigns) as requiring further investigation, and acting as a focal point for discussions of major changes;
- Identifying any pressures in future years that might be adversely affected by decisions being made at this point in the budget cycle.

#### Medium term

- 4.6 Medium term issues are those around helping the authority, its partners and the local community to manage the transition between the current spread of service provision to the likely services that councils will be

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<sup>14</sup> CfPS, 2007

providing at the end of the decade. For some services this will be around “managed decline” – trying to divest responsibility to other groups, organisations or individuals because the council can no longer provide funding. Scrutiny could:

- Ensure that, where decommissioning of a service might be an option, the risks involved are flagged up as soon as possible to allow a meaningful and reasoned public debate about the issues;
- Provide a wider forum for that debate, in an independent and impartial setting, so that the authority and its partners get a strong and unbiased steer on the views and aspirations of the public;
- Ensure that a strategic, long-term approach – not just across the council, but its partners – is taken when major service reconfiguration is being considered. This involves taking account of externalities (such as the possible impact on acute services if early interventions are removed);
- Focus on helping the council and its partners to provide a service – whatever that service might look like – that is flexible enough to withstand future changes when the central resource to support those future changes might be significantly lessened;
- Tackle the temptation to continue to “salami-slice” rather than to take the difficult political decisions that will need to be made;
- Provide a constructive environment for reasoned, detailed and public discussions amongst politicians about changes, taking some of the heat out of the highly politically controversial nature of many of them;
- Challenge assumptions being made about shared services and commissioning arrangements, particularly where such arrangements risk “locking in” failure, in the form of assumptions about future spending and income which may be inaccurate in the context of the exceptionally unpredictable funding situation;
- Consider whether options exist to mothball certain services or run them on a skeleton basis in the hope/expectation of an improved funding outlook in the future, and whether such options are realistic;
- Consider the knock-on impact of these major changes to partners and suppliers, and the effect on the local economy more generally;
- In general, highlight the fact that the next few years are likely to present an opportunity to make a managed transition to a fundamentally different kind of organisation, rather than a series of unconnected year-on-year cuts.

### Long term

4.7 A review into long term issues will allow an exploration of what public services in the local area might look like, post 2020. Some key issues to examine might be:

- What will demographic changes mean for council services in the 2020s?

- What will local people expect of council services in the next decade?
- How can the council and its partners manage these expectations?
- What role will politicians play in a future where more local services will operate outside of the council's control, or may not be delivered at all?
- For those services that it is envisaged the council will not provide in the future, who will? How can the council provide support to other providers – where they exist – to support a transition that will be as easy as possible under the circumstances?
- Are we making decisions now that will make it more difficult to tackle these issues in the future?

### Challenges

- 4.8 All reviews into these issues are likely to prove controversial. They will prove to be a challenge for scrutiny's apolitical approach, as exceptionally tough decisions will be made on service cuts, which will result in significant public disquiet, including campaigns and protests against changes. Scrutiny can provide the closest thing possible to a neutral forum for this debate, providing a two-way challenge to local people and to .
- 4.9 Senior officers and Cabinet members may be unwilling to engage with scrutiny at this stage to examine the options, for precisely this reason. Nobody will wish to put their head above the parapet to discuss these issues in public. However, the fact remains that these people will be putting plans together in private – sometimes involving other partners in these discussions – and they must be subject to effective public scrutiny before as they reach a more detailed stage. Overview and scrutiny can and should lead this process. It may be unproductive, and self-serving, for councils to design their own executive-led consultations on these changes, and O&S can challenge traditional approaches to consultation.
- 4.10 Councils will need to start putting these plans in place immediately. It is clearly known that the financial outlook for councils will not improve until at least 2021, and it will worsen significantly between now and then. Hoping to manage costs in traditional ways – by seeking to enter into partnerships, to make more use of commissioning, to trim back central services, to engage in management restructures in the hope of saving some money on payroll – will no longer be sustainable. Scrutiny can challenge the assumption that familiar management solutions will provide a way out of the problem.