

Briefing Paper

Local Government Settlement

January 2013

Introduction

Local government accounts for a quarter of all public spending. This year, English councils will spend £114.5 billion. That is a bigger budget than the National Health Service and twice the defence budget. So, the government considers that it is vital that councils continue to play their part in tackling the budget deficit by making sensible savings through better procurement, shared services and greater transparency, while continuing to protect frontline services.

Over the past year, councils have called for stability and limited changes, and the government states that it has listened to those concerns. Nearly all other parts of Government and other local services are facing a further 1% reduction in funding in 2013/14. Local government has been protected from that to give councils time to transform service delivery and make the savings needed for the future.

The government states that the 2013/14 settlement is the first financial settlement that reflects the entirely new financial relationship between central and local government. They have decided to end the complex and (what the coalition has called) unfair system that redistributed the proceeds of local growth that meant councils had no incentive to support local businesses, and that encouraged a 'begging bowl' mentality that kept them dependent on central government.

For the first time in a generation, local government will get a direct financial benefit from helping to deliver local business growth. Councils will now be able to keep half of any increases in business rates to invest locally. The government calculates that, over the next seven years, this has the potential to add £10 billion to the national economy.

The government tell us that most importantly of all - this is a fair settlement that protects hard working families and the most vulnerable. For the third year in a row, the government says they are providing funding so that all councils can freeze council tax and help families with the cost of living.

The government maintains that decisions about funding have been carefully calculated so that it reflects the different needs of different parts of the country – rural and urban, north and south. They calculate that the average reduction in spending power is 1.7% with no council seeing a reduction of more than 8.8% as a result of the efficiency support grant.

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Local Government Settlement 2013/14

Local Government Secretary Eric Pickles has spelled out what he describes as fifty sensible savings, a Council Tax freeze and a fair funding deal as the “right road” for councils to protect residents and local services, as a major shake up of local finance.

The minister signalled the watershed moment for councils as he unveiled a new look local government finance settlement that will reward councils that strive to improve their communities.

A dramatic shift in spending power from Whitehall to the town hall means an estimated 70% of council income will now be raised locally compared to 56% under the centrally distributed ‘begging-bowl’ formula grant system. From April 2013 councils can channel this greater local control into encouraging local jobs and local firms via a new business rate retention incentive that rewards them for growth. It could potentially add £10billion to the economy by 2020.

However, councils account for a quarter of all public spending - with English councils still spending £114billion - so it is vital they continue to play their part tackling the inherited budget deficit by making sensible savings. To help councils in that regard a document containing fifty practical ways to make sensible savings was published. It purports to show how a culture change by councils could unearth significantly more taxpayer savings and help make services more efficient.

Local Government Secretary Eric Pickles MP said:

“Councils must keep doing their bit to tackle the inherited budget deficit because they account for a quarter of all public spending and still get through over £114billion of taxpayers money each year.

“Today’s announcement is a fair funding deal that will reward councils ready to strive for their communities and gives them another year to get their house in order.

“Councils must do three things to get on the right road for their residents: put our fair funding deal to work; do every single one of our fifty ways to save; and accept our Council Tax freeze offer. Councils that cry wolf without having done all of this are letting their residents down.

“Councils that put their thinking caps on now can save precious taxpayer pennies next year by cutting out waste and transforming frontline services that vulnerable people rely on.”

The fair funding deal provides councils with an average spending power of £2,240 per household. Local authorities have been protected from further spending reductions for 2013 to 2014. Overall the average spending power reduction for councils in 2013 to 2014 is expected to be limited to just 1.7% per household, less than last year’s comparable figure of 3.3%.

Ministers believe this important concession gives councils the time they need to transform service delivery, build up their local business rate income, improve procurement and comprehensively complete the suggested fifty savings.

The total start-up funding assessment for councils 2013 to 2014 apports £26billion in what government considers a fair and sustainable way that ensures the smallest reductions for the councils most reliant on government support. More weighting has been given to areas with the highest levels of assessed need. For example, Newcastle on Tyne City Council has a spending power per household of £2,522 that is over £700 more than the £1,814 per household in Wokingham Borough Council.

The government is setting aside an extra £450million over the next two years to help local government in England to freeze their Council Tax, equivalent to a 1% rise. A third year's combined Council Tax freeze is potentially worth over £200 to band D residents.

The government confirmed that where a council rejects the freeze, the majority will have to secure electoral agreement through a 'local tax lock' referendum to hike band D bills by more than 2%. Smaller authorities with a track record of low Council Tax will be given slightly more flexibility.

The 'fifty Ways to Save' as outlined by Mr Pickles include but are not limited to;

- Sharing back offices
- Adopting Community Budgets to bring staff and money together
- Using transparency to cut waste
- Clamping down on corporate charge cards
- Setting special spending controls
- Tackling the £2 billion of local fraud
- Utilising £16 billion of non-school reserves creatively
- Improve collection rates to reduce the £2.4 billion of uncollected Council Tax across England
- Encourage direct debit and e-billing
- Improve property management
- Close subsidised council canteens
- Reducing senior pay and posts
- Cut spending on consultants and agency staff which had risen to £4.5billion
- Stop translating documents into foreign languages
- Cut expensive travel
- Reduce printing costs
- Hire out the town hall

Many in local government have pointed out that local authorities have already implemented many of these suggestions, while others do not have the potential to create significant savings.

The consequence of the government's 28% reduction in funding for local government during the current comprehensive spending review period is that local authorities are having to carry out a fundamental redesign of the services that they provide and the way in which they provide them. In this context a list of miscellaneous ideas is widely regarded as being of limited assistance at best.

Spending Power Calculations

The 2013 to 2014 spending power calculation includes:

- £26.07billion start-up funding assessment (that includes £10.9billion of locally retained business rates)
- £23.9billion in Council Tax
- £859million for National Health Service funding to support social care
- £661million via New Homes Bonus
- £240million for 2013 to 2014 Council Tax freeze grant

In addition local authorities will also benefit from:

- £112 million via the Weekly Collection Support Scheme
- £33.5 million via New Burdens for Council Tax Support in 2013 to 2014

Spending Power Breakdown

No authority will see a spending power reduction of more than 8.8% because of decisions taken by ministers to make an efficiency support grant available. The 'per household' figures are calculated using total spending power a combination of the new start-up funding assessment and Council Tax, and the number of dwellings by Council Tax band for each administrative area in England. The counts are calculated from data for England extracted from the Valuation Office Agency's database on 12th September 2011.

Ministers will then finalise their proposals and the settlement for 2013/14 will be debated in Parliament in February in time for councils to set their budgets for 2013/14.

The Coalition Agreement committed the government to relinquishing control over excessive Council Tax increases and giving that democratic power directly to local communities. This was legislated for through the Localism Act. The government has published the Council Tax principles it is proposing for 2013/14. Council Tax increases would trigger a referendum, if they exceed:

- 2% for most principal authorities; or
- £5 (whichever is higher) in the case of shire district councils, police and crime commissioners and fire and rescue authorities that set the lowest quartile of Council Tax in their class

The final principles for 2013 to 2014 will be set out in a report for the approval of the House of Commons early in 2013, at the same time as the final report on the local government finance settlement. No equivalent principles are being proposed for town and parish councils for 2013/14, although they may in future years.

Fire and rescue authorities have been protected with savings back loaded to allow time for what the government describes as sensible savings; they have also benefited from the protection to local government in 2013/14. In addition the outgoing Chief Fire and Rescue Adviser, Sir Ken Knight, has been asked to carry out a review to pinpoint ways to help fire and rescue authorities save money.

The government intends to announce the breakdown of £140million of capital grant money to fire and rescue authorities. The money for 2013 to 2015 will be distributed by a combination of formula and for projects to fire and rescue authorities that have been successful through bidding. All fire and rescue authorities will receive some capital funding.

Reactions to the Announcement

Councillor Kate Hollern (Labour), Leader of Blackburn with Darwen Borough Council said:

"We expect to have to make yet more very painful decisions about our services, with some having to stop altogether. We have been planning for this announcement and the next steps for us are to spend the next two months continuing to listen to the people we serve as we make the sort of decisions we never dreamed we'd have to if we are to set a balanced budget in March.

"These cuts come on top of the pressures and new responsibilities being heaped on us by the government's reforms of welfare, education and health, the very role of local government is under threat. Blackburn with Darwen has a proud history with resilient people who deserve better than this."

Joe Anderson (Labour), Mayor of Liverpool said:

"We don't yet know exactly what this means as the data for each local authority has not yet been made available, and there are major changes to the way in which local government is funded which will take us some time to unpick and separate the facts from the spin. However, I have heard nothing from secretary of state Eric Pickles in the House of Commons that gives me any comfort.

"I am particularly appalled that the Secretary of State has singled out deprived cities such as Liverpool and accused us of holding out the begging bowl. We are not deficit deniers, but we get 80% of our funding from central government, which means we are disproportionately affected compared to leafier and more prosperous parts of the country who raise more of their income through council tax.

"The truth is that local government is facing unprecedented reductions in funding which will change forever the way in which we deliver services. Nobody will be left untouched by the scale of cuts."

Cllr. Louise McKinlay (Conservative), Leader of Brentwood Borough Council (Eric Pickles' constituency) said:

"It's obviously a tough time for everybody but it's interesting that the 'big seven' councils are squealing while the rest of us are getting on with the job. There is a deficit that needs to be dealt with.

"Are the priorities of today the same as they were yesterday? I don't think they are. In this environment it gives everyone the nudge to look again and fundamentally say, we need to turn away from always looking to central government to solve the problems and start renegotiating the relationships between local councils, residents and businesses.

"We have to take those tough choices without whinging on the sidelines."

Jules Pipe, Chair of London Councils said:

"This local government finance statement confirms that local communities and the vital services councils provide are bearing the majority of the pain of paying off the deficit. It's a 30% reduction over the four years till 2014.

"London councils have been at the forefront of introducing efficiency savings while maintaining and where possible improving local services so that the impact on residents is minimised. That's our job.

Eric Pickles should not be complacent – he cannot go on reducing funding for local services without impacting on London's communities and the quality of services."

Jonathan Carr-West, Director of the think tank 'Local Government Information Unit' said:

"Councils may feel like they're victims of their own success today. As the secretary of state acknowledged in the house, local government is by far the most efficient part of the public sector and has driven down cost year on year and absorbed massive spending cuts over the last two years while largely protecting front line services.

"This planned 1% top slicing in the 2013-14 budget that local authorities have been spared translates into £240m that councils will now have to spend that may otherwise have been cut. We must hope that this will allow councils a small amount of breathing space amidst the implementation of the council tax benefit devolution, the cuts already planned for 2013-14 and in advance of the 2% cuts planned for the financial year 2014-15."

Commenting on the Local Government Finance Settlement for 2013/14, Phil Holt, local government advisory partner at Deloitte, the professional services firm, said:

“The latest Local Government Finance Settlement will add to the great pressures already facing local authorities up and down the country.

“A range of efficiencies, savings and cuts have been already been made by most authorities, but they are still faced with some of the greatest challenges in living memory – how to implement further spending reductions while maintaining a basic level of local services. Some councils will struggle to maintain their statutory responsibilities whilst others will simply see the level of service provision drop significantly.

“Joining up and sharing services with other local public agencies could make the process slightly less painful and more efficient. Figureheads such as elected mayors, in theory, have the power to pull differing services together.

“Either way, even with the introduction of business rate retention and new homes bonus, councils will find the settlement hinders their ability to proactively invest in local economies and local communities in the short term.”

Cllr. Tony Johnson of Herefordshire Council (Conservative) and cabinet member for financial management said of his council:

“Herefordshire has an excellent track record for meeting the challenges set by central government and has made savings of over £21m in the last two years. We have also been able to freeze council tax since 2010/11, using central government grants.”

“Next year, however is going to be even more challenging with the government reducing the money we receive to deliver services in Herefordshire by more than £5m. The specific pressures we face in Herefordshire are not fully recognised by the government, as we have to deliver services in a very rural area and have an increasing number of residents who require our help. We will be looking at the detail closely to see how we can meet this additional challenge.”

North East Lincolnshire Council Leader Cllr. Chris Shaw (Labour) said publication of the settlement was a dark day for local government and added:

“We will continue to work to deliver on our priorities of protecting vulnerable people and making North East Lincolnshire an attractive place for businesses, but the stark reality is that we will have to consider cuts to a large number of services we've previously supported

"The cut in grant is extremely unfair- local government is one of the most effective parts of the public sector and to attack it in this way makes absolutely no sense, particularly as more and more people are having to turn to us for help in these difficult economic times.

"We have delivered the cuts required by Government, but now we seem to be being penalised further because we've done that successfully.

"I firmly believe this is our toughest ever financial challenge and that challenge will force us into making some unpopular decisions- decisions which will mean our communities will have to do more for themselves in future and expect less from their public services.

"To do that, we'll continue to provide strong leadership and work with residents and businesses to make sure our reduced resources are used to best benefit our communities.

"We'll also have to look at how this affects Council Tax for our residents; we had hoped to maintain it at the current level, but this settlement means we'll now have to look at all the options open to us.

"The Government should be listening to councils when we tell them what an affect these cuts will have on our communities, but instead they appear to be not only moving the goal posts, but moving the pitch and the entire playing field as well"

All You Want to Know about Local Authority Finance

Local Government is going through a period of significant change following the 2010 Comprehensive Spending Review. There has been a 28% reduction in funding for local authorities and this is requiring a fundamental redesign of how authorities are organised and services are delivered. There are now far fewer ring-fenced grants giving local authorities more discretion over how they spend their money. The Localism Act also promotes local decision making. An understanding of the finances of local government is now of critical importance.

In the current climate, a working knowledge of local authority finance will put you and your colleagues in a position of advantage.

Whether you are in a London Borough, Metropolitan, Unitary, County or District Council or otherwise involved in local government; whether you are an Elected Member, Non-Financial Manager, or even a member of the Finance Team, you could benefit from our seminar at which you will learn: "All You Want To Know About Local Authority Finance"

The Course includes: General Fund Expenditure and Income, Local Government Finance settlement 2013/14, Revenue Support Grant, Business Rates, Budgets and Council Tax, Council Tax Freeze Grant, Localisation of Business Rates, Capital Expenditure, Prudential Borrowing, Capital Receipts, Treasury Management, Public Works Loans Board, Localisation of Council Tax support, Education Finance, Adult Social Care Finance, Housing Revenue Account, Superannuation Fund, Localism Act, The Big Society and Participatory Budgeting, Tax Increment Funding, Value for Money and Re-modelling services, Local Government Resource Review, Local Government Finance Bill, Outlook for Local Government Finance, The next Comprehensive Spending Review.

The course is accompanied by a very useful book entitled: "All You Want To Know About Local Authority Finance 2013"

Venue and Date: London: Novotel Hotel, Waterloo – 9th April 2013

For more information please visit:

<http://www.awics.co.uk/RegionalSeminars/ViewCourse/local-authority-finance-training-course>

Email Adrian.waite@awics.co.uk or telephone 017683-52165.

Conclusions

The settlement will see council's in England having their spending power cut by an average of 1.7% in 2013/14. Grant is provided to ensure that no council's spending power will fall by more than 8.8%.

However, with more spending cuts introduced and even tighter budgets being squeezed to breaking point the questions loom large over whether front line services and welfare which is provided by local authorities can be maintained at the levels and quality in which they have been provided in the past.

Given the baleful state of the public finances and the continuing likelihood of low economic growth, it is almost certain that councils face a further series of punishing settlements from now on. There may in future be incentives for councils to build up their resources by competing for NDR and council tax, but the overall direction of spending will be downwards at least until the end of the decade. And that's if things go well.

Adam M. Waite LL.B LLM R.Inst.PA

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About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

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