



solace

Sustainable local services

A CALL TO ACTION

October 2018



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Introduction

The country is at a crossroads, facing its greatest moment of transition since the Second World War. This is a time when people are looking to political and public service leaders to bridge the divides that have grown amongst us and set out a positive vision for a future where everyone can thrive. With so much division characterising public life, we need to build a shared vision on what people feel most positive about and most connected to: the place where they live. Despite a near-decade of austerity, public satisfaction with the local area they live in has stayed consistently high over the past decade.¹ That suggests that is at the local level where we need to start rejuvenating our sense of common purpose.

Local government is eager to do its part to secure a bright future for our country. But we can only do so if local services are put on sustainable footing. The road is fast running out for local government unless the questions of sufficiency, flexibility, certainty and stability of its current and future funding are addressed now.

The Prime Minister's recent announcement that austerity will soon to be at end will be welcome news to local residents who have grown weary of the loss of local amenities such as libraries and parks and worry about how to meet rising living costs on flat wages. It should be a warning sign that the public outlook on local services is getting gloomier. Recent polling by PWC found that over half of those surveyed were worried about the impact that service reductions and closures would

have on them personally, with 6 out of 10 concerned about the impact on their local community.²

It is no coincidence that concern about the future of local public services has been mounting as councils' ability to mitigate the impact of cuts has been rapidly diminishing. The National Audit Office (NAO) has warned that after years of delivering savings through a combination of drawing on reserves, reducing non-service spending and increasing income, it has strong concerns about the financial sustainability of an increasing number of local authorities.³

It is not just local authorities' financial sustainability at risk, however. Local democracy itself is being fundamentally eroded as the lion's share of local authority spending is increasingly concentrated on a narrow set of services.

¹ <https://www.local.gov.uk/our-support/research/research-publications/residents-satisfaction-surveys>

² <https://www.pwc.co.uk/industries/government-public-sector/local-government/insights/local-state-we-are-in-2018.html>

³ <https://www.nao.org.uk/wp-content/uploads/2018/03/Financial-sustainability-of-local-authorities-2018.pdf>

In a recent survey we conducted of council chief executives, 1 in 6 indicated that less than one-fifth of their budgets now goes toward universal services. With pressures in statutory services such as adult social care, children's social care and homelessness growing, the scope to invest in local priorities and services that benefit the widest range of people is disappearing.

Nor are statutory functions without strain. Even though local authority spending is increasingly concentrated on social care, there are still significant levels of unmet need. Age UK has warned that the number of older people who are not getting the care and support they need has hit a record high, with 1.4 million over-65s struggling without help to perform basic tasks.⁴ The Children's Commissioner has similarly expressed concerns that 1.6 million are living in families with substantial complex needs but not receiving support.⁵

The past eight years have been a crucible for local public services and the cracks are now showing. If we try to stick with the status quo, they will only widen. That simply cannot be an option that any true public servant is willing to entertain. As responsible leaders of our places, Solace members certainly are not.

That is why we are setting out here our call to action to help steer local services away from the cliff edge they are fast approaching, while setting down clear markers about the fundamental issues that must be addressed in order to secure their long-term sustainability.

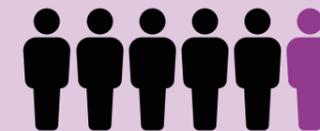
⁴ <https://www.ageuk.org.uk/latest-press/articles/2018/july-2018/new-analysis-shows-number-of-older-people-with-unmet-care-needs-soars-to-record-high/>

⁵ <https://www.childrenscommissioner.gov.uk/publication/childrens-commissioner-vulnerability-report-2018/>

HIGHLIGHTS FROM SOLACE/MJ 2018 SURVEY



1 in 2 indicate their controllable budgets have been reduced by a third since 2010



1 in 6 indicate they have lost about half of their controllable budget since 2010



Almost 6 out of 10 indicate that their workforce has been reduced by between a quarter and a third



1 in 2 indicate that less than 50 per cent of their budgets are now going to universal services



1 in 6 indicate that less than one-fifth of their budget goes to universal services



1 in 3 believe they will have to reduce to a minimum statutory offer if cuts continue



1 in 2 believe they would have to cut universal services if cuts continue

An unstable funding base

Councils are increasingly unable to cope with the lottery of local government finance. Alongside the 60 per cent cut to core government funding that councils have had to cope with since 2010, there are other factors rendering the funding base for local services unstable. These include:

- the proliferation of special purpose funding streams
- inconsistency in local government finance policy
- underfunding of new burdens

Special purpose funding streams

One of the most positive developments in local government funding since 2010 has been the reduction of ring-fenced grants from central government, which has given councils greater ability to target spending according to local choice. Ring-fencing had increased sharply in the previous decade, with the proportion of government grants ring-fenced rising from 10 per cent in 2003/4 to 70 per cent by 2010/11.⁶ As more local services have come under risk in this decade, calls from different stakeholder groups to protect funding for particular services have grown and it is to the Government's credit that it has largely resisted them.

However, the reduction in ring-fencing has regrettably been offset by the continued proliferation of special-purpose funding streams, often requiring competitive bidding and usually offered as time-limited funding.

This method of allocating public spending can be inefficient, with significant resources tied up both in administering funds and in bidding for them.

For example, an evaluation by the Department for Food, Rural Affairs and Agriculture and Natural England of the £2 million Paths for Communities fund revealed that it required a staff resource of 6 full time equivalents per year just to set up and administer the scheme.⁷ A 2014 report by Localis on competitive bidding processes for growth-related funding found that costs averaged £20,000 to £30,000 per bid, with hundreds of officer days allocated to preparing the required documentation in some cases.⁸ The report concluded that "the competitive bidding process is therefore costly to the public purse, given that funding streams receive hundreds of bids from councils across the country, plus of course the costs of assessing these bids centrally."

Solace undertook a cursory review of the special purpose funding schemes that have been created by government departments since 2010 for services that councils have historically delivered or commissioned. Many of these have had to be cut as social care pressures absorb an increasing proportion of council budgets, including youth services, neighbourhood and voluntary sector infrastructure and preventative measures. It is by no means easy to track all of the different funding pots so there may well be more than we were able to identify.

We found:

- 106 different funds created by 16 different departments amounting to £5.5 billion in total.
- 84 of these involved a competitive bidding process, some with multiple stages
- 46 funding schemes allowed six weeks or less for bids to be submitted.
- Ten had a four-week deadline (with a couple running over a major holiday period)

These are not optimal conditions to get the most value out of total public spending, doling out funding in small pots tied to specific terms and conditions. For that same £5.5 billion, cuts to local government's public health grant and Early Intervention Grant over the past 5 years could have been reversed, providing a more stable platform for local services and greater ability to leverage additional funding from other sources. Instead, we have a pattern of one-off or time-limited projects, with local partners struggling to sustain investment year on year and service users unsure about whether the services they have come to rely on will still be there.

Inconsistency of local government finance policy

Like any private sector business, councils need certainty in order to be able to plan effectively for the future, weigh up risks and make sound investment decisions. The Government's offer of four-year settlements at the 2015 Spending Review was a welcome recognition of this need for certainty and has certainly helped to make deep cuts to government grant easier to manage than they would otherwise have been.

Unfortunately, most of the past decade has been characterised by a chopping and changing of government policy, requiring councils to continually revisit planning assumptions and making it much more challenging to stick to medium term financial strategies. Local government finance policy has become akin to a game of "snakes and ladders", with one step forward followed up by two steps back, often characterised by a modest localisation of power followed by a funding cut. To illustrate with a few examples:

⁶ Spending Review 2010: Local Government Group submission.

⁷ <https://www.gov.uk/government/publications/paths-for-communities-p4c-scheme-final-report>

⁸ https://www.localis.org.uk/wp-content/uploads/2014/07/loc_competitivebidding.pdf



New Homes Bonus

February 2011 New financial incentive created	June 2013 Proposal to divert funds	March 2016 Initial proposals for policy changes	December 2016 Policy changes leading to deeper cuts	July 2018 More change and uncertainty
<p>New Homes Bonus created as a fiscal incentive to encourage local authorities to facilitate housing growth.</p> <p>Bonus is equal to the national average for the council tax band on each additional property and paid for the following six years as an unringfenced grant.</p>	<p>First hint of NHB diverting from original purpose and "rules": proposal to "top-slice" £400 million of NHB payments in 2015/16 to be given to Local Enterprise Partnerships as part of Local Growth Fund.</p> <p>Applied in London, dropped everywhere else.</p>	<p>New rules consulted on:</p> <p>Proposal to set a 0.25% baseline for expected housing growth and only making payments for housing growth above it.</p> <p>Paying the bonus for only four years rather than the original six.</p>	<p>New rules even tougher than originally proposed: baseline set at 0.4%, leading to greater loss of funding for many councils.</p> <p>Duration of payments reduced to five years from 2017/18 and four years in 2018/19.</p> <p>Money previously intended for NHB diverted adult social care.</p>	<p>Proposal to further increase the baseline for payments in 2019/20.</p> <p>2019/20 is the final year of NHB. No clarity on future incentives for housing growth.</p>



Business rates

October 2015 Localisation	November 2017 Future revenue cut	December 2017 Reduced localisation	March 2018 Uncertainty
<p>Announced that councils would retain 100 per cent of business rates revenue by the end of the Parliament</p>	<p>Small business rate relief to be permanently doubled and business rates pegged to the consumer price index instead of the retail price index two years earlier than planned.</p> <p>LGA estimates a loss of £6.7 bn in revenue from policy changes.</p>	<p>Policy changed to 75 per cent business rates retention in 2020–21, with business rates revenue to fund a number of responsibilities previously funded through central government grant.</p> <p>Potentially no revenue gain for councils.</p>	<p>Government consultation on how funding should be allocated and redistributed between local authorities from 2020 onwards.</p> <p>With 18 months to go until the start of the 2020/21 fiscal year, no clarity on future allocations.</p>



Public health grant

April 2013 Transfer of duty	October 2015 Funding cut	April 2020 onward Cost shunt to local taxpayers
<p>Public health function transferred to LAs with ring-fenced grant from central government deemed equivalent to the value of what the NHS spending on this function.</p>	<p>Announcement of a 3.9 per cent annual reduction in public health grant every year to 2020/21.</p> <p>NHS funding is protected.</p>	<p>Public health to be funded out of business rates (local tax revenue) instead of through central government grant (national tax revenue).</p>

It is not just the effect of each individual change that needs to be considered. The cumulative impact of all of the changes creates a very challenging set of conditions for planning purposes. Councils have a finite set of revenue sources that are not particularly buoyant and revenue losses that result from a change of policy cannot be offset easily, if at all. Given that councils have to balance their revenue budgets every year, unlike most of the rest of the public sector, sudden changes usually lead to difficult choices about further cuts to services or an unplanned draw on reserves. The former can undermine residents' confidence that councils have consulted on savings proposals in good faith and the latter is certainly not an option that external auditors tend to view favourably.

Underfunding of new burdens

An additional element of volatility to council budgets comes in the form of unfunded or underfunded new responsibilities imposed by central government. Technically, all government departments should adhere to the new burdens doctrine when they introduce new duties and requirements for local government. The doctrine requires that "all new burdens on local authorities must be properly assessed and fully funded by the relevant department". The Ministry for Housing, Communities and Local Government has the responsibility to ensure that other departments apply the doctrine appropriately and do not create additional pressures for local taxpayers.

Local government has long had significant concerns about how robustly this gatekeeping function has been performed. An example is the introduction of the statutory concessionary fares scheme in 2007, which mandates the provision of free bus travel for older and disabled people during off-peak times. When this duty was first introduced, the costs were covered by central government through a specific grant allocated through a distribution that a number of councils pointed out would leave them out of pocket.

In 2013, funding for concessionary fares was moved into the business rates baseline and it has been impossible to discern how much funding the government has provided for this responsibility ever since. Given that next year revenue support grant disappears altogether, central government will have effectively ceased funding a duty that it created and it becomes a fixed cost that has to be picked up entirely by local taxpayers. Concessionary fares have been a lifeline for many people in our communities, but we now face the absurd situation where councils have to fund passes but cannot ensure that buses keep running.

A more recent example that threatens to follow this path is the new duty for councils to prevent and relieve homelessness under the Homelessness Reduction Act 2018. It was introduced with a fixed amount of grant funding for every council subject to the duty, regardless of the levels of demand that they actually experience and costs they incur. Moreover, a funding commitment has only been made through to 2019/20, with only a promise of a "review" after that.

A 2015 report from the National Audit Office noted a number of deficiencies in the new burdens process, including that "departments' new burdens funding to local authorities is not always transparent and can be reduced quickly, resulting

in concerns about underfunding" and "there is little evidence of departments reviewing new burden assessments after introducing new requirements". From the local government perspective, there is no evidence that the process has since been significantly improved.



⁹ <https://www.gov.uk/government/publications/new-burdens-doctrine-guidance-for-government-departments>

¹⁰ <http://www.hiow.gov.uk/response/govtresp/Concessionary%20Fares%20Update.pdf>

¹¹ For more detail on cuts to local public transport, see <https://bettertransport.org.uk/buses-in-crisis-2018>.

¹² <https://www.nao.org.uk/wp-content/uploads/2015/06/Local-government-new-burdens.pdf>

Call to action

Without reform, we will be fast approaching a point where local government as a whole will not be able to afford all of its statutory responsibilities, let alone discretionary services. This is not an outcome that residents have been led to expect or, quite rightly, would find acceptable. The current strategy of trying to stretch an ever-diminishing pot by changing distribution between councils is not a sustainable solution. We need a plan that works for all of local government and all places.

We recognise that the process of exiting the European Union is leaving limited capacity for significant public service reform, but Brexit will not be considered a success if local public services flounder. There are fundamental issues that can no longer be kicked into the long grass if local services are to be able to play the part we need them to in improving the health of our population, supporting our economy to grow and giving everyone

the opportunity to benefit from the success of the country.

We set out below three major elements of reform that have to be addressed in a long-term plan. Alongside these three themes, we have also set out a 10-point action plan of measures that would provide the certainty, stability and flexibility needed to stabilise local services in the short term.

A long-term vision for the sustainability of local services

Over the past decade, the Government has opened the door to ambitious reform but has not quite been prepared to follow through. As public service leaders, we have to find the courage to be bolder and go further. We cannot afford not to.

Our long-term vision has three major elements:

1. Fiscal reform: The UK is an outlier among developed countries in terms of how little tax revenue is raised and controlled locally. Council tax is outdated and regressive as it is. In addition to being based on property values from three decades ago, it is becoming even

more distorted with the creation of short-term measures such as the freeze grant and social care precept. Similarly, national non-domestic rates reflect how much space a business occupies, an outdated measure of economic value. Local taxes cannot be locked in the “too hard to fix” box in perpetuity. No other developed country seeks to fund social services purely from local property taxes. Local government in this country needs fiscal powers commensurate with those of municipal governments in other countries, which include the power to create new taxes, vary existing taxes, and receiving a share of revenue from national taxes.

2. Devolution: This country is also an outlier among developed nations when it comes to its high degree of centralisation. Local people have less choice over how public spending is used in their areas than in many comparable countries, which will be even harder to justify in light of the debates that led to the decision to leave the European Union. Nor do we produce outcomes that would justify maintaining such a centralised approach to public spending. Despite some positive steps toward devolving greater powers and funding for economic growth to city regions, our economic productivity remains highly imbalanced across regions. Despite the protection of spending on the National Health Service, health inequalities are wider here than in many other countries that operate similarly state-funded health care systems but with greater local oversight.

3. Place-based budgets: The Total Place and Whole Place Community Budget pilots showed that there was significant scope to get better outcomes at lower cost by designing services around people. The Troubled Families programme has continued to provide evidence that this approach is both more effective and efficient. Research on public spending in places has shown that we spend far more on treating problems than on preventing them from occurring or stopping them from escalating.

For example, Birmingham’s Total Place pilot found that 93 per cent of public spending on employment was on out-of-work benefits and less than 7 per cent on supporting people into work. Leicester and Leicestershire’s pilot estimated the costs to the public sector of dealing with alcohol misuse as being almost £90 million annually, compared to just under £5 million spent on preventing misuse. Place-based budgets offer an opportunity to rebalance public investment towards prevention and early intervention, securing both better outcomes for people and greater value for money over the long-term.

We believe that there is a once-in-a-generation opportunity for central and local government to work together to set out an ambitious vision for local public services, one that gives local people genuine choice about how public spending is used in their areas and enables services to be designed around people and places rather than departmental and sectoral priorities. If 2022 is to be designated as a year for celebrating the Union, there would be no better occasion for unveiling a radical new settlement for local communities in England.

¹³ <https://www.lgcplus.com/download?ac=1218391>

A 10 point plan for stabilising local services

Since 2010, funding for local public services has been locked in an increasingly reactive cycle of short-term measures and quick fixes, which exacerbates rather than reduces financial challenges. As the NAO has warned, the lack of certainty “creates risks for value for money as it encourages short-term decision-making and undermines strategic planning.”¹⁴

We believe that there are actions that the Government can commit to instead to help us stabilise local services in the short term:

1. Commit to multi-year settlements.

In our survey of chief executives, this option was identified by almost 3 out of 4 respondents as the action most likely to help make local services in their areas more sustainable.

2. Publish the local government finance settlement earlier.

The publication of the provisional local government finance settlement has long been out of step with councils’ budget cycle. But the implications of that mismatch have grown more serious now that budget proposals invariably involve service reductions that stand to have an impact on residents. By the time the provisional settlement comes out in mid-December, most, if not all, councils would be up to halfway through public consultation on budget proposals, without even knowing by how much they will be allowed to increase council tax.

3. Commission an independent review of local government spending pressures ahead of the next Comprehensive Spending Review.

Currently, there are about 1300 statutory duties for local government but there does not seem to be any overall assessment about how much it costs councils to meet these responsibilities. The NAO has also raised concerns that there is no single point within government that monitors the impact of funding reductions across the full range of local authority services on an ongoing basis. Robust and transparent scrutiny of local government’s capacity to finance all of its responsibilities is long overdue.

4. Strengthen the new burdens policy.

At present, even if the costs of new responsibilities are accurately assessed and properly funded at the outset, there is no guarantee that funding will keep pace with demand or not be cut in subsequent years. A stronger policy could involve a requirement that the cost implications of any new burden be independently assessed over a five to ten year horizon and funded fully by central government as long as it remains in statute.

5. Minimise the creation of competitive bidding pots.

We cannot afford the proliferation of time-limited special-purpose bidding pots. Even if the intention is laudable – for example, to try to support new and innovative approaches – the impact of this funding is too often lost because the work it supported could not be sustained. There would be better value for money in aggregating the funding and putting it into core funding for local services.

6. Ensure consistency and coherence in local government finance policy.

Cumulatively, there have been dozens of changes across the constituent parts of the local government finance system over the past decade that have made medium term planning highly challenging. Local government finance policy is incredibly complex. It is not tenable to keep making one-off changes to policy.

7. Provide greater freedom to capitalise.

Councils have needed the ability to capitalise one-off revenue costs to help them save money and redesign services, without incurring even deeper cuts to service budgets. With transformation certain to be an ongoing activity, councils should be given the freedom to capitalise without needing government approval and without a reduction in local government control totals.

8. Support councils to be more commercial.

In our survey, income generation featured as one of the principle ways that councils have used to cope with funding reduction. 97 per cent indicated that if funding continues to be cut, they would be likely or very likely to seek ways to generate more income. Yet, central government has not always been consistent in how it views local government commercial activity.

9. End the penalty for early repayment of Public Works Loans Board (PWL) loans.

Since 2007, councils have had to pay an extra financial penalty if they repay PWLB loans early. The inflexibility of this policy effectively penalises local residents as it reduces councils’ ability to free up revenue for local services reducing debt servicing costs.

10. Modernise local services. We need to take better advantage of the opportunities to modernise that come with the digital age. Central and local government have just collaborated to launch the Local Digital Declaration¹⁵, which commits to designing services that best meet the needs of citizens and deliver better for value for money. That lens should be applied not just to future service design but also to existing regulation. For example, the requirement for councils to publish planning notices in local newspapers no longer reflects how most residents get their information. As a result, the policy imposes unnecessary costs while not achieving the intended outcome of better engaging residents in planning decisions.

¹⁴ NAO, Financial sustainability, p 10.

¹⁵ <https://localdigital.gov.uk/declaration/>

Conclusion

As the country faces this moment of transition, local government is keen to do its part to help secure the future that people are expecting. Councils have shown over the past decade that we have a track record of turning challenges into opportunities. Despite being cut deeper than any other part of the public sector, we delivered our savings for the better part of a decade by changing our relationship with residents, becoming more entrepreneurial and collaborating more effectively with partners.

But the combined effects of prolonged funding cuts and rising demand have now pushed local services toward a cliff edge. Even as the public has been told to expect an end to austerity, an increasing number of councils face scaling services back to a minimum statutory offer. Although we will continue to look for ways to operate more efficiently and generate more income, this will simply not be enough to make up the funding gap we face. We urgently need a plan to ensure that local services are put on sustainable footing. The measures that we set out in our action plan would help to stabilise services pending a proper discussion about sufficiency of resources in the long-term.

We have also set out an ambitious vision for securing the long-term sustainability of local services. Most of these propositions are only radical in the UK context and are seen as fairly standard for local government in other countries similar to ours. As we head into an era where Britain will have to be more competitive than ever on a global stage, local government needs to be able to do its part to enhance the UK's attractiveness for investment. Headlines in international newspapers about English councils facing bankruptcy are not the story we want told globally about our country's future.¹⁶

Our job in local government is to help people and places thrive. With bold action and backing from Government, that is the outcome we can secure for our residents and the image we can project to the world.

¹⁶ <https://www.nytimes.com/2018/05/28/world/europe/uk-austerity-poverty.html>

Reflections from Solace members on the outlook for local services

There will simply not be enough money in the system by 2022/23 to even provide a core offer and no amount of sugar-coating and description of this as "transformation" will relieve us of this fact.

There is a real danger that the amount of our resource that is consumed by statutory protective services for a relatively small percentage of residents will rise to a point where minimal universal provision is possible

I think in the context of Brexit and lack of clarity on national funding review it is incredibly difficult to plan with any degree of certainty

I am usually an optimist and I believe that we can solve the problems that we encounter. I also know my business inside out and I understand the metrics and the finances. So I say with conviction that the state of local government services in the next three years will mean that my services will become unsafe and that my authority will be a skeleton of its former self and barely able to deliver on behalf of our citizens

The credibility and future of local democracy is in the balance

As the 3 main elements of funding local government are council tax, income tax from services and future business rates, flexibility in each is needed to help with reductions in another, yet most attention seems to be set around just one, namely business rates

We are working hard to shift away from an expenditure paradigm towards an investment paradigm - where we expect every pound to deliver on either a social or financial return.

Although we continue to look under every stone, including relooking at areas that we have reviewed in previous years it is getting much more difficult to find the savings our budget position requires of us

We have done a lot of communications to explain to the public on the priorities we have set. However, there is a real challenge explaining why Council tax is rising but universal services are reducing

