



Briefing 08/56 November 2008

Pre-budget report: Impact on local councils

This briefing provides details on the pre-budget statement to the House of Commons by Chancellor Alistair Darling made on the 25 November 2008 specifically where it relates to public services.

Key issues

- Public sector spending plans are reviewed
- Increased efficiencies are identified across government departments
- How the changes impact on local authority, police and fire authorities
- APSE's response and commentary

Introduction

Each autumn, the Pre-Budget Report is produced by the Treasury under the direction of the Chancellor. The Pre-Budget statement was introduced in 1997 and is now seen as a replacement to the former autumn statement as it sets out the Government's approach to the economy, public spending and its fiscal policy position. Providing advanced notice of the Government's spending and taxation plans for the next year, in advance of the full budget, was originally intended to bring about greater economic stability through predictability. However it is more recently used to provide a basis for major public announcements. This year's pre-budget statement and subsequent report has attracted much more interest than previous statements as it is the first opportunity for the Government to put forward a full set of measures in response to the current economic turbulence.

What are the pre-budget report headlines for local authorities and police and fire authorities?

The provision of support to individuals and business was set out as the main objectives of the Chancellor's statement although the level of borrowing required by these initiatives will of course impact on the UK's public sector. The 2008 Pre-Budget Report therefore makes a series of major announcements on levels of public spending, public service reform and efficiencies.

As part of the Government's fiscal stimulus package as it impacts upon the public sector:-

- £3 billion of capital spending will be brought forward from 2010-11 into 2009-10 and 2008-09 for housing, education, transport and other construction projects.

- The Government envisages that this capital investment will stimulate jobs in the construction and transport sectors. To support these measures and help people retrain into new jobs and find new employment opportunities there will be additional funding for Jobcentre Plus, to help people move back to work and the extension of the Support for Mortgage Interest Scheme and a new Small Business Finance Scheme for small and medium enterprises, will be put into place. From a local authority perspective this will be a key factor in supporting SMEs to bolster local economic growth.
- Gershon efficiency savings produced £26.5 billion in savings. The 2007 Comprehensive Spending Review (CSR07) set out a further target for the public sector of £30 billion of savings by 2010-11;
- The pre-budget report is now setting out plans to increase the £30 billion by a further £5 billion by 2010-2011.

These additional value for money savings have been identified through the work of the Operational Efficiency Programme (OEP) which identifies collaborative procurement and back office efficiencies. Further value for money savings will be delivered within the CSR07 period and beyond through a set of Public Value Programme (PVP) reforms across major areas of spend. These initiatives are detailed below.

As a result of the major changes in the UK's finances the assumptions for spending growth from 2011-12 onwards, will be reduced compared to previous spending patterns meaning that growth in real terms will be :-

- 1.3 per cent in 2011-12
- 1.2 per cent in 2012-13
- 1.1 per cent in 2013-14
- Public sector net investment will move to 1.8 per cent of GDP by 2013-14;

In addition to the above measures Government warns that it will also continue and deepen its work to improve value for money in the next Spending Review period, in particular by driving forward the Operational Efficiency Programme and the Public Value Programme.

Where will the £3 billion capital brought forward as a fiscal stimulus be spent?

The £3 billion of capital spending from 2010-11, which will be brought forward into 2009-10 and 2008-09, includes:-

Housing and regeneration

- £775 million of housing and regeneration investment brought forward to help offset the impact of economic shocks on priority programmes, including £200 million on Decent Homes programmes to fund improvements and improve energy efficiency in 24,000 council homes and
- £150 million on social rented housing to deliver up to 2,000 more social rented homes and reduce the number of households in temporary accommodation
- £175 million for major repairs to council housing stock,

- £100 million to support key regeneration and housing infrastructure projects. (The RDAs will also consider the scope for bringing forward up to £100 million nationally to provide a fiscal stimulus to regional and national economic development ;)
- £50 million of investment brought forward, and £100 million of additional funding, for the Warm Front programme. This measure is aimed to provide 60,000 homes benefitting more quickly from energy efficiency and heating measures.
- There will be increased funding to ensure people in financial difficulties can access free and impartial debt advice.

Education and schools estate capital programmes

- £800 million brought forward in the priority schools capital programmes. In particular, the additional capital spending in 2009-10 will fund accelerated renewal of the primary school estate and boost local authority capital funds for modernising school infrastructure.
- The priority schools capital programme could also include bringing forward the adaptation of 2,000 secondary classrooms to improve personalised learning, energy-saving measures in around 140 secondary schools, the building of kitchens in around 300 primary schools, and the conversion of rooms for mother-and-baby groups and other community uses in 800 primary schools;
- £442 million to accelerate support for around 25 capital projects to improve Further Education infrastructure and around 50 projects to improve facilities at Higher Education Institutions, and to bring forward development of scientific research facilities and improvements to university research infrastructure;

Flood defences

- £20 million of investment on flood defences brought forward, delivering earlier protection for over 27,000 homes, and £5 million of improvements to the British Waterways network infrastructure;

Healthy communities

- £100 million to advance the upgrading of up to 600 GP surgeries to training practices, and targeting funding on those areas that have historically had a lower provision of doctors (the measures would also provide opportunities for small firms);

Policing and community safety

- £20 million to improve the estates of the Serious Organised Crime Agency and the National Police Improvement Agency, developing and installing high technology systems and enhancing intelligence gathering against serious organised crime. This enables the redeployment of posts out of London a year earlier than planned, in line with the Lyons relocation policy (to move jobs out of the south of England).

Transport and highways

- £700 million to advance the Department for Transport's (DfT) existing plans to increase capacity on the motorways and other critical highways, and to accelerate the delivery of up to 200 new carriages on the rail network

Worklessness and job losses

- £1.3 billion will be provided to Jobcentre Plus which gives help and advice to those out of work and looking for a job, and move rapidly back into work. There will also be increased provision for those facing redundancy through an expansion of the Rapid Response Service (RRS) to cover short-term as well as long-term redundancies, offering a range of on-site support such as retraining and jobmatching.

Public sector spending and value for money

The 2004 Spending Review set stretching efficiency targets for all departments to deliver by March 2008 (Report of Sir Peter Gershon in *Releasing Resources to the Front Line – Independent Review of Public Sector Efficiency*). A target of £21.5 billion of public sector efficiencies was overachieved with the public sector in fact creating £26.5 billion of efficiency savings. The public sector was also set stringent targets to reduce workforce numbers by 70,600; this target was also overachieved with an actual reduction of 86,700.

The pre-budget report and the chancellor's statement to Parliament referenced the fact that the public sector, having overachieved on its efficiency programme, is well placed to deliver the original CSR07 targets and an additional £5 billion of efficiency savings. On a departmental basis, in terms of the impact on local government, this includes the identification of the following targets:-

- local government will achieve £4.9 billion of annual net cash-releasing efficiency savings by 2010-11 through
- business process improvements and collaboration initiatives, which could deliver up to £1.8 billion by 2010-11;
- smarter procurement, which could deliver up to £2.8 billion by 2010-11; and
- better asset management which could deliver up to £300 million by 2010-11;

The Operational Efficiency Programme

The 2008 budget launched the Operational Efficiency Programme (OEP) to examine opportunities for further efficiency savings in five cross-cutting areas. The five OEP workstrands are:-

- back office and IT,
- collaborative procurement,
- asset management,
- property and
- local incentives and empowerment.

Although the Operational Efficiency Programme is due to report for the Budget in 2009 the 2008 Pre-Budget Report announced a number of emerging findings for each of the five workstrands.

Back office and IT: This has identified additional savings from 2010-11 onwards through greater efficiencies in back office operations including human resources, finance, estate, security, marketing, travel and legal services.

Collaborative procurement: This has identified substantial additional savings from 2010-11 onwards through actions such as improving compliance on centrally negotiated deals and optimising the complex and fragmented public sector buying landscape.

Asset management and sales: These studies will look into ways of using different public sector assets more efficiently.

Property: This examines savings that could be achieved across the UK's public sector property holdings, which have an estimated book value of around £370 billion. It will focus on some of the larger holdings including those within local government and this workstream also links in with Baroness Ford's review on the release of surplus land for housing.

Local incentives and empowerment: The pre-budget report references the *Excellence and Fairness* report and states that innovation at the front line is key to delivering customer-focused public services and driving value for money. Some of the measures include:-

- the Chief Secretary to the Treasury has appointed Sir Michael Bichard, Executive Director of the Institute for Government, to lead the local incentives and empowerment workstrand of the OEP, to analyse how best to facilitate front-line innovation, reporting by Budget 2009;
- the Government will empower and support front-line staff to drive bottom up innovation, with a new efficiency award for public servants on the front line who have reformed public services and delivered greater value for money; and

The Public Value Programme

Government launched the Public Value Programme (PVP) in budget 2008, to look at all major areas of public spending. The PVP will inform the Government's value for money frameworks for 2010-11 and for the post comprehensive spending review period. Reforms which will have an impact on local authorities, police and fire authorities and partner bodies such as primary care trusts (PCTs) and include:-

- The Policing Green Paper which contains proposals which relate to increasing over time, the productivity of the police workforce, support to forces in streamlining working practices. The 2008 Pre-Budget Report announces that this will be worth around £1 billion, equivalent to increasing the size of the police service by around 20,000 officers. The plans will be reinforced by a targeted inspection, in 2010, of the police workforce, to ensure resources are being deployed to maximum effect, and continued roll-out of Operation QUEST, a programme of front-line improvement work.
- DIUS (Department for Innovation Universities and Skills) will take further steps to drive forward the Leitch¹ reforms and move to a more demand-led system for skills, and will ensure that subsidies are targeted on raising demand in the most economically valuable areas.

Some of the other areas the PVP will investigate include:

- DCSF is assessing the value for money of Building Schools for the Future (BSF), childcare and teaching assistants. The PVP will inform decisions on the cost effective delivery of strategic objectives through the schools capital programmes, including the roll-out of Waves 7 to 15 of BSF.

¹ The Leitch review was commissioned by Government to explore skills in the UK to maximise economic prosperity in a changing global environment. The final report was published in 2006.

- the Government will announce in the New Year the conclusions of its work to investigate where hard shoulder running should be rolled out more widely on the motorway network in preference to motorway widening. DfT will also assess how best to provide transport funding to local authorities so that it continues to be targeted to areas of greatest need;
- in the context of wider work on energy saving and rising activity to help low income households, the new Department of Energy and Climate Change (DECC) is considering how to maximise value from the Warm Front programme.
- the Regional Development Agencies are playing a vital role supporting the regions in dealing with the economic downturn and laying the foundations for future economic growth. The Government will work with the RDAs to maintain and where possible increase the value realised from the Single Pot Funding; and

The OEP and PVP programmes are designed to support the achievement of the value for money strategy savings which go, as referenced earlier from £30 billion to £35 billion of recoverable savings in 2010-11. Savings to be achieved by individual departments will be set out, and allocations for 2010-11 adjusted accordingly, in the Budget 2009. The Barnett formula will be applied as usual to the devolved administrations' budgets when reductions to departments' budgets are announced. These will of course impact on the budget settlements to local authorities, police and fire authorities.

Changes to the rate of VAT

The pre-budget statement announced changes to rate of VAT with a temporary reduction from 17.5% to 15%. The changes mean that for any sales of standard-rated goods or services that take place on or after 1 December 2008 providers should charge VAT at the new rate of 15%. Only standard-rated sales are affected and there are no changes to sales that are zero-rated or reduced-rated for VAT. Similarly, there are no changes to the rules surrounding VAT exemptions.

However on a practical level the implementation date of the 1 December may create resource problems for local councils. They may need to adjust tariffs and charges albeit the balance between the tariff paid by the customer and the proportion of that cost, that is attributable as VAT, may be minimal, ancillary costs may be incurred which outweigh passing VAT savings on to the customer, for example in areas such as car parking or leisure services.

The local authority as employer

Changes in employer and employee contributions, with the local authority as an employer do not take effect until April 2011 but the £600 personal tax allowance becomes permanent with immediate effect.

Amendments to personal tax allowances and for those with incomes over £100,000 do not take effect until April 2010 and the new higher rate of tax of 45% will take place in 2011 (earners over £150,00).

APSE Comment

Much of the detail in the Pre-Budget Report is yet to be fleshed out despite the headline announcements that relate to VAT, taxation reforms and public sector efficiencies. The following provides a brief analysis of the main issues that will have an impact on local authorities, police and fire authorities.

Housing and regeneration

Council house waiting lists are predicted to grow to 5million by 2013 but the additional money available for housing will not directly address council house shortages. Whilst the increased money available for repairs and maintenance is very welcome alongside the additional funding for decent homes standards councils would still wish to see a much more positive approach to getting much needed homes for rent readily available for those waiting on council lists. The increase in repossessions will create further pressure on the shortages in supply of good quality social rented housing.

The Government must now continue to work to minimize barriers to local authorities addressing the shortage in supply of council homes and allow those councils that so wish the freedoms to build new homes for rent and bring into public sector use vacant homes, where possible allowing those facing repossession to remain in their homes through council intervention or even purchase arrangements.

Capital projects

Schemes such as building schools for the future whereby the insistence has generally been to go through a programme of 'procuring a procurer' through the use of a LEP model has tended to slow down and complicate processes to the frustration of many in local government; in particular those councils that have demonstrated high levels of competency in procuring major projects directly. Delays to the realization of such investment programmes are in danger of slowing down the positive impact on the local, regional and national economy to the construction sector in particular. The positive impact of such programmes in terms of improvements to the public sector infrastructure and on local jobs growth and security must be realized to make the bringing forward of the investment pots a worthwhile use of resources.

In addition the use of PFI / PPP schemes within the public sector has meant a reliance on capital finance within many projects coming from private sector sources. As a result of the economic slowdown some of the same companies involved in these schemes are themselves facing difficult times, potentially even problems of liquidity. Whilst the public sector will therefore be keen to take on the challenges of delivering capital projects there is a potential for market difficulties in meeting the requirements of the public sector and it remains unclear if the new capital spending programme would simply be in support of PFI and PPP schemes or through direct public spending.

Public priorities

Whilst the economy has dominated media headlines the public still require confidence in their areas through policing, community safety, environmental improvements and transport initiatives. Flood defences also remain a high priority in areas that have seen unprecedented levels of flood water in recent years.

The bringing forward of additional funding for some initiatives and the promise of additional resources if savings are found through efficiencies can provide opportunities for councils to develop a genuine engagement with local communities about priorities for their area. The additional funding will help create accessible funding to deliver timely projects.

Public sector budget setting

Many in local government will want to understand more fully how the increased target of £5 billion of public sector efficiencies, increasing the total savings to £35 billion will impact on them. In essence this means that whilst the bringing forward of new funds (essentially for capital investment) will be welcomed

the on-going pressure on public sector budgets will increase. This may well mean reductions in some services in order to deliver on the targets since many of the operational efficiencies identified, such as shared services and reviews of back office functions have already been explored and actioned where real solutions could be found.

The review of public sector assets is also a concern. Whilst there is undoubtedly an overriding duty to secure best value which includes assets such as property the downturn in market prices means this is not an ideal time for councils to best exploit either asset sales or maximize commercial opportunities (for example industrial lettings to small businesses). Therefore the realization of additional public sector efficiencies under the OEP and PVP could be considered by many to be an ambitious target.

Local councils will have notice of setting their budgets within the revised framework but for some longer term commitments – potentially made under prudential borrowing – meeting these on-going liabilities may prove challenging during the next round of budget setting at a local level and the generation of further and deeper efficiency savings could fall disproportionately across different areas and services.

Local economic footprint

Whilst cuts to the public sector overall funding levels may be part of the Chancellors strategy to bring the national economy back into balance in the medium term (by 2015-16) recent research by APSE has explored the economic footprint of local authorities. Spending by councils can have a beneficial impact through procurement supply chains, employee spending levels and support in areas such as training, skills and addressing worklessness issues through employment strategies. Therefore rationalising services could of itself have a negative economic impact. APSE research has found that for every £1 spent by a local authority £1.64 is generated in support of the local economy. At a time of slow down for SMEs the value of the local authority as a customer cannot be underestimated.

Councils need also to follow the example of authorities such as Warrington who have implemented faster payment times to businesses to assist them with cash flow during the difficult economic period.

Reductions to income on fees and charges

APSE discussions with member authorities have identified a number of areas for concern amongst front line service providers including a downturn in private sector customers for some DSO services or products, potential loss of income in areas such as car parks, school meals and leisure services; and greater pressure on housing, benefits and advice staff as reliance upon the council as the doorstep public service increases. Members have also reported difficulties in the recyclates market in terms of selling on products and in storing recyclates they are unable to sell. The LGA also recently conducted a survey on the impact of losses from fees and charges to councils and identified similar areas of concern included reductions in planning application fees as a result of the housing downturn, and losses of sales of recyclates.

APSE is hosting a major seminar on the issues of the economic downturn and local authorities on the 22 January at the City of Manchester Stadium. To register your interests please click [here](#).

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