



December 2009

Briefing 09-63

Pre-budget report 2009

Analysis and impact on local government

This briefing is provided to APSE contacts in England, Scotland, Wales and Northern Ireland

Key issues;

- This briefing outlines the issues arising from the Pre-Budget Report 2009
- It references the headline issues for local government, police and fire authorities as well as devolved administrations
- This briefing also provides a ready reference source for local government officers and elected members on the headline financial issues that will impact on local government

1. Introduction

On the 9 December Chancellor Alistair Darling provided his Pre-Budget Report and statement to the House of Commons. Since May 1997 the Treasury presents two economic forecasts per year. In spring the Chancellor presents the budget and in autumn, the Pre-Budget Report (PBR) is released. This year's Pre-Budget Report is considered to be critical in that it is viewed as an attempt by the Chancellor to set out a strategy for bringing the UK finances back into kilter and to reduce debt, through amongst other measures a reduction in Government spending on the public sector.

2. Headlines issues for local government

The Chancellor made a series of announcements based on assumptions about growth and areas of greater efficiency within the public sector as a whole and specifically within local government. The following are statements of intent in terms of future policy direction which impact upon local government.

Total Place

- A 'Total Capital' approach to working with other Government departments to better align capital investment.

Local financial freedoms

- A commitment to examine, subject to the overall fiscal position, further finance mechanisms, powers and flexibilities which could support local authorities to drive growth and innovation
- A commitment to examine the framework and legislative changes that would be needed to implement Tax Increment Financing
- A commitment to examine the scope for local authorities to borrow against future Community Infrastructure Levy (CIL) revenues, Renewable Heat Incentives (RHI) and Feed-In Tariffs (FIT), and revenues from new council house building (where this offers value for money).

Local government efficiency

- Savings of £2.6bn from local government by 2012-13.

Free school meals

- The Government will extend free school meals to primary school children in low earning households. This will be rolled out to up to 50 per cent of eligible children in September 2010 and then fully rolled out during 2011. £120m will be provided to Local Authorities in England in 2010-11 as unringfenced grant by Communities and Local Government.

On regeneration

- A joint CLG/HM Treasury led exercise to assess the efficiency and effectiveness of capital investment across Government of interventions to tackle worklessness and promote growth and inclusion in deprived areas. Best practice will be captured from case studies, including those led by the Homes and Communities Agency (HCA).

On housing

- Expanding support for First Time Buyers through HomeBuy Direct
- A consultation document to explore ways to stimulate investment in the Private Rented Sector
- Enhancing the Government's Surplus Public Sector Land Programme and the HCA's Public Land Initiative to stimulate/speed delivery of new, quality homes on centrally-owned surplus land

- Study of barriers to growth which seeks to understand key future drivers of house building construction and identify steps Government and industry could take to improve diversity and innovation
- Manage regulations on house building so that they do not unduly constrain supply - ensuring that the contributions developers are asked to make for infrastructure and affordable housing are more transparent, proportionate and supported by viability assessments.

Business Rates:

- To further support businesses in the current economic climate, the Chancellor announced an extension and increase of the temporary threshold below which empty properties are exempt from empty property rates
- The Government has also removed the requirement for businesses to re-apply for Small Business Rate Relief (SBRR), which reduces rate bills by up to 50 per cent, in the upcoming new revaluation period. This will remove a layer of bureaucracy from small businesses.

3. APSE analysis

Prior to the Pre-Budget report the Chancellor announced that Britain's net debt would rise to 78% of GDP by 2014/15, before falling back. New announcements however have revealed that the picture is slightly worse than expected. For public finances this now means a deficit of £178bn this year compared to the £175bn previously predicted. In wider terms the economy was predicted to shrink by 3.5% on forecast figures but in fact was more badly affected at 4.75% this year. There is therefore a serious impact on public sector finances.

Greater efficiency

Whilst the chancellor has committed to keep the 2010-11 spending plans for local government the longer term budget position is less clear. Whilst public sector expenditure will grow by an average of 0.8% per year from 2011-2015 there has been a commitment to protect specific areas of spending such as the education or training plans for 16 and 17 year olds who want one. This therefore represents a strategy of 'unequal misery' as some services may face much tougher budgetary pressures.

As set out in the final report on efficiencies (see APSE briefing 09-24) the chancellor expects to see a series of much deeper efficiencies delivering savings within the public sector including savings from back office, assets and property and procurement and shared services.

Waste and refuse collection and carbon reduction initiatives

The Pre-Budget Report announced proposals that Councils will need to reduce their waste collection and disposal costs to help deliver efficiency savings worth £550 million a year by 2012-13. The Government plans reference the need to 'deliver services in a more effective way'. However the statement is lacking in detail.

Whilst many authorities have looked to increase recycling, to minimise landfill tax costs, increased recycling can of itself have an impact on the cost of the service – collections increasing, for example, to cope with more recycling streams and hence potential increases in service costs. APSE performance networks data shows in fact a positive approach to cost containment and performance improvement in refuse collection services.

APSE data shows that front line services have coped well with the conflicting demands of waste minimisation, diversion of waste from landfill, and increased collection of recyclates. The average cost of the refuse collection service per household has shown a steady increase from £40.01 in 2002-03 to £69.02 in 2008-09. However, this investment in the service has shown a corresponding increase in the percentage of total domestic waste collected which is sent for recycling from 11.15% in 2002-03 to 37.13% in 2008-09 – more than triple that of 6 years ago. Tonnage of waste being recycled per household has increased by 16% in the last year.

Local authorities are also introducing new recycling collection streams such as food waste to improve their performance on recycling. Introducing such schemes and the investment needed in equipment, transport and staff time also impacts on the costs of the service. This is also evidenced by the [APSE performance networks](#) statistics in terms of the percentage of transport costs which have increased over the past few years and now reach 25% of total expenditure. The increase in Transport costs is due to a number of issues including fuel price inflation, which local authorities can do little to control, as well as investment in new vehicles to facilitate increased recycling activity.

Within the Budget for 2009 Government launched a consultation on reforms to landfill tax legislation to 'ensure the tax remains robust in the long term and continues to reduce the amount of waste sent to landfill'. Over 100 responses were received and a summary of responses was published on 4 December. The Government has now committed to undertake further discussions with landfill operators on the proposals. Further details are due to be outlined next spring.

Consistent with the overall strategy to support new and green technologies the Chancellor also announced that the Government will be introducing a boiler scrappage scheme to help the environment and manufacturing industry. This scheme will offer £400 for up to 125,000 households to upgrade their old boilers to the latest efficient models with a 'greener boiler incentive' and extra resources will also go into household insulation schemes.

In December 2008, the British Retail Consortium, on behalf of leading supermarkets entered into a voluntary agreement to reduce the number of single-use carrier bags that are distributed by 50 per cent. In July 2009, retailers reported a 48 per cent reduction. The Government and retailers aspire to a 70 per cent reduction over the longer term. Progress will be reviewed in summer 2010. Waste minimisation is supported by councils but these measures alone do not address the critical issue of excessive packaging which is a continuing cause for concern amongst member authorities attempting to reduce waste. Households and businesses generate around 100 million tonnes of waste each year. Just over half of this ends up in landfill.

The Pre-Budget report reiterated that it had provided £10 million additional funding to divert waste from landfill through increased take-up of anaerobic digestion and in-vessel composting. Half of this funding has already been committed to projects that together will divert 200,000 tonnes of waste from landfill.

Housing and regeneration

The chancellor identified savings of £160 million from clamping down on fraudulent access to social housing tenancies, and rationalising smaller Communities and Local Government (CLG) funded community programmes as well as ending time-limited schemes in CLG.

These savings are against a framework of capital investment in housing and community amenities which has risen from £2.7 billion in 1998-99 to £11.3 billion in 2008-09 (annual average real growth of 12.8 per cent).

£33 billion investment has been used to reduce the number of social homes not meeting the Decent Homes standard by one million. Housing and regeneration capital funds brought forward will bring an additional 10,000 council homes up to the Decent Homes standard in 2009-10 and as announced in Budget 2009 £600 million of new investment to move forward stalled housing projects and kick-start house building will remain unaffected by the Pre-Budget Report.

The *'Building Britain's Future'* report included an additional £1.5 billion to deliver 20,000 more affordable homes. The Government's aim is to deliver over 55,000 affordable homes this year and over 56,000 in 2010-11. [APSE has campaigned](#) for greater freedoms and financial flexibility to allow councils to build new council homes and some of the measures partially support that aim. It is APSE's view that savings in the area of housing will be difficult to achieve in the current environment where demand is outstripping supply on top of the housing waiting lists burden that most councils face.

Capital projects and 'Infrastructure UK'

Darling also announced the establishment of 'Infrastructure UK' which will be tasked with helping major infrastructure projects, including waste. Government has suggested that this new agency will help to *'Prioritise Government's investment in infrastructure,*

identify and address major cross-cutting issues affecting UK infrastructure and improve the way the Government supports the delivery of infrastructure projects and programmes.'

The funding of major infrastructure schemes has been the subject of debate with PFI schemes, in particular, being adversely affected by the recessionary environment with finance not being available from the private markets to support PFI debt. In Budget 2009 measures were taken to lever in Government money to PFI schemes. This was to ensure that Private Finance Initiative (PFI) projects continued as planned despite financial market conditions. To assist with project funding the Infrastructure Financing Unit (TIFU) was established to lend to PFI projects that were unable to raise sufficient debt finance. Through the TIFU 23 PFI projects involving some £3.7 billion of finance reached financial close, compared to less than £1 billion for PFI projects in 2007-08.

Whilst the TIFU is hailed as a success (by Government) it defeats to a degree one of the primary purposes of PFI which was to lever in private finance on major schemes, without the accountancy illusion of a burden on public accounts. With changes to accountancy practices on public debt (being on or off balance sheet) there seems to be a lack of logic in putting public money into PFI schemes – it certainly creates a misnomer in the case of PFI.

'Infrastructure UK' will not be an elected body and it remains to be seen what accountability there will be for the public purse on this new agency. It also remains to be seen how an all encompassing approach to capital infrastructure projects will provide the desired speed and innovation to 'kick start' projects that would in turn support economic recovery.

Public sector pay and pensions

Public sector workers' pay rises will be capped at 1% from 2011 for a period of two years. Managerial appointments above £150,000 will need to be 'publically justified' and bonuses in excess of £50,000 will be treated in the same way with the involvement of the Secretary of State.

Employer contributions to the local government pension scheme will be capped and with cost increases below the cap shared equally between employers and employees and those above the cap to be met solely by the employee.

The statement on pensions was however otherwise unclear in that it stated *'Public pensions need to be in broadly in line with those offered in the private sector. So by 2012 contributions by the State to public pensions for teachers, local government, NHS and the Civil Service will be capped – saving around £1bn a year. Public sector workers will make a greater contribution to the increasing value of pensions, with those earning over £100,000 paying more'*

'Broadly in line with those offered in the private sector' could be viewed as a move towards defined contribution schemes as opposed to a defined benefit schemes and as such would de facto mean the closure of the current local government scheme to new

starters. This would create huge industrial unrest since the local government scheme is one that is funded **within** local government. In recent years a number of changes to enable the long term sustainability of the scheme have been agreed between employers and the trade unions. In addition poverty in retirement for the many low paid workers within local government will be seen as simply shifting the burden towards top-up state benefits in retirement rather than a secure retirement pot, built up through contributions made during the working life of a pensioner. More details are awaited on this issue and in particular how a 'cap' on costs would work and what cost would in future potentially be passed on to employees.

Conclusion

There is little doubt that some measures within the Pre-Budget Report are to be welcomed with a commitment to stick to the short term spending plans for 2010-2011. However medium term forecasts are difficult to gauge with detail yet to be fleshed out. What is clear is that the commitment to reduce public sector debt will lead to an austere financial environment with pressure on local councils to deliver more for less at a time when demand on services is increasing.

Local councils, police and fire authorities will be left with some harsh choices and should rely upon the sharing of innovation and best practice to ensure service continuity. Service transformation will be a critical approach helping to develop better ways of delivering services more efficiently and with greater effectiveness. The emphasis should not however be about crude service cuts or simply about lowest price. Effective performance management, including the sharing and dissemination of performance data will be essential.

APSE will on behalf of our membership want to assist in delivering practical solutions to difficult and long term predicaments. Members are encouraged to share their thoughts with others through APSE. Please email comments and suggestions on service transformation issues to Mo Baines on mbaines@apse.org.uk

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