Briefing 15-55 November 2015

Autumn Statement and spending review 2015

To: All Chief Executives, Main Contacts and APSE Contacts

Key Issues

- This briefing provides a snapshot analysis of the Chancellor's Autumn Statement and spending review on the main issues of interest to local authorities
- It also explores the impact of the statement on local council frontline services

1. Introduction

The Industry Act 1975 placed a duty on Parliament to publish twice yearly economic forecasts. In recent times they have become intrinsically linked to policy announcements on the economy and the Chancellor's tax and spending plans. In 1997, then Chancellor Gordon Brown, moved the budget back to spring and complied with the requirement for a second announcement in a Pre-Budget Report. Under George Osborne as Chancellor this has become known as the Autumn Statement and it draws upon the Office for Budget Responsibility (OBR) to update their projections and findings on economic performance and economic issues.

This year's Autumn Statement and Spending Review has already been widely trailed in the media, although some surprise measures were announced, such as shelving plans to cut tax credits to working families. Whilst these measures may be of more general interest this briefing, specifically for APSE member authorities, explores the issues which will impact upon local councils and their frontline services.

2. What does the review mean for the Department for Communities and Local Government (DCLG)

The Chancellor and subsequently DCLG have made some bold statements as a result of the Spending Review. The main announcements are summarised below together with an APSE comment.

(i) Housing

The Chancellor has announced £20 billion of gross capital investment over the next 5 years which will be used to support housing and local growth. This also includes doubling the housing budget from 2018 to 2019 to deliver 400,000 new homes which includes 200,000 Starter Homes, 135,000 new Help to Buy Shared Ownership homes and 10,000 Rent to Buy homes.

The Chancellor reaffirmed that the Government will also extend the Right to Buy scheme to Housing Association tenants, create a London Help to Buy scheme with a 40% equity loan, and ensure the release of '*enough public sector land for 160,000 homes*'.

The Chancellor also announced a £310 million pot of funding to deliver 15,000 homes at Ebbsfleet, a proposed new garden city – which is the first in the UK for over 100 years.

APSE comment on Housing

APSE's recent research publication, '*Housing the nation: Ensuring councils can deliver more and better homes*' produced in association with the TCPA, identified a number of measures that government could take to enable local authorities to have an effective role in delivering new social housing, as well as affordable homes, to buy or rent. However the very clear direction of travel from the 2015 Autumn Statement appears to weight the debate in favour of private developers, and at the expense of opportunities to deliver affordable social housing for communities, directly through local authorities. APSE views this as a missed opportunity whereby tackling local housing need would also help regenerate local economies and provide jobs and skills. Whilst APSE is not advocating a 'one size fits all' approach to housing policy APSE is firmly of the belief that local councils are a valid, well placed and capable deliverer of new social homes.

Moreover councils are best placed to address specific housing needs bespoke to the local population; for example to accommodate an aging population, growing numbers of single householders and the most vulnerable residents.

(ii) Vulnerable people and troubled families

The Chancellor has pledged to maintain current levels of spending on homelessness support services and provide £40 million for services for victims of domestic abuse. There is also a commitment to continue to invest in the Troubled Families programme with the aim of better outcomes for 400,000 families by 2020, with efficiencies found from central budgets. In addition 2017 to 2018 the government will devolve and reform increased funding for managing temporary accommodation – which they state will give local authorities '*more control and flexibility*'.

APSE comment on vulnerable people and troubled families

Whilst the spending commitments are welcomed in this area they do not appear to fully reflect the growth in demand that services to vulnerable people and troubled families face. The issue of temporary accommodation is of growing concern with many councils forced to house people outside of their own area. This is a very difficult issue for many London authorities. Domestic abuse charities have been vocal in criticising the loss of suitable facilities for victims of domestic abuse.

(iii) Devolution

DCLG's press release commits to operating the £12 billion Local Growth Fund, which is cited as being double the size of equivalent funds in the last Parliament. The fund is designed to empower local economic growth by giving greater control of public spending through devolution deals. This is in support of local priorities but DCLG will continue to have a role in supporting and overseeing devolution deals.

APSE comment on devolution

Whilst in many areas greater devolution is sought and welcomed there are still serious concerns over future funding arrangements. Whilst NHS spending is subject to an increase in funding, with a pledge of £8 billion, there is also a commitment to find a further £22 billion in efficiency savings. In areas where devolution agreements are predicated on closer integration of health and social care there are bound to be concerns about overall sustainable levels of funding.

APSE member authorities also remain apprehensive about any redistribution measures on business rate retention. This issue causes concerns on a number of levels; first of all there is still a lack of clarity on re-balancing measures for those councils with the lowest income levels but in areas of highest need and, secondly, the achievability of assumed levels of local economic growth as RSG is diminished overtime. The ability to stimulate local economic growth is of course a core aim of combined authorities and devolution settlements.

(iv) Social Care Precept

The Chancellor announced a 2% council tax 'precept' for local authorities to raise new funds which would be ring-fenced to help pay for social care. There was also a promise of a further £1.5 billion support through the Better Care Fund. However the 2% council tax precept will not be implemented until 2017 and the increase in the Better Care Fund is not until 2020. This therefore leaves a gap in the current funding.

APSE comment on social care

The gap between measures to increase income for social care through the precept will still leave a huge shortfall for local authorities even after 2017. The gap between now and 2017 will simply increase the funding deficits upon which many social care budgets are currently operating. It is also recognised that money raised from the council tax baseline will vary from area to area, with the least affluent areas raising the least money, but potentially being the areas of highest need. This reflects the demographic picture of care needs in terms of social care pressures being more prevalent in areas of multiple deprivation and a complex picture of social and health issues which impact upon well-being.

Moreover APSE is concerned that markets which support the delivery of social care are once again starting to fail. As councils curtail care spending the number of residential care beds at risk of imminent closure is, according to providers, rapidly increasing. Some providers have also suggested that they will leave the care market or seek only non-social care private paying clients. This will exacerbate the care problems. In addition whilst the commitment to the living wage is welcomed by APSE the costs of this will be passed back to councils through contract pricing.

According to a recent ADASS survey 76% of adult social care budgets are currently overspent by a total of £340million already this year, and this is in advance of the known winter pressure points, that face both the NHS and social care services.

(v) Efficiencies and other financial measures

The Chancellor's statement referenced DCLG departmental efficiencies at 20% through staffing reductions and the elimination of contingency funding. Savings are also earmarked in the public health grant and transferring elements of the administration of housing benefit.

In addition the Chancellor called on councils to use their reserves for investment and also highlighted the large volume of assets which councils hold. Mr Osborne said he would '*let councils spend 100% of the receipts from the assets they sell to improve their local services*'.

In a reference to the changes to business rate retention, already announced in October 2015, prior to the Spending Review, a promise was made to provide upfront investment in the digitisation of local tax collection to generate efficiencies and support the move to full business rates retention.

APSE comment on Efficiencies and other financial measures

As already referenced in APSE briefing 15-50 the retention of business rates, whilst welcomed by many, may still create financially iniquitous outcomes unless some form of redistribution or rebalancing is introduced. In addition, the overall references to council reserves and assets, should not be taken out of the context of local council finances more generally. Whilst councils do hold reserves these are governed by the need to remain prudent and to cover existing or potential liabilities – it is often a fine balance in holding sufficient reserves, and, whilst arguably some reserves may be called on, it is often the case that reserves are 'earmarked' for specific issues of risk or liabilities.

Moreover, if the large public sector asset estate were to be released, on an open basis, this could in fact limit the returns on those assets in a flooded marketplace. Councils have a duty to get best value for their local council taxpayers. Selling an asset when market conditions are not optimised for the sale could again limit the returns. Likewise an asset can only be capitalised the once, so whilst asset sales may provide a short term quick gain, they do not add to the long-term financial stability of local governments' finances.

There is also a dispute as to the level of further savings that may be required from councils with Treasury / OBR estimates suggesting a figure of less than 7% suggesting the reductions equate to just 6.7%. However CIPFA have queried these figures which are based on a number of assumptions and projections which are by no means certain. Whilst acknowledging the 6.7% figure the LGA suggests the true figure in real terms could be as high as 24%.

3. APSE's overall comment on the Autumn Statement and Spending Review 2015

APSE is concerned by the apparent assumption, within the Spending Review, that local government can withstand further reductions in spending on local services. Whilst welcoming the fact that savings are likely to be less than those anticipated the level of savings are still uncertain, and the ability to make further savings, without impacting on services, will vary on a council to council and geographic basis.

Whilst many APSE member authorities are moving towards self-funding models for a great many local authorities this is not a realistic prospect in the short to medium term.

Whilst it is vital that the most vulnerable residents in social care settings are properly cared for, the skewing of finances, to plug the social care funding gap, leaves many other frontline council service budgets in a parlous state.

Residents, on an almost universal basis, will experience services like bin collections, street cleansing, or use local parks and public realm. Others will regularly experience local sports centres, swimming pools or school meals. Highways and street lighting services provide the community infrastructure for both residents and local business. Housing and building maintenance services are vital for local communities. However whilst the bulk of council budgets are taken up through the demand pressures in social care it is a relatively small number of residents that will directly use this service. Conversely other well used, and needed, local services are at serious risk of failure in some councils but are viewed by residents as the obvious 'council service'. It is in this context that any deterioration in services may be most acutely felt by the majority of residents.

Recent national surveys have cited on-going resident satisfaction in council services in spite of the budget reductions. This should be applauded as it is testament to the innovation and service transformation approach that councils have taken to absorb funding reductions. However APSE's view is that we have now reached a tipping point and this is starting to filter through into frontline service data. **APSE Performance Networks** which for over 17 years has looked at the cost, productivity and quality data for local council frontline services, has consistently shown a growth in customer satisfaction across frontline services. Data started to flat-line in 2012/13 with a slowing of progress and most recently it has started to slightly dip; this correlates strongly to service reductions such as the number of street sweeping rounds in areas or the number of summer grass cuts as services are rationed.

Whilst APSE would never argue against striving for the most efficient, and effective, service delivery methods it would appear that optimum efficiency has been reached in many frontline services. We are now at risk of undermining that progress by a deterioration in quality. Moreover, whilst survey data can show relative satisfaction with local public services, it is not capable of any forward projections on the longer-term impact of service investment being depleted, through budget reductions; for example planned road resurfacing, rather than resorting to patch repairs, or the deterioration in sports and recreation facilities, where on-going investment may be needed to maintain standards.

Whilst there is a recognition of the serious challenges, presented by the Spending Review, a positive that has emerged from our APSE member councils, is the level of innovation and entrepreneurship that councils have embraced. As well as generating income from charging activities (in non-statutory areas) many are trading with local business, and indeed national businesses, to generate new sources of income to support their services. Many councils are also actively exploring further options for business and asset investments, in order to generate returns for the council, and of course regenerate local economies**. APSE Solutions** service works regularly with councils who wish to better integrate frontline services to optimise the most efficient ways to utilise their staffing resources, vehicles and equipment, as well as limiting or better regulating the demand side of local service delivery. APSE also operates a **Commercialisation Network** for its' member councils on income generation, trading and charging. APSE members can attend this network free of charge and source information on bridging funding gaps through commercialisation approaches.

Finally as a UK wide body APSE is mindful that this briefing does not fully reflect the nuances of this Spending Review for Scotland, Wales and Northern Ireland. Although many similar pressures and issues arise further membership briefings or advisory group discussions will be facilitated by APSE within APSE Wales, APSE Scotland and APSE Northern Ireland.

APSE is currently working in association with NPI on a new research publication on the sustainability of local government finance. Many of the issues identified in the outcomes from the Spending Review will be considered within that research. Should you wish to contribute your thoughts and views to that research please contact Mo Baines on mbaines@apse.org.uk

Mo Baines

APSE Head of Communication and Coordination