

# Neighbourhood services and sustainable local government





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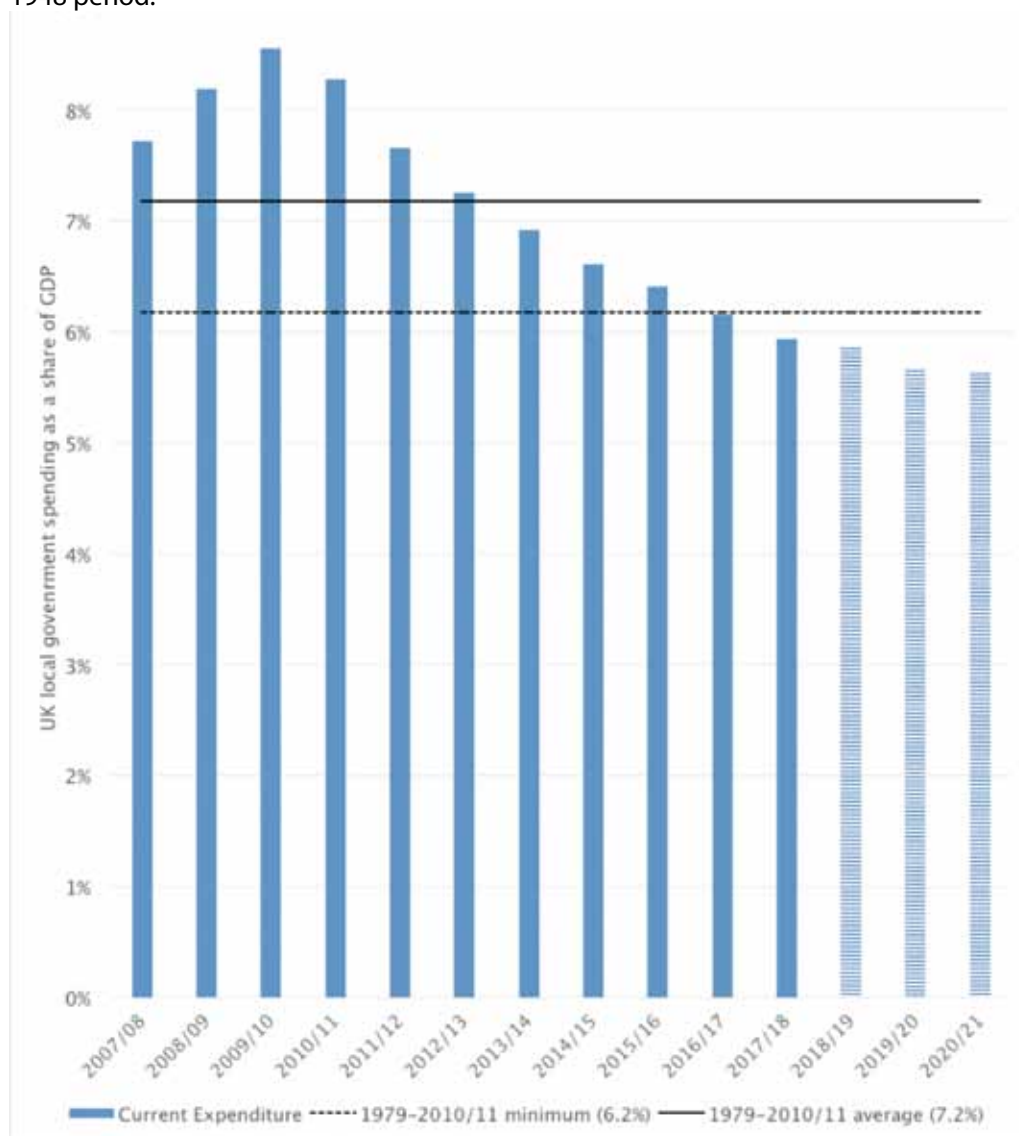
# Contents

<b>Executive summary</b>	<b>5</b>
<b>1. Introduction</b>	<b>7</b>
1.1 Neighbourhood services and the Spending Review	7
1.2 Focus of the research	7
1.3 Plan of the report	8
<b>2. Spending on neighbourhood services since 2009/10</b>	<b>9</b>
2.1 Cuts to spending on neighbourhood services	9
2.2 The 'hollowing out' of neighbourhood services	10
<b>3. Spending per head on neighbourhood services</b>	<b>13</b>
3.1 Neighbourhood services spending per head	13
3.2 Turbulence in the order of spending per head	14
<b>4. An economic view of UK local government spending</b>	<b>15</b>
4.1 Local government's place in the economy over 60 years	15
4.2 What this means for neighbourhood services	16
<b>5. Minimum sustainable budgets and the choices for neighbourhood services</b>	<b>19</b>
5.1 Changes in neighbourhood services spending, 2012/13 to 2017/18	19
5.2 Three possible spending strategies	20
5.3 Conclusion: the significance of 2012/13	22



## Executive summary

1. This report builds an argument for a sustained increase in local government spending on neighbourhood services, supported by an analysis of how that increase might be distributed across the 70 or so different services. Grouped under the broad headings of highways and transportation, environment and regulation, culture, and planning, neighbourhood services are roughly speaking what councils do that is neither education, housing nor social care.
2. Over the nine years from 2009/10 to 2017/18, the resources devoted to neighbourhood services across England, Wales and Scotland fell 27 per cent, equal to £8.9bn at 2017/18 prices. This is against the background of a real fall in total UK local government spending over the same period of 19 per cent.
3. The report assesses this record from an economic point of view, using current local government spending as a share of all spending in the economy as the measure. In 2009/10, that share reached 8.6 per cent, a high for the post-1979 period and only just below the all-time high (1975). In 2017/18, it fell below the previous post-1979 low of 6.2 per cent (1997/98). Since then, it has continued to head down. Including capital spending, total spending by local government as a share of GDP is now at a record low for the post-1948 period.



4. Three points follow from this. First, a substantial reduction in local government's share of spending was unavoidable. Second, that reduction has gone too far. Third, the Chancellor's intention to allow public spending to grow in real terms at 1.2 per cent a year from 2020/21 would not be enough to prevent the share of local government spending in the whole economy from continuing to slide. While a fall in total spending was unavoidable, it should be stressed that the way that fall was shared out across local authorities was a choice by central government.
5. The report offers quantitative and qualitative evidence to support the claim that the reduction in local government spending has gone too far. In particular, when compared on a per head basis, spending on neighbourhood services by the one third of authorities with the lowest spending in 2017/18 has fallen further since 2009/10 than spending by authorities with higher levels. This goes far beyond what could be expected from cutting back on excess spending.
6. To address the second and third of the three points, local government spending must first be restored to a minimum sustainable level after which its growth must be linked to the growth rate of the economy. Only when that has happened will austerity for local government truly be over.
7. The report identifies the low point during the 1979 to 2010/11 period as the best candidate for that minimum: a share of 6.2 per cent of GDP in 1997/98. If resources for neighbourhood services in 2020/21 rose in line with what a step up in local government spending to 6.2 per cent of GDP would provide, spending on neighbourhood services in England, Wales and Scotland would be £3.2bn higher than its estimated level in 2019/20.
8. In this case, resources for neighbourhood services in England in 2020/21 would be about the same as they were in 2012/13 in real terms – and some £2.1bn higher than they were in 2017/18. On average, this would represent a 12 per cent increase in neighbourhood services budgets.
9. A comparison of the pattern of neighbourhood service provision in 2012/13 and 2017/18 is suggestive of where additional spending might be directed if the priority was instead to unwind some of the cuts. For example, if the money were distributed in a way that prioritised repairing the deepest of the post 2012/13 cuts, the largest percentage increases would go to sport and recreation (budget up 27 per cent), regulatory services and community safety (22 per cent), highways maintenance (18 per cent) and arts and community services (18 per cent). The second of these four groups contains several low profile but vital services including trading standards, food and water safety, environmental protection, noise and nuisance, crime reduction and CCTV.
10. In each local authority, specific factors will influence where extra money is spent. For example, although they have been cut the least in percentage terms, the visibility of waste services will sometimes secure them a larger share of extra resources. Where sports, leisure and arts facilities are now run by private or community sector providers, the associated "deep" cut in the local authority's spending on the facility will not be reversed in the short term. Yet as patterns have emerged from the myriad decisions since 2009/10 about where to make the cuts, so too will they emerge from the decisions about where to spend extra funds. As it emerges from austerity, local government must be clear about its priorities for neighbourhood services.



# 1. Introduction

## 1.1 Neighbourhood services and the Spending Review

Local authority budgets for the three years from April 2020 will be set in the forthcoming Spending Review. How much extra money should councils be looking for to pay for the neighbourhood services they provide? Neighbourhood services – that is, highways and transport, environment, culture, and regulation and planning – are roughly what councils do that is neither education, social care nor housing. English, Welsh and Scottish local authorities spent £24.3bn on neighbourhood services in 2017/18, some 18 per cent per cent of their total spending that year (excluding capital).

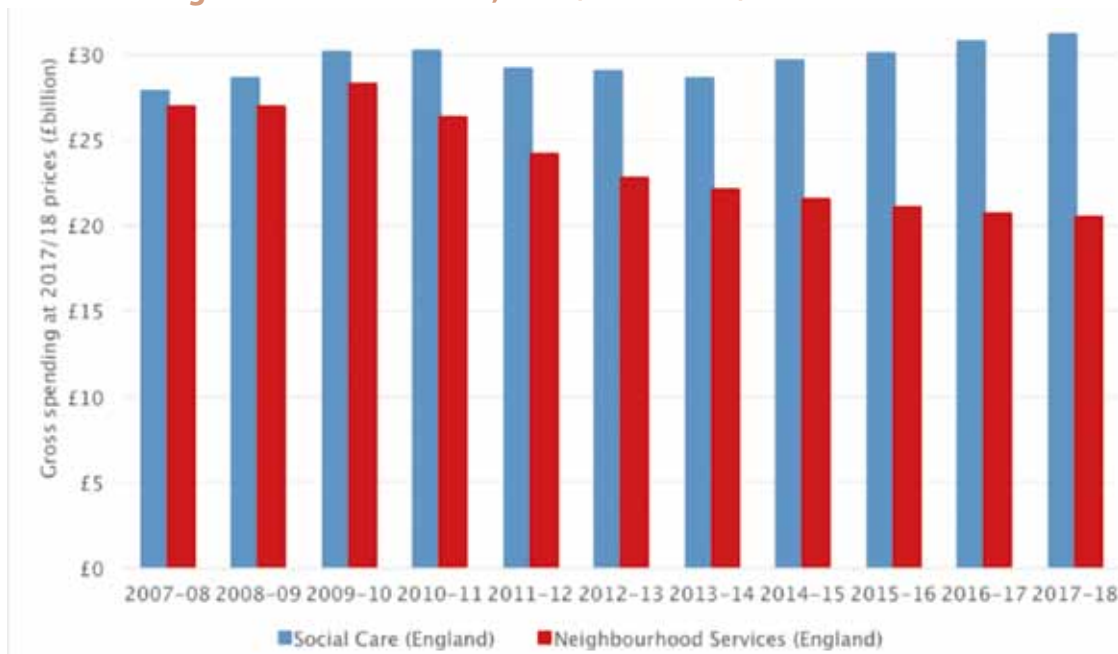
In his Spring Statement, the Chancellor of the Exchequer held out the prospect that this year's Spending Review would mark the end of a decade-long period of austerity for public spending. Over the five years beginning in 2020/21, public spending would rise in real terms (that is, after inflation) by 1.2 per cent each year.<sup>1</sup>

Set against what local government has experienced since 2009/10, this would be a welcome but still cautious step. By 2017/18, UK local government expenditure had fallen by 19 per cent in real terms while local authority spending on neighbourhood services across Great Britain had fallen by 27 per cent.<sup>2</sup> The Chancellor has also said that in the absence of a deal on Brexit, a long-term spending review may be 'inappropriate'.<sup>3</sup> So even this cautious end to austerity is uncertain.

## 1.2 Focus of the research

Against this background, this report sets out to answer what may sound like a simple question, namely, what extra resources should neighbourhood services be looking for as a result of the spending review?

**Figure 1. Gross spending (at 2017/18 prices) by English local authorities on Social Care and Neighbourhood Services, 2007/08 to 2017/18**



Source: Local authority revenue expenditure and financing England, final outturn 2007/08 to 2017/18

The last decade has seen deep changes in the mix and style of the services provided by local government. The growing importance of income from sales fees and charges is one aspect of this; the reshaping of neighbourhood services itself is another; the growing importance of other spending

<sup>1</sup> Spring Statement, March 2019: <https://www.gov.uk/government/speeches/spring-statement-2019-philip-hammonds-speech>

<sup>2</sup> See Figure 4 for UK local government expenditure and Figure 2 for GB neighbourhood services spending

<sup>3</sup> Financial Times, 12 April 2019, 'Philip Hammond says end to austerity hinges on Brexit deal', <https://www.ft.com/content/e6cff7b6-5d25-11e9-939a-341f5ada9d40> (paywall)

is a third. To illustrate this last point, Figure 1 compares gross annual spending at constant (2017/18) prices by English local authorities on neighbourhood services and on social care. This 'real' (inflation-adjusted) measure of gross spending is a proxy for the volume of service.<sup>4</sup> The key point here is that spending on neighbourhood services fell from 97 per cent of spending on social care in 2007/08 to 66 per cent ten years later. (The falls in Wales and Scotland were 90 to 60 per cent and 77 to 59 per cent).<sup>5</sup> This report assumes that big changes like this in the shape of local government are here to stay.

While local government funding by central government has been based in the past on measures of need, the preference in recent years for localisation – that is, relying on locally-raised monies from council tax, business rates and fees and charges to pay for whatever services can be afforded – has pushed this approach to one side. Earlier reports for APSE have shown how austerity has had a bigger impact on more deprived authorities.<sup>6</sup> The Institute for Fiscal Studies has shown that the more dependent on grant funding an authority has been, the higher the level of cuts they have seen since 2009/10.<sup>7</sup> As we show later, there was a strong case for significant retrenchment by local government after 2009/10. In such a situation, it is almost inevitable that higher spending authorities would have to make the biggest cuts. How far that should continue, however, is a question whose answer (we have argued) requires the restoration of “need” to a central place in the debate about local government funding.<sup>8</sup> The question here is how to do that at the aggregate level.

Past levels of spending on neighbourhood services reflect the influence of earlier assessments of need. However, since nothing can be judged against itself, finding a benchmark for what future local government spending ought to be has to mean looking beyond local government itself. In this report, total economic spending is adopted as the benchmark. Although we have measured local government spending like this in earlier work for APSE, its use here is more ambitious: not merely descriptive but prescriptive. It is not just about setting a level: this is a dynamic benchmark and keeping up with it as it grows is every bit as important.

### 1.3 Plan of the report

The heart of this report is divided into four chapters, as follows:

- **Chapter 2** – a review of what has happened to spending on neighbourhood services in England, Wales and Scotland since 2009/10, as well as a summary of what earlier research has found the internal consequences to be.
- **Chapter 3** – an examination of what has happened to neighbourhood services spending per resident and what it means for the resources required.
- **Chapter 4** – a review of local government’s share of spending in the economy over 60 years to provide a basis for what neighbourhood services in particular, and local authorities more generally, should seek by way of resources.
- **Chapter 5** – an assessment of what a reasonable level of additional resources would allow local authorities to strengthen individual neighbourhood services.

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<sup>4</sup> The measurement of cost inflation for local government services is problematic. Not only is there no measure specific to local government but the various different official measures (including the consumer price index) can produce quite different stories. We follow the National Audit Office by using the GDP deflator as our measure of inflation (<https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-june-2018-quarterly-national-accounts>).

<sup>5</sup> The different picture for Scotland may reflect the effects of health and social care integration.

<sup>6</sup> Barker, K; Kenway, P; *Redefining neighbourhoods: A future beyond austerity?*, New Policy Institute (2017)

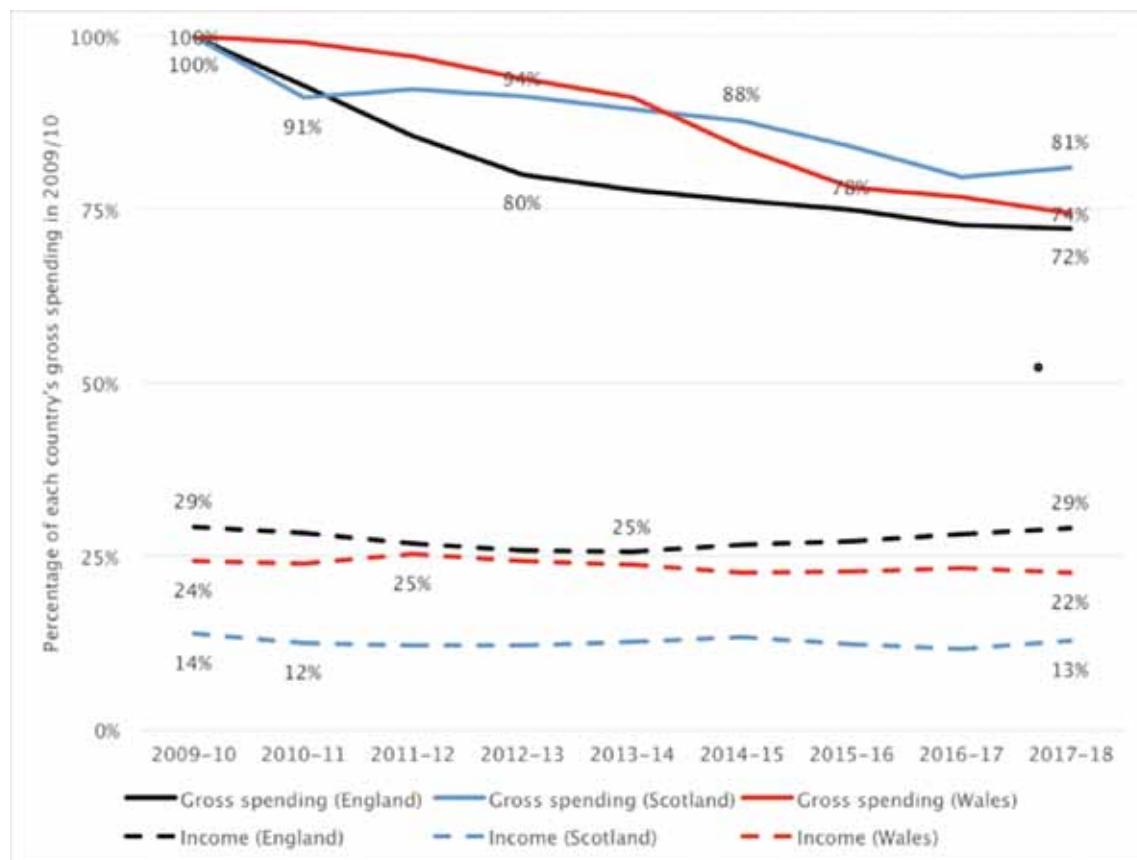
<sup>7</sup> Harris, T; Phillips, D; *The Fair Funding Review: is a fair assessment of councils’ spending needs feasible?*, Institute for Fiscal Studies (2019)

<sup>8</sup> New Policy Institute for APSE, 2018: <https://www.npi.org.uk/publications/local-government/hollowed-out-impact-financial-localisation-neighbourhood-services/>

## 2. Spending on neighbourhood services since 2009/10

This chapter, looking at what has happened to spending on neighbourhood services since 2009/10, provides the background against which the question of what level of resources is needed in future is set. It has two parts. The first deals with the spending data, for England, Wales and Scotland. The second, drawing on previous qualitative research for APSE, summarises some of the often-hidden effects. 2009/10 has been chosen as the start date here because it was the first full year after the financial crisis and recession that began in 2007.

**Figure 2: indices of real gross spending and real income on neighbourhood services, England, Wales and Scotland, 2009/10 to 2017/18**



Source: Local authority revenue expenditure and financing England, final outturn 2009/10 to 2017/18. Service analysis of General Revenue Expenditure and Income, Scottish Local Government Financial Statistics, 2009/10 to 2017/18. Revenue outturn expenditure summary, Welsh Local Government Finance, 2009/10 to 2017/18. HM Treasury GDP Deflators at Market Prices, And Money GDP

### 2.1 Cuts to spending on neighbourhood services

The solid lines in Figure 2 trace the paths followed by real (inflation-adjusted) gross spending (a proxy for service volumes) on neighbourhood services in England, Wales and Scotland between 2009/10 and 2017/18. The series for each country is expressed as a percentage of its own value in 2009/10. Since then, all three countries have seen big falls in the volume of neighbourhood services but with two notable differences.

First, the volume of neighbourhood services has fallen further in England (down 28 per cent, to 72 per cent of the 2009/10 level, in 2017/18) and in Wales (down 26 per cent, to 74 per cent of 2009/10) than in Scotland (down 19 per cent, to 81 per cent). The average fall across the three countries was 27 per cent, a loss of £8.9bn measured in 2017/18 prices.

Second, the bulk of the fall happened at different times in the different countries. In England, most

of the reduction took place in the three years 2010/11 to 2012/13. By contrast, Wales saw its biggest year-on-year reductions in 2014/15 and 2015/16. As a result, although England and Wales had reached nearly the same place by 2017/18, they had been far apart just three years earlier (at 80 and 94 per cent of their 2009/10 values in 2013/14). Scotland is different again: here the reductions were concentrated in the three years 2010/11, 2015/16 and 2016/17.

It should be noted that while this is the position on the latest data, more recent data is expected to show that the adverse trend in Scotland, relative to England and Wales, has been continuing. In this grim race, Scotland is catching up.

The dashed lines in Figure 2 trace the paths followed by the income (adjusted for inflation) generated by neighbourhood services in each of the countries. Income is made up of sales, fees and charges (two-thirds of the total in 2017/18 in England) and other income. Each country's income series is expressed as a share of its gross expenditure in 2009/10. In that year, income was worth 29 per cent of gross spending in England, 24 per cent in Wales and 14 per cent in Scotland. This meant that net spending stood at 71, 76 and 86 per cent of gross spending respectively.

England is also different from Wales or Scotland in that the income generated by neighbourhood services has been growing steadily since a low point in 2013/14. Looking into this more closely reveals it to have been income from sales, fees and charges which has been growing strongly (while 'other' income has been falling).

Expressing income in 2017/18 as a share of gross spending in 2017/18 (rather than 2009/10), shows that this has had a bigger impact than it may seem. In that year, income was paying for 40 per cent of gross spending on neighbourhood services in England as opposed to 30 per cent in Wales and 16 per cent in Scotland. The differences here, wider than in 2009/10 (29, 24 and 14 per cent respectively), are surely direct reflections of the divergent political choices made in the three countries.

## 2.2 The 'hollowing out' of neighbourhood services

The box at the end of this chapter contains a summary of material from a 2018 report for APSE which drew on in-depth interviews with a small number of local authority officers in England, Wales and Scotland. The aim of this research was to create a picture of how the cuts in funding for neighbourhood services had been managed and what their consequences had been for the capacity of local authorities to carry on doing their job.<sup>9</sup>

This material has been reproduced here because, in a report like this which is dominated by numbers, it is important to convey a sense of the changes that are taking place behind the numbers. Cuts on the scale recorded above cannot just be absorbed by scaling things down; instead, change is an inevitable part of the response too. Documenting the changes that have been taking place within local authorities as they grapple with spending cuts, as well as assessing their possible consequences, is therefore essential.

It is also worth repeating the conclusion of this earlier research which was this. On the one hand, despite the cuts, neighbourhood services had not collapsed and were probably not likely to either: headlines along the lines of 'services on the brink...' were therefore wide of the mark. On the other hand, the fact that services had not collapsed certainly did not mean that all was well: in essence, in coping with the pressure, local authorities were becoming hollowed out, with a weakening capacity to remember, react, manage risk or plan ahead.

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<sup>9</sup> New Policy Institute for APSE, 2018: <https://www.npi.org.uk/publications/local-government/hollowed-out-impact-financial-localisation-neighbourhood-services/>

## Extract from 'Hollowed out: the impact of financial localisation on neighbourhood services'

As a rule, front line services had been protected. Cuts had been managed through a combination of intensification (providing the same with less resource), innovation (sometimes radical) as well as extra charging where possible. To achieve this surface appearance of continuity and normality in neighbourhood services, local authorities had:

- reduced staffing levels, usually through voluntary redundancy;
- increased the flexibility of staff roles;
- used volunteers, as well as transferring facilities to the community, to be run by volunteers;
- reorganised back-office functions, especially through the use of technology;
- targeted spending reductions (e.g. a lower frequency of recurring provision);
- reduced investment, in both physical and human capital, relying instead on e.g. repairs;
- put up user charges;
- sought commercial work, even competing against other LA's for a contract;
- drawn upon financial reserves.

But if the LA had managed cuts up to now whilst protecting front-line neighbourhood services, why could it not go on doing so?

- Savings behind the front-line had been exhausted; from now on, choices would need to be made between front-line services.
- Some of the response above (e.g. technology-driven change, drawing down reserves) cannot themselves continue indefinitely.
- Greater flexibility in the roles played by staff had meant specialists being replaced by generalists: this carries risks.
- Although it was usually older staff who took voluntary redundancy, the workforce was still ageing because too few younger employees were being recruited. Even if staff numbers stopped falling, levels of know-how and judgement learned on the job could take years to restore.
- Volunteers could, for example, collect litter but could not deal with fly-tipping. If a build-up of litter encouraged fly-tipping, the resources devoted to waste collection today wouldn't be sufficient to maintain today's standard.
- Lower investment in public assets (e.g. community centres) would impact adversely on the income that could be generated from those assets tomorrow. The net saving from foregoing investment is less than the gross saving.
- When the use of technology to deliver operating cost savings extends beyond the back- and middle-office to the services used directly by the public, it is possible that this will not be acceptable or sustainable for some residents.

Above all, reduced staffing levels had done lasting damage to LAs' capacity to deliver neighbourhood services in three respects:

- Managers now spent a lot of their time implementing cuts and making efficiencies, leaving them little time for strategic planning: pre-occupied with dealing with today, LAs' were ever less in control of their destiny.
- The increased workloads and resulting lack of spare capacity meant that change took longer to implement.
- That same lack of capacity meant that when an unexpected problem struck, the LA had to divert resources from regular work: its ability to cope with the unexpected was impaired.

In short, even if LAs were keeping up the appearance of their neighbourhood services, their capacity to carry on doing so, even at current levels of funding, was impaired.

This did not mean that neighbourhood services were at a tipping point: even in their reduced state, neighbourhood services were still too large, varied and resilient for there to be a cliff-edge over which they could all topple, more or less together. But the fact that they were not about to fall off a cliff did not mean that all was well. The way that cuts to neighbourhood services had been managed had come at a cost whose full bill had yet to be presented.

### 3. Spending per head on neighbourhood services

The idea that spending on neighbourhood services can be compared across local authorities on a per head basis comes from the Fair Funding Review. This is the consultation by the MHCLG on the formulas which determine the allocation of central government funding to English local government. The most recent proposals coming out of the Review foresee eight formulas, all of which are based on demographics and other drivers of need. Most neighbourhood services would be covered by a formula based on population alone, that is, uniform spending per head. While it may be overly simplistic to distribute funding between authorities in proportion to population, spending per head provides a metric for comparing levels of spending on neighbourhood services between local authorities.

#### 3.1 Neighbourhood services spending per head

Figure 3 shows summary statistics for the spread of spending per head for a subset of neighbourhood services for 150 English local authorities.<sup>10</sup> Spending per head is expressed in 2017/18 prices. Spending includes waste collection but excludes waste processing and disposal. It also excludes public transport. This avoids the need to allocate spending by waste authorities and combined authorities (and formerly, transport authorities) to their member local authorities.

In addition, spending by the districts in each shire county have been combined with the county's own spending to produce a single 'unitary' spending figure for the 'artificial shire unitary' as a whole.

**Figure 3: 10<sup>th</sup>, 50<sup>th</sup> and 90<sup>th</sup> points on the distribution of spending per head on neighbourhood services, 2009/10 to 2017/18**



Source: Local authority revenue expenditure and financing England, final outturn 2009/10 to 2017/18, ONS Population estimates – local authority based by five-year age bands via NOMIS, HM Treasury GDP Deflators at Market Prices, And Money GD

Figure 3 shows the value of spending per head in 2017/18 prices for authorities at the 10<sup>th</sup>, 50<sup>th</sup>

<sup>10</sup> The Isles of Scilly and the City of London have been excluded due to their disproportionately high levels of per head spending caused by their very low populations.



(median) and 90<sup>th</sup> percentiles of the distribution. Putting this another way, in 2017/18, 75 of the 150 authorities spent more than £223 per head (the median) while 75 spent less. The 15 lowest spenders spent less than £169 per head (the 10<sup>th</sup> percentile) while the 15 highest spent more than £299 (the 90<sup>th</sup> percentile).

Over the eight years, median spending per head fell 35 per cent, from £344 in 2009/10 to £223 in 2017/18. This is more than the fall in total spending on neighbourhood services reported above, for two reasons. First, spending on the excluded waste services has come down less than the spending on the rest of neighbourhood services. Second, the population grew over the period by around six and a half per cent (a very rapid rate of growth by historical standards).<sup>11</sup>

Figure 3 also shows that spending at the 90<sup>th</sup> percentile fell further in pounds per head terms (down £228 compared with £121 at the median). The percentage fall (down 43 per cent) was also greater at the top than at the median. Although the ratio between the 90<sup>th</sup> and the 10<sup>th</sup> was lower in 2017/18 (1.77) than in 2009/10 (1.90), there has been no convergence (in proportional terms) since 2011/12. The divergence between English authorities in what they spend per head on neighbourhood services is still almost as great as it was a decade ago.

### 3.2 Turbulence in the order of spending per head

If the overall distribution of spending per heading had narrowed whilst the order in which authorities were lined up behind it remained more or less the same, then Figure 3 would be consistent with a picture of an orderly removal of excess spending and a certain narrowing of the difference in spending per head. But this is not what happened. Instead, as authorities at the top were squeezed, so some of them who had previously been near the top began to tumble down the order. Evidence of this turbulence includes the following:

- Spending per head on neighbourhood services in the 50 authorities at the bottom of the order in 2017/18 had seen bigger percentage cuts (42 per cent) than those who finished up in the middle or the top (an average cut, for both, of 34 per cent). If the lowest spending authorities had not experienced this statistically significant disproportionate cut, their neighbourhood service levels would on average have been 13 per cent higher in 2017/18.
- Although still linked to the order in which they were ranked in 2009/10, there had been considerable reshuffling among authorities by 2017/18. If the percentage squeeze on spending per head had been uniform, the order would have remained unchanged.
- Seven authorities who were in the top 50 for spending per head in 2009/10 had dropped into the bottom 50 by 2017/18 (two London boroughs, four metropolitan districts and one unitary). No authorities had moved the other way, from the bottom 50 to the top 50.

It is logical to conclude that the pressure of austerity should cause differences between authorities in spending per head to narrow. It is also logical that authorities who had the highest spending per head in 2009/10 should have had bigger cuts than those who started with average or low spending per head. Both of these things happened. But what is not logical is that some authorities who at the start spent much more than the average on neighbourhood services should by the end spend much less than the average; nor that authorities with the lowest spending per head at the end had seen the biggest cuts. Taken together, this is another piece of evidence to set alongside those of chapter two, that cuts in spending on neighbourhood services have gone too far.

So, how far would have been far enough?

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<sup>11</sup> ONS Population estimates – local authority based by five-year age bands via NOMIS. This population growth has been accompanied by an ageing of the population, as the several waves of baby boomers reach retirement age.



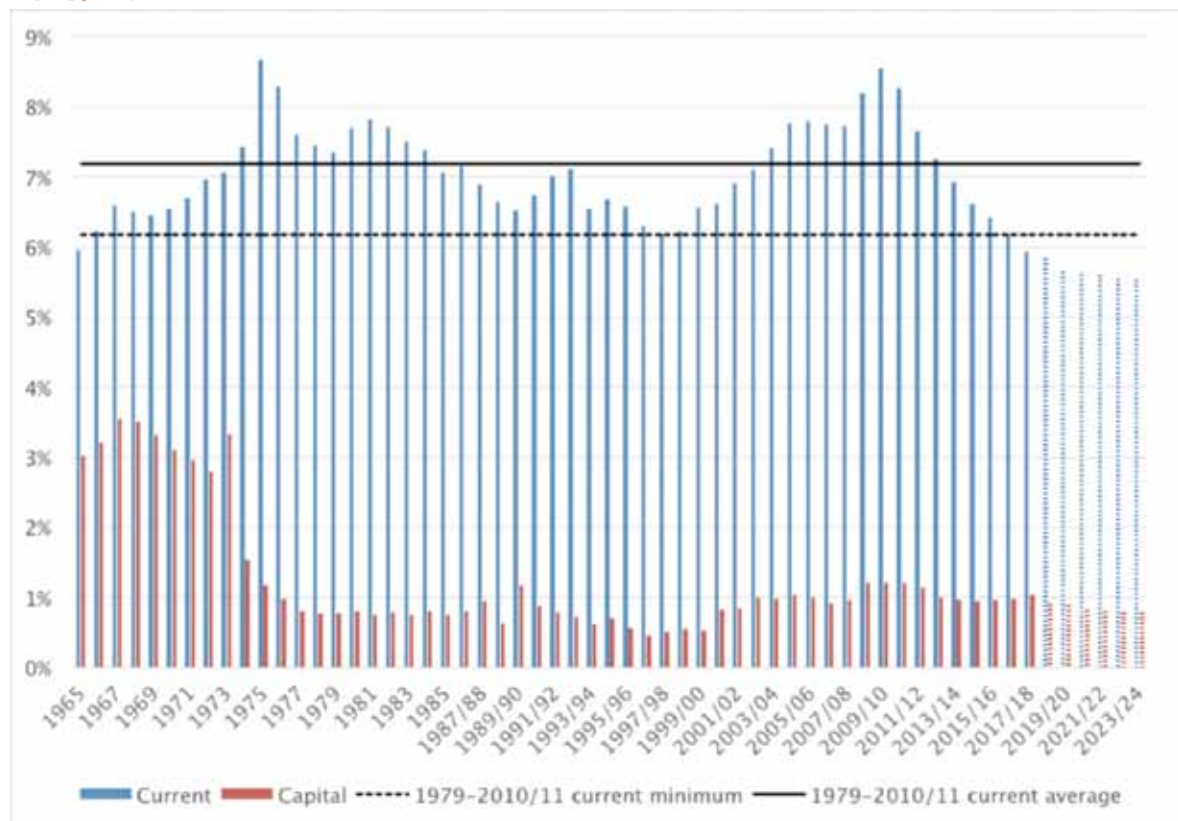
## 4. An economic view of UK local government spending

On its own, a picture of past spending on neighbourhood services can say nothing about what ought to happen in the future. What is needed to do that is an external frame of reference within which local government can be seen as part of a larger whole. Figure 4 does that by presenting local government expenditure in the context of total expenditure in the UK economy.

### 4.1 Local government's place in the economy over 60 years

Figure 4 shows a 60-year view of both current and capital spending by UK-wide local government, expressed as a percentage of GDP. GDP has just topped £2,000bn in 2017/18. That means that for now, one per cent of GDP is about £20bn – although by the end of the period shown (2023/24), it is forecast to have risen to £25bn. The data is for calendar years from 1965 to 1986, and for financial years from 1987/88 onwards. Data for 2018/19 to 2023/24 are forecasts made by the OBR.

**Figure 4: UK local government expenditure as a share of the UK economy, 1965 to 2023/24.**



Source: ONS series YBHA, NMMT and NMOA (1965 to 2017/18); Office for Budget Responsibility, March 2019, *Economic and Fiscal Outlook*, Tables 1.2 and 2.41 (2018/19 onwards).

Figure 4 also shows two horizontal lines. The lower of them (at 6.2 per cent of GDP) marks the lowest point to which the local government current spending share fell between 1979 and 2010/11. That point was reached in 1997/98 (the first year of the newly-elected Labour government). The upper line (at 7.2 per cent) marks the average for that period.

As it happens, 7.2 per cent is also the average local government share over a longer period from 1966 to 2010/11, while 1966 itself was also the last time (before 1997/98) that the share was as low as 6.2 per cent. This average and this low point are therefore good not just for the 32 years from 1979 to 2010/11 but for the 45 years from 1966.

Looking back over the 45 years up to 2010, local government's share of the economy moved between

a low of 6.2 per cent (1966, 1997/98) and highs of 8.6 per cent (2009/10) and 8.7 per cent (1975). In modern money, that's the difference between a local government that spends £124bn and one that spends £174bn. That is a wide margin: even in this old world, local government was used to big change.

While the upswings and downswings reflect political preference and the priority that central government attaches to local government, all four peaks (including 1981 and 1991/92) correspond to economic recessions or their immediate aftermath. What is going on at these moments is that local government's share of spending spikes because the economy – and spending as a whole – drops.

With 2009/10 a peak – and the three years 2008/09 to 2010/11 as three of only five years when local government's share topped eight per cent – it is clear that local government's position relative to the rest of the economy at that time was unsustainable. But while a fall was inevitable, its steepness and duration were not.

Although the circumstances were very different (with inflation topping 26 per cent in the mid-1970s), what happened to local government's share of total spending between 2009/10 to 2011/12 resembles what happened to it between 1975 and 1977. From the fourth year past the peak and beyond, the two diverge. In the 1970s, the decline in local government spending share first slowed then went into reverse. By contrast, all that happens from 2012/13 and beyond is that the decline carried on.

This corrects what could be called a financial view of austerity that is based on the local government data alone. In this view, which is reflected in both Figures 1 and 2, the bulk of austerity (at least for English local government as a whole) was over by the end of 2012/13. A squeeze continued but it was gentler. By contrast, the economic view sees austerity relative to the rest of the economy continuing at the same pace at least up to 2014/15, and then carrying on all the way to 2019/20. Both the pace and duration of the decline exceeded what happened after both the 1981 and 1991/92 peaks.<sup>12</sup> What causes the economic view to differ from the financial is that from 2013/14, the economy started to grow faster. Although local government was almost standing still financially, it was still falling back against the economy.

Looking forward from 2010, the steepness of the decline that began that year coupled with the duration meant that by 2017/18, local government's spending share fell through the 45 year floor of 6.2 per cent of GDP for the first time since 1965. In turn, by the start of 2019/20, local government had already been in uncharted territory for two years. According to the OBR it is due to continue on a downward path until 2020/21 when its share (almost) stabilises at 5.6 per cent of GDP. That is a tenth smaller than what it would have been at the old floor.

The reason why the OBR shows the share almost stabilising from 2020/21 is that the Chancellor's planned rate of real growth for public spending (1.2 per cent a year) is only a little short of the OBR's forecast growth for GDP (1.35 per cent a year). With the uncertainty connected with Brexit, it is easy to understand why the OBR would be cautious in its forecasts. But by historical standards, 1.35% a year is a low rate of growth – and if the Brexit uncertainty lifts, faster growth is likely. In that case, unless public spending grows faster too, local government's relative decline will carry on, reducing it to a size not seen since the 1950s. At that time, as Figure 5 hints at, low *current* expenditure was offset by high *capital* expenditure – worth £50bn to £60bn each year (in modern money) from the early 1950s to the mid-1970s. Adding current and capital spending together, local government spending is now – in 2019/20 – below its previous low point (1997/98). That is not just the low point since 1979 but the lowest level since before 1948 – and on the OBR's modest forecast for growth, still falling.

## 4.2 What this means for neighbourhood services

We now have three distinct pieces of evidence all of which show that cuts in spending on neighbourhood services have gone too far. They are:

- The 'hollowing out' of local government's capacity to shape neighbourhood services provision, to respond flexibly to the unforeseen and to manage and mitigate risk. Practical know-how as

12 Whether this story is true for neighbourhood services alone depends on which measure in Figure 2 is being looked at. The volume of neighbourhood services provided fell 20 per cent from 2009/10 to 2012/13 and another 8 per cent (of the same 2009/10 base) by 2017/18. On the other hand, the budget for neighbourhood services before income is taken into account fell 16 per cent from 2009/10 to 2012/13 and another 16 per cent (of the same 2009/10 base) up to 2017/18.

the basis for judgement is being lost.

- The collapse in the levels of neighbourhood services provision per head in a small but growing number of local authorities. Their plunge down the per head spending table is likely a sign of unbearable financial pressure.
- Local government's share of spending in the economy as a whole which has come down further and faster since 2010 than ever before has reached a post-1948 record low and is has reached a post-1948 low, and is likely still heading downward likely still heading downward.

In short, the position that local government now finds itself in is not sustainable. To reverse this, two things are needed. In both cases, local government's share of spending in the economy is the measure used to determine what is needed.

First, spending on neighbourhood services needs to be restored to a *minimum* sustainable level. While nobody can know for sure what that is, a reasonable assumption is that it is the level of spending consistent with local government as a whole taking not less than a 6.2 per cent share of total spending in the economy.

Second, the slide in local government spending as a share of total economy spending must end. Based on the OBR's forecast, the Chancellor's path for future public spending comes close to this, provided local government spending rises in line with public sector spending as a whole. However, a large part of the reason why the share stops falling is that economic growth is forecast to be low. To stop the local government spending share from sliding again once growth picks up, the path for public spending needs to be linked to GDP. On the OBR's forecasts, this makes little difference arithmetically – but the principle is crucial.

**Table 5: scenarios for GB Neighbourhood Spending**

Scenario		2020/21	2021/22	2022/23
<b>A: no real growth</b>	Gross	£24.8bn	£25.2bn	£25.6bn
	Net	£15.4b	£15.7bn	£15.9bn
	Net v. 19/20	+£0.24bn	+£0.49bn	£0.77bn
<b>B: Chancellor's path for public spending</b>	Gross	£25.1bn	£25.8bn	£26.6bn
	Net	£15.7bn	£16.3bn	£16.9bn
	Net v. 19/20	+£0.53bn	+£1.09bn	+£1.68bn
<b>C: Maintain 2020/21 GDP share (5.6%)</b>	Gross	£25.1bn	£25.8bn	£26.6bn
	Net	£15.7bn	£16.3bn	£16.9bn
	Net v. 19/20	+£0.54bn	+£1.13bn	+£1.77bn
<b>D: Step up and maintain a minimum sustainable GDP share (6.2%)</b>	Gross	£27.8bn	£28.6bn	£29.5bn
	Net	£18.4bn	£19.1bn	£19.8bn
	Net v. 19/20	+£3.23bn	+£3.90bn	+£4.63bn

Table 5 sets out four scenarios to show what additional resource neighbourhood services across England, Wales and Scotland would need in order to reach certain thresholds. Estimates are shown for both gross and net spending. Net spending (the budget) is also compared with the expected level of net spending in 2019/20, estimated to be £24.4bn gross and £15.2bn net.

- **Scenario A** ("no real growth") shows that net spending would have to rise by approximately a quarter of a billion pounds a year simply in order to keep up with inflation. Just keeping up with inflation would mean that by 2022/23, local government's share of GDP would have fallen further, to 5.4 per cent of GDP.
- **Scenario B** ("Chancellor's path for public spending") shows that if local government in general and neighbourhood services in particular started to grow (from 2020/21) in line with public spending as a whole (1.2 per cent real a year), then the growth would be over half a billion pounds in the first year, rising to £0.6bn extra in the third year.
- **Scenario C** ("Maintain the 2020/21 GDP share of 5.6 per cent") confirms that there is little difference arithmetically compared with scenario B – but as noted above, it is the principle of growing in line with the economy that matters.
- **Scenario D** ("Step up and maintain a minimum sustainable 6.2 per cent share") shows that spending on neighbourhood services would jump by £3.23bn in 2020/21 (an extra £2.7bn

compared with what would happen in 2020/21 under the Chancellor's plan). Keeping up thereafter would mean annual additions of between £0.6bn and £0.7bn in each of the next two years.

The most important number in Table 5 is the £3.2bn (scenario D) required to get GB-wide spending on neighbourhood services up to a minimum sustainable level in 2020/21 – estimated to be £27.8bn.

What might resources of this level mean for individual neighbourhood services?

## 5. Minimum sustainable budgets and the choices for neighbourhood services

There are three reasons for looking in detail at what extra resources might mean for particular neighbourhood services. First, an argument for spending that does not get beyond the pounds is not very compelling. Made up of some 70 individual services, it is possible with neighbourhood services to be more concrete and specific.

Second, the overall pattern of spending on neighbourhood services changes all the time – and under the pressure of austerity since 2010, may well have changed more than ever. In this constrained financial situation, it is not obvious that simple ways to spend more money – e.g. increasing all spending proportionately or reversing the cuts proportionately – are either what would or should happen.

Third, with austerity coming to an end, local government will have a certain freedom to choose, which it has not had for a long time. How might it exercise it?

The starting point for this chapter is the observation that if spending in 2020/21 achieves the minimum sustainable level identified in chapter four, total spending on neighbourhood services by English local authorities in that year would, in real terms (that is, after adjusting for inflation), be worth about the same as it was in 2012/13. This was £2.1bn more than total spending on neighbourhood services by English local authorities in 2017/18 (the most recent year for which detailed spending data is available). So, in this chapter, we look at changes in spending between 2012/13 and 2017/18 to give us a sense of how this £2.1bn might be spent if it were reinstated.

### 5.1 Changes in neighbourhood services spending, 2012/13 to 2017/18

Table 6 shows how the £2.1bn reduction in spending on neighbourhood services between 2012/13 and 2017/18 was distributed between the four main service groups, namely culture and related (-£950m), environment and regulation (-£430m), planning and development (-£120m) and highways and transportation (-£550m). By far the biggest cut fell on culture and related services.

**Table 6: changes in spending by English LAs on neighbourhood services by scale of spending change 2012/13 to 2017/18 (at 2017/18 prices)<sup>13</sup>**

	"Very deep": service cut by > 2/3rd	"Deep": service cut by 1/3rd to 2/3rds	"Less deep": service cut by < 1/3rd	"Increase" service increased or new
Culture and related (-£950m)	-£520m	-£500m	-£300m	+£380m
Environment and regulation (-£430m)	-£600m	-£580m	-£350m	+£1,100m
Planning and development (-£120m)	-£270m	-£300m	-£120m	+£570m
Highways and transport (-£550m)	-£700m	-£490m	-£300m	+£940m
Total (-£2,060m)	-£2,090m	-£1,870m	-£1,080m	+£2,980m

Source: Local authority revenue expenditure and financing England, final outturn 2009/10 to 2017/18, HM Treasury GDP Deflators at Market Prices

Within each group, the changes in spending are further reported according to the scale of the cut (or the increase) for each individual neighbourhood service in each local authority. The spending cut for an individual local authority service is shown as "very deep" if that service saw a real cut in spending over the period of more than two-thirds. It is shown in the "deep" column if the cut was between one-third and two-thirds, in the "less deep" column if the cut was less than one third and in the "increase" column if spending rose.

<sup>13</sup> These Figures differ to those presented in the first chapter for the overall level of cuts since they do not include the combined authorities, waste authorities or the GLA.

There are three points of note in this table. First, the total cut of £2.1bn is made up of cuts to services totalling just over £5bn and increases to other services of just under £3bn. This confirms that it was not just the overall level of service that was different in 2017/18 but also the mix of services. Second, putting £2bn back in 2017/18 would in no way have been sufficient to reverse the cuts unless all the increases were to be reversed as well – which was obviously not going to happen. Third, the distribution between “very deep”, “deep” and “less deep” was fairly uniform across the four service groups but in proportion to the total cut, the fourth, “increase” column was much smaller for the culture group than the others.

Taken together, these points underline the fact that returning to some past spending level certainly does not mean returning to anything like the pattern of services that were provided at that time. Local government will face no less complex a set of choices about where to deploy extra resources than it has these past 10 years as it has grappled with where to make the cuts. So where might that money go?

## 5.2 Three possible spending strategies

How extra money ends up being spent will be the result of thousands of decisions across hundreds of authorities. At the same time, however, similar pressures and constraints, similar past choices (seen in the more detailed cuts data) and in the end, similar needs and desires mean that these independent decisions will nevertheless have much in common. Looking from the top down, this final section considers three possible patterns that might emerge and what they would mean for different neighbourhood services. They are:

- Proportional to budgets: additional spending is distributed proportionally to actual spending on each service in 2017/18. The extra £2.1bn is equivalent to just over 12 per cent of the total 2017/18 spend. Spending in each service area therefore goes up by this percentage.
- Reverse all cuts uniformly: additional spending is allocated among services in proportion to the cut that they experienced between 2012/13 and 2017/18. Services which did not see a cut neither receive extra nor lose money. With the cuts to services totalling some £5bn, the extra £2bn can only reverse about 40 per cent of the total cut.
- Prioritise the deepest cuts: additional spending is allocated first to reverse enough of the “very deep” cuts to restore them to the same position as the services who had merely seen “deep” cuts. After that, what is left over (some £1.4bn) is spread across all the services which had had “very deep” or “deep” cuts. Even after the £2bn is allocated, these services would still be at a lower level relative to 2012/13 than the services which had had “less deep” cuts (and who get no extra money in this scenario).

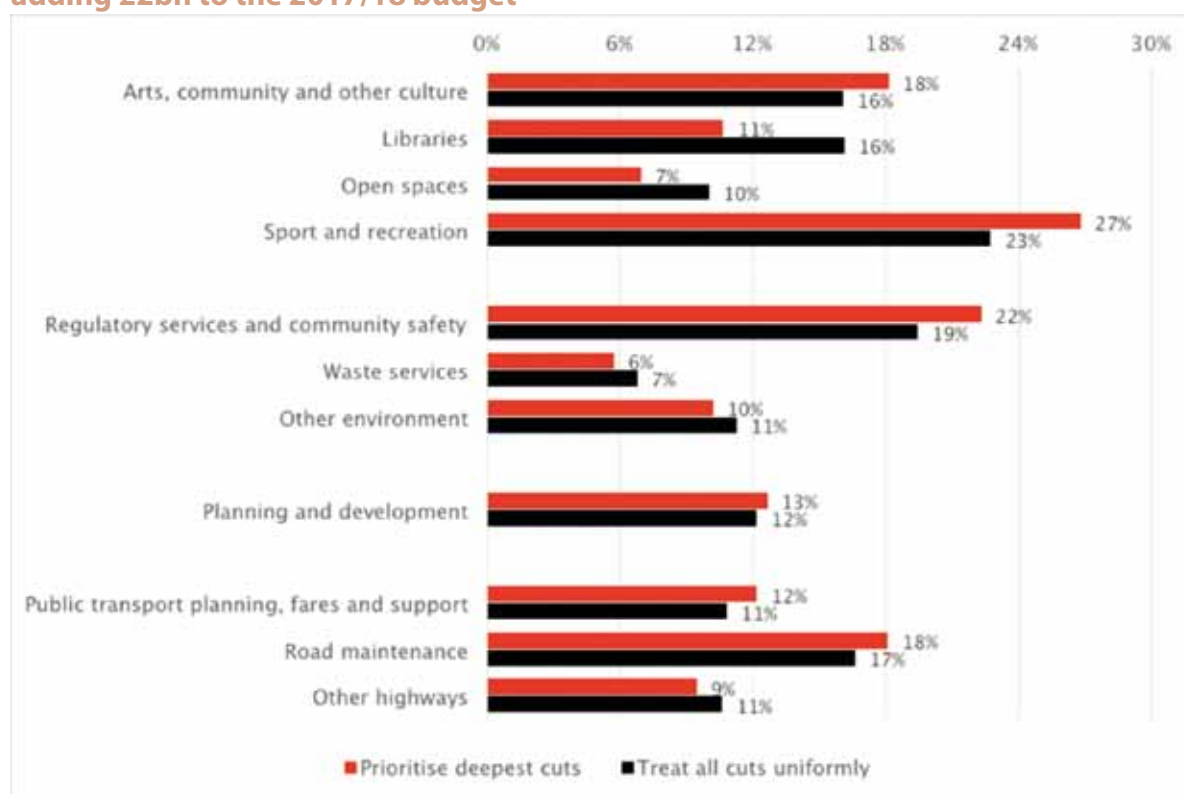
The results of these three scenarios are presented in Figure 7 using a 12-fold grouping for neighbourhood services which breaks three of the four main groups into several parts:

- Culture and related is divided into: arts, community and other culture; libraries; open spaces; sport and recreation.
- Environment and regulation is divided into: regulatory services and community safety; waste services; other environment.
- Highways and transportation is divided into: public transport planning, fares and support; road maintenance; other highways.

For each of the 12, Figure 7 shows the percentage increases on the 2017/18 budget for the second and third scenarios (reverse cuts uniformly and prioritise the deepest cuts). The first scenario (increase budget proportionally) is in effect represented by the 12 per cent line since this, by definition, is what would happen if every service were increased in proportion to its budget.



**Figure 7: impact on neighbourhood service sub-groups of different strategies for adding £2bn to the 2017/18 budget**



Source: Local authority revenue expenditure and financing England, final outturn 2009/10 to 2017/18, HM Treasury GDP Deflators at Market Prices

The first point is that all neighbourhood service areas suffered cuts over the five years and would therefore benefit from any allocation of extra spending to offset those cuts. The area with the smallest increase (reflecting the fact that it had the smallest cut) is waste: if the money were allocated uniformly to the size of the past cut, waste would see a seven per cent increase in resources. That is just half what it would get if all budgets were boosted by 12 per cent.

Second, whichever of the two cuts reversal scenarios are used, the biggest increases go to sport and recreation (up 27 or 23 per cent depending on the strategy) and then regulatory services and community safety (22 and 19 per cent). This latter group contains 14 individual neighbourhood services, including trading standards, food and water safety, environmental protection, noise and nuisance, crime reduction and CCTV.<sup>14</sup> As unglamorous as they are vital, they have as a group suffered both the second biggest proportional cut (reflected in the 19 per cent) and the second deepest cut overall (reflected in the 22 per cent).

These two are closely followed by all aspects of road maintenance (18 and 17 per cent) and arts, community and other cultural services (18 and 16 per cent). This latter is another hybrid group of half a dozen individual services including community centres and public halls, theatres and public entertainment and arts development and support.<sup>15</sup>

These four service groups would all benefit more from an allocation of extra money designed to reverse past cuts than an across-the-board 12 per cent increase. By contrast, several other service groups are fairly indifferent between an allocation designed to reverse the cuts and a uniform allocation. These service areas include street cleansing, public transport fares and support, other highways spending (including parking) and other environment spending (including flood protection, coasts and climate change mitigation).

<sup>14</sup> The other services in this group are: housing standards; health and safety; port health; pest control; public conveniences; animal and public health and infectious disease control; alcohol and entertainment licensing and taxi licensing; safety services.

<sup>15</sup> The other services in this group are: archives; heritage; museums and galleries.

Open spaces and especially libraries are a special case. Unlike the four services areas getting the biggest increase, both open spaces and libraries would get more money if cuts were reversed uniformly (16 per cent for libraries and 10 per cent for open spaces) than if they were reversed with a bias in favour of very deep cuts (11 and seven per cent). What this reflects is that while they have both seen extensive cuts, few local authorities have cut them since 2012/13 by more than two-thirds.<sup>16</sup>

### 5.3 Conclusion: the significance of 2012/13

While the detail will vary from authority to authority, any strategy for spending new money that aims to mitigate the service cuts in recent years will end up prioritising sport and recreation, regulatory and community safety services, highway maintenance and arts and community. These are the spending areas that have seen both the broadest cuts and the deepest cuts since 2012/13. Except for highways maintenance with its implications for the always newsworthy state of the roads, these are not spending areas that usually attract much attention. Some “very deep” cuts, for example in sport and recreation, reflect the transfer of a service to another provider rather than near or complete closure. Although such transfers began well before 2010, they have continued to take place. Similarly, some facilities previously supported under the arts and community heading have been handed over to community groups to run on a voluntary basis.

The comparison between arts and community services on the one hand and library services on the other illustrates a wider point. In terms of the overall service cut since 2012/13, both have suffered to a similar extent and would each receive an above average 16 per cent increase in funding if extra money were allocated uniformly in relation to past cuts. But under a “repair deep cuts first” strategy, arts and community would get more (18 per cent) and libraries less (11 per cent) – while under a “repair shallow cuts first” strategy, it would be libraries that got more. Arguments can be made for either approach. As they emerge from austerity, local authorities will need to be clear about how they choose its priorities.

Finally, it is important to emphasise why the level of spending on neighbourhood services in 2012/13 should be treated as a benchmark, at least for England. The reason is that spending on neighbourhood services in 2012/13 is on a par with what this report has identified as a sustainable minimum for 2020/21. Cuts in individual services since then can therefore be seen as a cut too far. Figure 7 can be read as a picture of how far and where the excess cuts had gone five years later.

To reference 2012/13 in this way is not to deny that local government needed to make spending cuts before then. As Figure 2 shows, spending on neighbourhood services in 2012/13 was already 20 per cent below its 2009/10 peak in real terms.

There is one more point to be drawn from the comparison between 2012/13 and 2017/18. As Table 6 shows, although gross spending on neighbourhood services in the latter year was only £2bn below 2012/13, £2bn was nowhere near enough to restore all the cuts because spending elsewhere, even within neighbourhood services, had risen. It is precisely to accommodate such growth that spending by local government needs to rise over the long term not just in line with inflation but in line with the economy as a whole. While £2bn in 2017/18 would have been enough to get spending on neighbourhood services back to the 2012/13 level, it would have needed something close to double that (table 5, scenario C3) before spending was once closer to its long-term share. Restoring the cuts that have gone too far whilst accommodating growth in neighbourhood services cannot be done if local government only manages to reach the sustainable minimum. Instead, it needs a period of steady real growth moving it back towards its long-term average share.

Whenever it comes, the next Comprehensive Spending Review must be forced to acknowledge this reality and respond accordingly. It rests with local government leaders in each country to press this case; the evidence they need to do so is assembled here. However severe the other pressures, a local government that aspires to be sustainable cannot agree to meet these pressures by neglecting neighbourhood services.

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<sup>16</sup> 15 out of 326 lower tier authorities have made “very deep” cuts to their spending on open spaces since 2012/13 while just three out of 152 upper-tier authorities had cut their library service to that extent.









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