Facing the Future:
Local Government's Response to the Comprehensive Spending Review

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LOCALIS

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Executive Summary

The Comprehensive Spending Review (CSR) was announced by the Chancellor on 20th October and confirmed the fears of many in local government that the sector would not be spared the axe. The top-line figures – a 26% cut in real terms funding between 2011 and 2015 – will clearly place a significant strain on the budgets of local authorities across England, although the pill was sweetened by the simultaneous announcement of a number of new initiatives designed to enable greater financial autonomy at the local level. In order to understand how councils received the CSR announcement and how they intend to respond to the measures it introduced, Localis has undertaken a survey, which we invited the Finance Directors of every local authority in England to complete.

1) The Challenge

A stand-out feature of the responses to our survey was the strength of Finance Directors' surprise and disappointment at the front-loading of the cuts to local government funding. Despite most respondents foreseeing the approximate extent of the cuts over the full four-year CSR period, not a single Finance Director believes that the announcement was 'better than expected'.

One relatively typical respondent stated that his council had "expected to achieve the required savings through a programme of efficiency savings but now needs a service cuts package as well". Most Finance Directors predict that multiple services will face cuts. Even services receiving extra funding – such as adult social care – may be put under strain such is the size of the overall reduction in central government grant to local authorities. The challenge facing councils in the wake of the CSR announcement is undoubtedly considerable.

- Half of all councils say the CSR was worse than they expected, and of these, 80% feel that the funding cuts in the first year are too steep.
- Following the CSR, councils are less optimistic that they can achieve the necessary staff cuts through natural wastage. More than three in four respondents believe that forced redundancies will be necessary, and one in three upper tier councils project staff cuts in excess of 20% by 2015/16.
- Finance Directors at upper tier authorities think that adult social care is the service most likely to be severely affected by funding cuts, despite the announcement of additional funding streams worth £2bn by central government.

2) The Response

Local Government

Although surprised by the front-loading of the cuts, Finance Directors are generally prepared to pursue innovative solutions to the challenges thrown up by the budget cuts, with a significant majority expressing their interest in fully investigating a range of options to ensure that the impact on the quality of front-line services is minimised.

- Almost six in ten Finance Directors said they would investigate the potential of sharing and outsourcing a wide variety of services, ranging from leisure facilities, to waste and recycling, to highways maintenance.
- The survey showed that councils are thinking innovatively about how to protect front-line services, with nearly three-quarters of Finance Directors saying they are thinking of merging services with other councils, or considering outsourcing service delivery to the private sector (71%), voluntary sector (69%) or community organisations (63%).

Central Government

On a less positive note, responses to the survey indicated that, for many, the Government did not devolve as much power as had been hoped. Not a single responding Finance Director at an upper tier authority believes that the community budgets pilots are sufficient to facilitate genuine innovation. It is likely that respondents were disappointed by the pilot scheme's narrow focus on "families with complex needs" and by the cautious timescale for rolling-out community budgets across the country.

However, given the Government's stated intention to extend the scheme nationwide by 2013/14, this may be an area in which local authorities' approval increases in the future. The evident desire of Finance Directors for their councils to be given powers to pursue locally appropriate solutions also inspires confidence that effective use will be made of measures and incentives announced after the CSR in the 'Local Growth' white paper, such as Tax Increment Financing.

- While there is support for the Government's commitment to the removal of ring-fencing, less than 10% of Finance Directors believe that the community budgets pilots go far enough.

3) The Future

It is indisputable that the CSR dealt a difficult hand to local authorities. But councils must respond positively and make intelligent use of the resources they will have over the coming years to ensure that the impact of the cuts is minimised. A 'salami-slicing', business-as-usual approach will not suffice. Councils must think radically about how they support and empower their residents and introduce new service delivery models, with further support from Government over initiatives such as community budgets. Based on our analysis of the survey results, we make the following recommendations:

- Central government should note the appetite for further devolution of power to local government and work to devolve more financial powers and pooled budgets to local authorities to allow them to pursue new delivery models.
- It is essential that councils make use of innovative funding options, and new models of service delivery to provide better and cheaper services for local residents.
- Councils must follow up on their enthusiasm for the ideas of increased outsourcing and sharing services by accurately assessing the needs of the local population and designing strategic partnerships to serve these needs.

Introduction

Survey Methodology

Localis invited the Finance Directors of all local authorities in England to complete a survey designed to gauge the sector's reaction to the Comprehensive Spending Review and obtain an accurate impression of how councils are planning to respond to the challenges and opportunities that it provides. The survey asked a range of questions (for a full list, see the appendix) which aimed to establish the main opportunities and challenges that Finance Directors perceive, having had some time to reflect on the Chancellor's announcement. In analysing the results we examined all the responses as a whole and also separated out the responses of Finance Directors at lower tier councils (County Districts) and upper tier councils (County Shires, Unitary Authorities, Metropolitan Boroughs and London Boroughs), having received responses from approximately an equal number in each category.

The findings are instructive, indicating that Finance Directors and the councils they represent are broadly aware that the considerable cuts to local government in the CSR require innovative solutions. The key findings of the survey are interspersed throughout the main section of the report, which examines the CSR's impact on local government. But before focusing on how the economic settlement affects councils, we will place the CSR in its national economic and political context and summarise the most important features of the Chancellor's announcement.

The CSR in Summary

The Spending Review may have been comprehensive, but at the national level it arguably offered few surprises and was not as far reaching as many people had feared. Certainly the muted reaction of the financial markets – the FTSE 100 index rose by 0.44% on the day – appeared to bear this out[1]. Despite this, the CSR was still a game-changing moment for many government agencies, civil servants, and benefit recipients. In this section we explain why the consolidation was deemed necessary, and outline which agencies and sections of society the cuts are due to impact upon most heavily.

The Need for Fiscal Consolidation

The decision to reduce public spending and increase taxes is never easy or popular. But there has been broad cross-party consensus for some time now that spiralling national debt, alongside recessionary economic conditions, made it imperative that the nation's finances were reined in. With an ever increasing structural deficit and stratospheric interest payments, ignoring the state of our public finances and continuing to spend at the level possible during times of economic plenty would likely have damaged the national economy irreparably. It can be contended that Britain was standing on the edge on an economic abyss, especially since it faced the prospect of its credit rating being downgraded, meaning a further hike in the cost of government borrowing. This would have the consequent effect of loss of confidence on the markets and an eventual curb in private sector demand.

According to the Emergency Budget report in June 2010, total government expenditure during 2010-11 will amount to £697bn, with government receipts totalling £548bn[2]. Figures from September 2010 show that public sector net

1 Financial Times Companies and Markets, 21/10/2010, p.42
2 HM Treasury, Budget 2010 (London: The Stationary Office, 2010), p.5.

borrowing hit a record high of £15.6bn for the month. More shockingly still, interest payments on borrowing during the same month rose to £2.3bn, up 150% from the same period last year[3].

At the end of September, government debt (excluding financial interventions) stood at £843bn.[4] Including the bank bailouts this figure was £952bn. But a net debt of over 50% of GDP, excluding the additional debt incurred through bailouts, indicates that the current crisis runs much deeper than the failures in the banking industry.

Turning the 'Debt Supertanker'

Government debt, as a percentage of GDP, is estimated to peak in 2014, at 70.3%, even after the impact of the CSR is taken into account. The amount of public money spent on interest repayment will continue to skyrocket from £43.3bn in 2011 to £63bn in 2015[5]. There is little wonder that George Osborne described debt as a "supertanker" – there is simply no way to quickly turn it around.

Although the measures in the CSR are not a panacea, Government felt they were crucial to curb the increasing indebtedness of the nation before the markets lost yet more confidence in 'UK plc'. And the early signs are good: the Government's commitment to reducing the deficit has already managed to reduce the rate of interest on the bonds that the UK issues to raise capital from around 4% to 3%. The independent Office for Budget Responsibility's (OBR) 'Economic and Fiscal Outlook' published in November also revised upwards economic growth over the whole of the CSR period to 2015/16 in light of the CSR announcement.[6] It also drastically reduced its previous estimate, made in June, of 490,000 public sector job losses by 2015/16 to 330,000, and claimed that it expects a situation over the CSR period in which the "private sector more than offsets falling public sector employment".[7]

What Does the CSR Intend to Achieve?

Over the review period, George Osborne hopes to completely eliminate the £109bn structural deficit,[8] allowing for a focus on growth by the time of the next election.

The main aims of the consolidation announced in the budgets and detailed in the CSR were to:

- Reduce public sector net borrowing (PSNB) from its current level at 11% of GDP to 1.1% of GDP by 2015/16;
- Eliminate the structural deficit by 2014/15; and,
- Place Public Sector Net Debt (PSND) as a proportion of GDP on a downward path by 2014/15.[9]

Overall, public spending is projected to reduce from 47.7% of GDP in 2010/11 to 41.0% in 2014/15.[10]

3 The Daily Telegraph, Business supplement, 21/10/2010, p.1.
4 Ibid.
5 The Daily Telegraph, Business supplement, 21/10/2010, p.1.
6 Office for Budget Responsibility, p.6.
7 Ibid, p.7.
8 Ibid, p.7. Structural deficit is the element of government deficit that results from a fundamental imbalance in government income and receipts even when the economy is operating at 'full capacity', as opposed to the cyclical deficit which arises from the impact of one-off or short term factors.
9 HM Treasury, Spending Review 2010 (London: The Stationary Office, 2010), p.16.
10 Ibid, p.17.

Where is the Consolidation Felt?

1 Government Spending:

Spending cuts of around £83bn in real terms by 2015/16 constitute approximately 74% of the Government's effort to restore economic stability; tax increases projected to raise £29bn by the same date make up the remaining 26%.[11] A focus on reducing welfare costs has allowed the Chancellor to protect several areas of public spending more than was initially feared. Departmental spending will fall from £394bn this year to £389bn in 2015 (in cash terms), noticeably higher than June's Emergency Budget's forecast of £376bn for 2015.[12]

Welfare will now account for approximately a quarter of the entire spending cuts. Savings through tighter eligibility of child tax benefits (worth £2.5bn rather than the previously estimated £1bn) and an increase in the amount public sector employees must contribute to their pensions also helped to bridge the gap.[13]

The Treasury's attitude to cost cutting in the CSR is very much that 'every penny counts' in the effort to protect front-line services. In the case of coinage, this mantra has been taken literally: a reduction in the copper content in 5 and 10 pence coins will save £10 million a year in raw material costs.[14]

However, despite the fastidiousness of the spending cuts and the size of the reduction in the welfare budget, the cost of servicing Government debt will continue to take up an increasing share of public sector spending. Consequently, greater cuts are required to departmental budgets than the basic spending figures suggest.

A breakdown of the headline figures makes it easier to understand what the actual impact on spending will be in the period covered by the Comprehensive Spending Review (to 2015):

- **5.5%** Nominal rise in total Government spending in cash terms from 2010-11 to 2014-15
- **-3.9%** Inflation adjusted, real term fall in spending over this period
- **-6.5%** The real term cuts in spending after higher debt interest payments are taken into account
- **-12.7%** The figure departmental budgets will have to fall by to meet the savings, as a significant amount of public spending is already committed through pre-agreed contracts.
- **-19%** The figure budgets of unprotected departments will have to fall by to achieve savings, as other departments' budgets are wholly or partly protected. [15]

2 Tax Increases

Another, less analysed section of the CSR's budget reforms is the revenue raising side. The CSR presumes that tax revenues will rise to the highest proportion of national income that they have been for 20 years. The majority of this increase derives from consumption – the increase in the rate of VAT is projected to generate an extra £13.5bn a year by 2014/15[16]. Also, as announced in the June Emergency Budget, Capital Gains Tax will increase from 18% to 28% for high earners.[17]

Other estimations, although not officially part of the consolidation, may explain the softening of the cuts. The Government hopes to raise an extra £15bn a year,

11 http://www.bbc.co.uk/news/business-10810962 (accessed 25/11/2010).
12 Spending Review 2010, p.17.
13 Spending Review 2010, pp.68-9.
14 Spending Review 2010, p.12; The Times, 21/10/2010, p.10.
15 Financial Times, 21/10/2010, p.3.
16 HM Treasury, Budget 2010, p.51
17 Ibid, p.32.

for example, through a tightening crackdown on tax avoidance.[18] While this may seem optimistic, it is broadly in line with similar announcements by a number of other European countries.[19]

3 Capital Investment

Although there have undoubtedly been severe cuts in departmental budgets across the board, it is the capital side that has felt the deepest cuts, with a 29% Government-wide reduction by 2014/15.[20] A number of high-profile casualties of the cuts to capital investment, such as the Building Schools for the Future programme, were announced prior to the CSR.

However, in the CSR the Chancellor also stated that within the reduced capital investment budget, priority should be given to areas which are most likely to stimulate economic growth. Accordingly, he has promised to focus on investment in major infrastructure projects, especially transport links, and science and digital infrastructure.[21] He was also able to announce that an addition £2bn per year will be available for capital investment projects on top of the capital investment budget he set in June.[22]

Putting the CSR in Context

Despite the challenges presented by the CSR, the cuts are not as large as the Chancellor had earlier mooted. Original predictions stated that non-protected departments would be hit by an average funding cut of 25% in real terms over the four year CSR period; the final figure is actually around 19%.

And despite these being the deepest cuts that most Britons will have ever faced, in the immediate aftermath of the announcement, George Osborne's cuts received a cautiously optimistic response from many quarters, as detailed below.

Certainly, the cuts announced in the CSR are not as deep as those in other countries during past financial crises. Fiscal consolidation packages in Sweden and Finland in the early 1990s involved a reduction in Government spending amounting to 14% of GDP, dwarfing the cuts announced in the CSR of approximately 6-7% of GDP. In these cases, the countries recovered to enjoy periods of prolonged economic growth. In addition, compared with the current economic situations in Greece, Ireland and a growing number of Eurozone nations, the UK remains in a relatively strong position. Greece, under instruction from the IMF, is cutting €35bn – an incredible 19% of GDP – from its budget over the coming four years.[23]

Next Steps

The Chancellor's plan for economic recovery is not predicated on cuts and tax increases alone; a return to growth is also integral to the Government's economic forecast. As David Cameron and Nick Clegg reminded their Cabinet colleagues in August, the Spending Review was premised on the conviction that the Government must "equip Britain for long-term success".[24] To realise this, the Government will need to move further to lift unnecessary regulations, cut red tape, and provide local authorities with further freedoms to lead economic development in local areas.

However, the private sector will be hit hard by the CSR. Huge cuts to Government's capital expenditure announced in the CSR will result in a drastic reduction the amount of goods and services that the Government purchases from the private sector. Barring spending on defence, capital expenditure is projected to fall

18 http://www.bbc.co.uk/news/business-11597371 (accessed 01/12/2010).
19 http://www.bbc.co.uk/news/10162176 (accessed 02/12/2010).
20 Spending Review 2010, p.11.
21 Ibid, pp.22-3.
22 Spending Review 2010, p.16.
23 http://www.bbc.co.uk/news/10162176 (accessed 02/12/2010).
24 http://www.bbc.co.uk/news/uk-10847659 (accessed 25/11/2010)

from £51bn this year to £37bn in 2013/14.[25] Given that capital expenditure is used to commission projects to construction firms and other such industries, this represents £14bn taken directly out of the private sector. In addition, many businesses that supply the public sector will have to respond innovatively to deliver better value for money to their cash-strapped public sector partners.

Reaction to the CSR

Optimism

Unsurprisingly, business leaders were among the most approving of the measures announced in the Comprehensive Spending Review. They generally supported the plans as an effective, if initially painful, way to restabilise the British economy and allow for future sustainable growth driven by the private sector. However, many called for greater clarity in how the Government intends to promote growth in the private sector, which, as discussed above, is so crucial to driving the economy and providing jobs in the wake of cuts to public sector spending. There was also negative reaction to the Chancellor's announcement of a carbon tax, which is estimated to bring in £1bn per year from big businesses.[26]

The CBI's Richard Lambert stated that although there is still resentment in the business world over capital gains tax, the CSR announcement was "credible" and "entrepreneurs and smaller businesses will recognise that the Government has made an attempt to listen [to business]." He did, however, also voice concerns that the Treasury's growth assumptions were potentially over-optimistic. [27]

Some economists also provided reserved support for George Osborne's announcement. Nick Bosanquet, of Imperial College London, argued that public spending cannot be stabilised until it is under 40% of GDP, so the cuts package offered in the CSR was only a first step, and more action may be necessary within this parliament. He did, however, also comment that more needs to be done to create new growth in the regions.[28]

Pessimism

Attacks to the Government's economic plans came from a variety of ideological angles, highlighting the range of concerns over where the cuts will fall most severely. Many media commentators commented on the 'regressive' nature of the cuts, pointing out that, according to the Treasury's own figures, they would hit the poor hardest.[29] But the Financial Times contended that it is unfair to criticise the Treasury for regressive spending cuts. By their very nature, it argued, any spending cuts are bound to be regressive since less affluent people tend to rely much more on public services than those on higher incomes.[30]

It was also telling that while the newspapers with left-wing political leanings, such as The Guardian and The Independent, focused on the cuts' impact on the poor, centre right newspapers including the Daily Mail and Daily Telegraph argued that the greatest burden of the cuts fell on the middle class families. Perhaps this shows just how widely the impact of the cuts will be felt, and suggests that the Government is following its own mantra of "we are all in this together".

Keynesian economists, such as Joseph Stiglitz, claimed that the fiscal stimulus packages and bank bailouts were "a triumph of economic theory". The CSR's reversal of the stimulus policy was, Stiglitz argued, highly risky – "a gamble Britain can ill afford". [31]

25 Spending Review 2010, p.80.
26 City AM, 21/10/2010, p.1.
27 Ibid.
28 Ibid, p.6.
29 The Independent, 21/10/2010, p.1; The Guardian, 21/10/2010, p.1.
30 Financial Times, p.3.
31 http://www.guardian.co.uk/commentisfree/cifamerica/2010/oct/19/no-confidence-fairy-for-austerity-britain (accessed 26/11/2010).

An Analysis of What the CSR Means for Local Government

1 The Overall Picture

The Department for Communities and Local Government's budget will be cut by 51% to £3.2bn by 2014/15.[32] The majority of this is due to reducing social housing budgets, reining in quangos, and devolving funds to local authority control.

Local government faces a 26% real terms reduction in funding by 2014/15, although when the OBR's estimate for increases in Council Tax income are taken into account, the reduction in council income is projected to fall by 14% over the same period.[33] The cuts to local authority funding are considerably front-loaded, with a real term reduction of approximately 11% in 2011/12.[34] Immediate cuts to services will be necessary and difficult decisions regarding where limited funds are to be focused and where savings are to be made will have to occur quickly. Discretionary services are likely to be heavily hit.

Our survey of councils' Finance Directors indicated widespread dissatisfaction towards the measures announced in the CSR, with particular frustration at the front-loading of cuts and the lack of absolute clarity for councils in the announcement. The specific findings are:

- **No Finance Director found that the CSR announcement was 'better than expected'**. Almost exactly half felt it was 'worse than expected', with the other half saying it was 'as expected'.
- Approximately four-fifths of Finance Directors from both upper and lower tier authorities agree that the **first year cuts to local authorities were too steep**, although a slight majority from both categories felt that the CSR overall was an appropriate response given the required scale of cuts to national spending.
- **The vast majority of respondents from both upper and lower tier authorities cited the front-loading of cuts as a key aspect of the CSR which they had not anticipated**. The comment of one Finance Director that "we estimated the overall savings but not the front-loading" was typical of many responses.
- A number also mentioned the increase in the rate of borrowing from the Public Works Loan Board (PWLB) and the lack of clarity in the announcement as other negative unexpected aspects.
- Some respondents were taken aback by what one termed "the lack of policy substance" in the CSR. Another characterised the announcement as "smoke and mirrors".

32 Spending Review 2010, p.47.
33 Spending Review 2010, p.50.
34 Ibid, p.51.

- Despite this, the majority of respondents from upper and lower tier councils accurately foresaw the approximate extent of cuts to councils' budgets over the four years of the CSR prior to the announcement.
- A large majority of respondents feel that **the CSR treated councils less fairly than other public sector organisations** (over 80% of upper tier CFOs and almost 90% of lower tier CFOs agreed that this was the case).
- Positive unexpected aspects of the CSR announcement mentioned by some Finance Directors were funding for the Council Tax freeze, the localisation of Council Tax Benefit and some additional funding streams for social care.
- Many Finance Directors – nearly two-thirds of those at upper tier authorities – said that the unexpected aspects of the CSR had led their councils to change the plans they had formulated prior to the announcement; a large number said that they had to await the Local Government Finance Settlement before plans could be finalised.
- One respondent stated: "We had three scenarios and this delivered our worst case"; another said the scale of front-loading means that not only "expected" efficiency savings, but also a "service cuts package" will be necessary.
- A number of respondents highlighted the need for a quick change in expectations – both from the public and local authorities – as a principle challenge. One Finance Director wrote of the pressing necessity for a "culture change from a time of plenty", while some others mentioned "Councillors' reluctance to make politically sensitive cuts".
- Many Finance Directors said the primary difficulty in making the necessary changes was the sheer scale of funding reductions – "Squaring the budget circle!" in the words of one respondent.

The Government's commitment to localism and decentralisation as the basis for reforming public services, combined with steep cuts to local government, has meant that a fair proportion of the difficult spending decisions have been shifted away from central government to local government.

Whilst this is a huge challenge for local government, it also presents an opportunity for councils to fundamentally redesign services to deliver more, and better, for less. This will require local authorities to focus on better understanding the needs of their residents and being prepared to be bold and innovative in their response. In most cases it will simply not be enough to expect the salami-slicing of services to deliver either the necessary level of savings or the protection of front-line services, let alone improved services.

In order to successfully achieve the scale of reform that is required, local councils will require enhanced financial powers and freedoms from central government in order to deliver genuinely innovative solutions. The philosophical approach of the Government seems quite clear in providing greater freedoms and incentives for councils, and less top-down control over spending. The commitment to reducing spending restrictions placed on local councils through ring-fencing and the removal of targets is certainly a positive step in this direction. Combined with Community Budgets, this will provide some of the tools that councils will require. Whilst there is a strong case to suggest that these powers will need to go much further in the future, there is an expectation that councils will need to deliver results in the short term. Many councils are responding innovatively, but for some the scale of ambition needs to be accelerated quickly to ensure that the first year cuts do not damage front-line services.

1a) The End of Ring-Fencing?

The CSR announcement stated that all ring-fencing of local authorities' budgets, excluding the simplified schools grants and a new public health grant, will end by 2012. The number of core grants will be reduced from 90 to 10. A significant amount of currently siloed funding will be rolled into the formula grant.[35]

- Our survey showed that Finance Directors at upper tier authorities broadly welcomed the "un-ringfencing" of funds announced in the CSR, with two-thirds supporting the idea that this would help meet budgetary challenges.
- However, one Finance Director interpreted the measures announced in the CSR as providing councils with "only the freedom to dig ourselves out of a hole, which could also be interpreted as abrogation of responsibility for the problem by central government".

The removal of central barriers over local government funding streams provides the flexibility for councils to ensure that local priorities are addressed rather than wasting money tackling central targets. However, if effective pooled funding initiatives are to become a reality, funding streams must be entirely "un-ringfenced" to ensure that services are delivered beyond traditional departmental boundaries. Merely widening the "ring-fences" to encompass slightly broader, but still centrally defined, spending priorities will not be sufficient. Giving local authorities genuine freedoms to direct large portions of their funding to locally appropriate services could potentially open the way for innovative commissioning of joint services and for long term, cross-departmental early intervention initiatives.

1b) The Formula Grant

As the main component of CLG grant to local government, reductions to the Formula Grant are a major component of the funding cuts to local government. However, redistributed National Non-Domestic Rates (NNDR) comprises close to 80% to of the total Formula Grant, and the Local Government Association (LGA) has detailed how, as NNDR revenue increases due to inflation and economic growth while the Formula Grant settlement is reduced year on year, estimated receipts of NNDR will outstrip the total Formula Grant settlement by over £2bn by 2014/15. The LGA figures state that £24.1bn will be collected in NNDR in 2014/15, when the Formula Grant will total £21.9bn. Even if we take the Formula Grant to consist entirely of redistributed NNDR, there is still a residual NNDR surplus of £2.2bn.[36]

If we include the extra £4.5bn of funding streams that Eric Pickles has indicated to council leaders will be rolled into the Formula Grant by 2014/15, we can estimate that redistributed NNDR will make up no more than £17.4bn of 2014/15's projected Formula Grant settlement.[37] This would leave £6.7bn of NNDR revenue unaccounted for if the conservative estimation of NNDR growth set out by the LGA proves to be correct.

35 Spending Review 2010, pp.49-50.
36 http://www.localgov.co.uk/index.cfm?method=news.detail&id=92893 (accessed 01/12/2010).
37 Eric Pickles' letter to local authority Leaders, 20/10/2010, pp.5-6, http://www.communities.gov.uk/documents/localgovernment/pdf/1745945.pdf (accessed 01/12/2010).detail&id=92893 (accessed 01/12/2010).

Although it remains unclear what figures have been used to make up the Formula Grant totals set out in the CSR announcement, the figures undoubtedly suggest that not all NNDR revenue will be redistributed through the Formula Grant. Although under the Local Government Finance Act 1988 which nationalised business rates, all NNDR must be redistributed in full, it seems likely that the only option is to legislate to allow some business rate revenues to be kept by central government.

1c) Local Government Investment

Alongside the move to make NNDR revenue feed into national as well as local schemes, however, there are strong hints that the Government is planning to allow local authorities to keep a considerable portion of NNDR growth. The 'Local Growth' White Paper has already announced the Government's intention to develop a Business Increase Bonus scheme, which will allow councils to keep any increases in business rates yield, over a set threshold and up to a certain limit, for a period of up to six years.[38] It also promises that the Government will examine proposals to enable local authorities to retain business rates they raise.[39] The Government's estimate that local authority capital expenditure will fall by 30% despite a 45% reduction in capital funding from Whitehall departments further implies that councils will be expected to use future projections of their business rate growth to act as leverage on funding options such as Tax Increment Funding (TIF) for capital projects.[40]

In an open letter to all local authorities, Eric Pickles made it clear that, with the reductions in budgets brought about by the CSR, there is a clear expectation that councils will be expected to use their own revenues to protect front line services. With pressure to curb council tax rises from both central government and the public, the onus is on councils to increase their revenue streams. However, the cost of funding infrastructure development will increase for local authorities, as the Public Works Loan Board interest rate is to be increased to 1% above gilts, reaping an estimated £45 million a year for Whitehall at the expense of local authorities by 2014/15.[41]

Our survey found that the CSR will adversely affect many local authorities' investment plans despite the Government's plans to allow councils to use TIFs and keep at least some of additional NNDR revenue raised locally:

- Two-fifths of finance directors at upper tier authorities stated that their authority's investment plans had changed as a result of the CSR, while a marginally higher proportion said they had not changed, with the remainder awaiting further details. Lower tier authorities are less likely to have to change their investment plans, the survey suggested: a quarter of Finance Directors at these councils said plans had changed, while six in ten said they had not.

38 Department of Business, Innovation and Skills, Local Growth: Realising every place's potential (London: The Stationary Office: 2010), p.28.
39 Ibid.
40 Spending Review 2010, p.50.
41 Spending Review 2010, p.50.

- Respondents who said their council's investment plans had changed cited the abolition of the Building Schools for the Future (BSF) programme and the PWLB interest rate increase as major factors influencing the need to scale back previously planned investment. The front-loading of the cuts, and cuts to housing budgets were also mentioned in this respect by some Finance Directors.
- Respondents mentioned a variety of specific investment projects which the council have had to cut back in their area, with a number of Finance Directors at upper tier authorities citing schools in particular. One Finance Director said the BSF's cancellation meant that "schools need greater [local] authority investment, probably at least £100 million, just to keep things going".

The survey clearly shows that finding the money for capital investment is going to be incredibly difficult over the next four years. Any new project is going to have to demonstrate clear and tangible economic benefits, with a particular emphasis on those projects which will deliver a financial return over a short timeframe. The increased Public Work Loans Board (PWLB) rate probably reflects, to some extent, the Government's intention to make sure that the projects pursued by local authorities are financially sound.

1d) Regional Growth

The Regional Growth Fund (RGF) was announced to be worth a total of £1.4bn over three years, more than the £1bn that was initially suggested. Of this, £890m will come from CLG funds, while the source(s) of remaining funding are currently unspecified.[42] The level of funding for RGFs is significantly lower than that for the Regional Development Agencies, the abolition of which is projected to save £1.5bn per year to the public purse by 2014/15.[43]

As has been previously announced, the RGF will be the main pot used to provide Local Enterprise Partnerships (LEPs) with funding. An aspect of the RGF which may cause controversy is the fact that all local authorities, not just LEPs, will be able to bid for the grant. This, along with the fact that it will be skewed towards areas in need of greater regeneration, suggests that not all LEPs are likely to benefit from the RGF. It also remains to be seen if LEPs will be given any additional powers which will allow them to effectively lead development in their area.

The original driving philosophy behind the creation of LEPs was to encourage local authorities to work together with business in areas that reflect genuine economic geographies. While this has been achieved to some extent, the challenge going forward will be to ensure that there is even greater clarity over accountability, and that funding streams are conducive to flexible collaboration over a range of different economic geographies.

1e) Distribution of Cuts Between Councils

Recent analysis by the Special Interest Group of Municipal Authorities (SIGOMA), which primarily represents metropolitan councils in the North of England, has suggested that the impact of the cuts in 2011/12 will vary significantly from council to council and from region to region.[44] Taking all facets of councils' income into account, not just the reduction in the Formula Grant, SIGOMA has calculated that some upper tier authorities will face real

42 Spending Review 2010, pp.47-8.
43 Ibid, p.52.
44 SIGOMA, All in this Together? The need for a fair approach to local government cuts, http://www.sigoma.gov.uk/sigoma/Docs/sigomareportsSIGOMA%20All%20in%20this%20together%20Final.pdf (accessed 29/11/2010).

terms funding reductions of less than 3% while others will have to cope with overall cuts to their income in excess of 11%. For lower tier authorities, SIGOMA estimates that the real terms income reductions will vary between 2% for the least affected authority to 25% for the most severely impacted District Council.[45]

Most significantly, SIGOMA suggests that those authorities hardest hit will overwhelmingly be located in the North of England (along with a few deprived London Boroughs), and are among areas already suffering from high levels of deprivation. Conversely those likely to get away with relatively small budget reductions are almost all in the South East and have low levels of deprivation. A DCLG spokesperson responded to the SIGOMA research by saying that the Local Government Finance Settlement will outline the true situation, and "any commentary ahead of formal publication [of the settlement] is pure speculation".[46] There have also been strong hints that some form of damping will be introduced to ensure that the cuts' uneven impact is minimised. However, the official response arguably confirms claims that councils have thus far not received enough information to properly account for funding cuts which may differ substantially from the national average.

> Our survey shows that the overwhelming majority of Finance Directors anticipated that the cuts faced by their council be around the average for all local authorities (11% in the first year; 26% over the four years of the CSR in real terms). These responses indicate that the majority of local authorities are not preparing for budget cuts which differ significantly from the nationwide average (the lack of precise information on how the finance settlement will distribute budgetary reductions means that they are unable to plan effectively). Undoubtedly this is concerning, since many councils may have planned to cope with funding cuts greater than those they actually have to deal with. Even more seriously, other local authorities may at present be underestimating the severity of the cuts that they will actually face.

Whilst many councils have been preparing for some time for budget cuts, the scale of cuts in some areas is undoubtedly going to impact on some areas harder than others. Changing how local government is funded always creates winners and losers. Dampening the effect on such areas has the effect of creating more complexity in the system, making it potentially less transparent and accountable. The Government has been quite clear that it is in favour of greater incentives for local government, the implication of which is that over time some areas will be allowed to develop faster than others. However, the Government has also shown that it wants every area of the country to be given an equal opportunity to develop. But as long as the majority of local government funding is determined by central government, it will always be subject to lobbying by special interest groups. The Government will need to look at opportunities to reverse the balance of funding in favour of local government if this is to be prevented, allowing local areas to determine their own economic destiny.

1f) Reforming Public Services Through Pooled Budgets

Decentralisation and localism run right through the Government's plans to reform public services. Community budgets are a further addition to this agenda, allowing a cross-departmental approach to be taken to the delivery of public services at the local level. Community budgets, which pool departmental budgets at a local level, are to be set up in 16 areas, covering almost a fifth of

45 http://www.lgcplus.com/briefings/corporate-core/finance/deprived-authorities-to-be-hit-the-hardest/5022271.article (accessed 29/11/2010).
46 http://www.lgcplus.com/briefings/corporate-core/finance/deprived-authorities-to-be-hit-the-hardest/5022271.article (accessed 29/11/2010).

all upper tier councils. With a broad focus on helping families with complex needs, the budgets will allow areas to decide themselves which departmental budgets to pool. The budgets are designed to allow councils greater freedoms to design services locally through local public service partnerships. The CSR also states the Government's desire that the 16 trials will act as a precursor to community budgets being made available to all areas by 2013/14.[47]

Our survey shows that Finance Directors generally believe that the **trial Community Budgets do not go far enough** in giving councils greater freedoms to tackle social issues in radically new ways; this is especially the case among Finance Directors at upper tier authorities, none of whom said the pilot scheme goes far enough to empower councils to effectively address social issues.

Given the potential of Community Budgets to radically reform how public services are funded and delivered, the apparent lack of enthusiasm on the part of Financial Directors probably reflects a sense of frustration that they were not wide enough in scope, or rolled out quickly enough, particularly in the face of the front-loading of the cuts.

2 The Impact on Local Government Functions

The overall impact on the particular functions that councils choose to protect or cut will vary from place to place, depending on a range of factors from demographics to political appetite for reform. But because there is a similarity between councils on a number of key service areas, the CSR gives a reasonably clear indication about the major areas that are likely to face significant cuts

Responses to our survey indicate that **councils will generally have to make cuts to a wide variety of services to meet budgetary constraints**.

- One Finance Director said that "all front-line services will be affected, as we will balance budget cuts to ensure no group of residents is unfairly affected", a sentiment echoed by a number of other respondents.
- Finance Directors at upper tier authorities widely cited adult social services and children's services as likely to face cuts, while many of their counterparts at lower tier authorities said that leisure facilities were likely to be affected. Respondents from both groups also mentioned that cultural and arts services, such as libraries and museums, and environmental services would probably be in line for reduced funding.
- A few Finance Directors said that no front-line services would be impacted as the necessary budgetary cuts could be located elsewhere.
- Around half the respondents at both upper and lower tier authorities said that their council had already identified services to be cut. These included a range of services, frequently including leisure and cultural services.

47 Spending Review 2010, p.50.
48 http://www.lga.gov.uk/lga/core/page.do?pageId=15209127 (accessed 25/11/2010)

2a) Local Authority Jobs

Initial estimates suggested that roughly 200,000 local authority jobs will be lost as a result of the CSR. Owing to the front-loading of budget cuts, in November the Local Government Association (LGA) upscaled its prediction that 100,000 jobs would be lost in 2011/12, and it now estimates that 140,000 may go in the first year.[48] However, DCLG Ministers Eric Pickles and Grant Shapps have strongly attacked these as "fag-packet figures".[49]

With the realisation that the front-loading of cuts to council budgets will have profound immediate effects, the CSR put aside a £200m fund to help councils meet the costs of organisational restructuring, to be issued in 2011/12.[50] It is likely that the main use of this fund will be to meet the costs of personnel changes. However, there are widespread concerns that the cost of restructuring could be considerably higher. Simon Hughes, the Liberal Democrat deputy leader, opined in the House of Commons that the cost of local government restructuring might amount to between £1.5bn and £3bn.[51]

The general air of pessimism surrounding the suggestion that councils may be able to make necessary savings without making forced redundancies was further evidenced in our survey.

- Approximately three quarters of all Finance Directors believe that their council will have to make forced redundancies as a result of the cuts announced in the CSR.
- Respondents' predictions on the percentage reduction in the size of their council's workforce by 2015/16 most commonly fell into the 10% to 20% bracket among CFOs at both upper and lower tier authorities. However, over 35% of respondents at upper tier authorities predicted their councils' workforce would be reduced by more than one fifth. Their lower tier counterparts were generally slightly more optimistic, with over 35% predicting their council's workforce would have to be reduced by less than one in ten employees.

Combined with the front-loading of cuts, forced redundancies are likely to pose a significant challenge for local government, due to strict redundancy rules restricting local government's ability to make prompt cuts to staff numbers. There is a very real danger that unless local authorities have already planned how to deal with the cuts, they will have to outsource services simply to make staff cuts. Whilst commissioning services from a range of partners is an important element of the reform agenda, it is important that this is done in a way that makes services better for local residents, and not simply to as a way to make staff redundancies.

2b) Social Care

The CSR announced a £2bn boost in social care funding over the review period. A fund provided to the NHS to work directly with councils to provide joint social care solutions will be worth approximately £1bn. As well as providing extra money, it is hoped that this fund will help to increase collaboration between the NHS and local authorities and pave the way for the greater use of joined-up solutions in social care. In addition, the Personal Social Services grant fund, which will be moved into the formula grant, will be increased by a further £1bn.[52]

49 http://conservativehome.blogs.com/localgovernment/2010/11/more-on-the-lgas-dodgy-dossier.html (accessed 01/12/2010).

50 Eric Pickles' letter to local authorities' Leaders, 20/10/2010, http://www.communities.gov.uk/documents/localgovernment/pdf/1745945.pdf (accessed 01/12/2010).

51 http://www.guardian.co.uk/politics/blog/2010/nov/25/politics-live-blog (accessed 25/11/2010).

52 Spending Review 2010, pp.49-50.

However, councils currently spend more on social care than the revenue support they receive in social care budgets. With the size of the cuts to council budgets, there is likely to be increasing pressure on actual social care budgets. Certainly, this was the view of a number of Social Care Directors who participated in a recent Localis roundtable. One of the key points raised by participants in this discussion was how uncertain the final settlement of social care budgets remains. Analysis by London Councils has predicted that over the spending review period there could be a £1.8bn shortfall in social care funding even before demographic pressures are taken into account.[53]

Over the period it is likely that the ways in which social care in currently provided will have to be critically examined, and many councils are likely to be forced to place more emphasis on users paying for social care themselves. There may also have to be a shift towards move extensive use of personal insurance, as the ongoing Dilnot Commission into social care appears likely to recommend.[54]

- While Finance Directors who completed our survey highlighted a wide range of services that will probably be impacted by funding cuts, the most commonly cited service to be cut among Finance Directors at upper tier authorities were adult social services and children's services.
- One respondent stated: "Customers are likely to have to pay higher fees and charges for services they use rather than there being cuts", highlighting one option for local authorities seeking to ensure the continued provision of high quality social services.

2c) Social Housing

The CSR claims to make social housing "more responsive, flexible and fair so that more people can access social housing in ways that better reflect their needs".[55] However, the social housing budget is to be cut by 60%, the single biggest reduction in the CLG budget. [56] The Local Authority Social Housing Grant, meanwhile, will be phased out after next year. In its place, the Government is shifting the cost of social housing construction from the state to tenants. New social tenants will pay rents at up to 80% of market values, much higher than the rental rate for existing social tenants (which will remain unchanged).[57]

With higher social housing rents and greater freedoms to borrow based on future incomes, it is hoped that councils will be able to borrow for building programmes against higher future rents. As a further incentive to build more houses, the CSR formally announced the New Homes Bonus, which will match fund the additional council tax[58] obtained from each new house (and property brought back into use) for each of the first six years after the house is completed. For affordable homes, there is additional £350 supplement per house per year over the first six years.[59] Worth almost £1bn over the CSR period, this financial incentive to build social housing will act alongside the increased rental income from new social tenants to encourage councils to lead the development of social housing in sufficient quantity to match future demand.[60]

Taken together, the CSR forecasts that these new measures will enable the completion of up to 150,000 "affordable homes" over the course of the CSR period, although the nature of a bottom up system is that it cannot be predicted where. However, it is still unclear as to exactly where these houses will be built. Going forward, the Government will need to keep the national homes

53 http://www.lgcplus.com/topics/social-care/social-care-could-face-18bn-cut/5022306.article (accessed 01/12/2010).
54 http://www.telegraph.co.uk/family/8115919/Buy-private-insurance-to-fund-care-in-old-age-Dilnot-Commission-suggests.html (accessed 25/11/2010)
55 Spending Review 2010, p.8.
56 The Independent, 21/10/2010, 'Spending Review 2010' supplement, p.3.
57 The Times, 21/10/2010, 'Guide to the Spending Review 2010' supplement, p.3.
58 The funding will match the national average Council Tax charge for a property in that council tax band, not the amount charged by the local authority where the new property is built. See CLG, New Homes Bonus consultation (London: CLG, 2010), p.16.
59 http://www.communities.gov.uk/news/newsroom/1768252 (accessed 01/12/2010).
60 'Local Growth', p.27.

bonus under review in order to ensure that there is sufficient housing available.

Council Tax

The CSR announced that funding will be made available to enable local authorities to freeze council tax in 2011/12. The grant will be equivalent to a 2.5% increase on participating authorities' Band D figure multiplied by the latest available tax base figure, and a £650m fund has been put in place to provide for this. The freeze is a voluntary measure for local authorities, but Eric Pickles has stated that the Government expects all "local, fire and police authorities to sign up to the freeze and can see no reason why they might choose otherwise". He also announced that, should councils set up excessive council tax increases, the Government was prepared to use capping powers.[61]

However, the Government's funding for council tax freeze only applies to a freeze in 2011/12, with the same annual funding in the period to 2015/16 to compensate local authorities for income foregone due to the 2011/12 freeze. If this annual funding is not made permanent, councils will face the unenviable choice of implementing a large council tax increase once supplementary funding ceases in 2015/16, or taking another significant cut to their funding that year. In addition, the Government's financial support for a council tax freeze further erodes the already small portion of local authorities' income which is raised locally. Despite this, in a recent survey by Local Government Chronicle, 82 of 83 councils that responded indicated that they plan to take advantage of the Government's funding for a freeze.[62]

While on the face of it the council tax freeze seems like a sensible solution to prevent excessive rises to offset the cuts, there is a deeper philosophical and financial problem underpinning this measure. The balance of funding between central and local government means that funding is 'geared' so that any extra requirements in local spending requires a disproportional rise in council tax. Given that the Government is committed to a localist agenda, this will need to be explored to ensure that local tax and spending decisions are truly controlled locally.

> Responses to our survey indicated that nearly half of all finance directors believe that the Government's funding to enable councils to freeze council tax in 2011/12 will not be adequate to cover the shortfall in potential revenue increases resulting from the freeze.

2e) Council Tax Benefits

While councils will be given control of council tax benefit, the £4.2bn budget will be reduced by 10%, leaving councils with difficult decisions to make in regard to how best to allocate the remaining budget.[63] Accordingly, this is a freedom that councils will not necessarily look forward to. Local authorities across the country will have to be creative in how they choose who loses out through the cut. However, it should be seen as a positive step that Whitehall has given local authorities the power to develop solutions that are most suitable locally, rather than setting out a nationwide plan that may not be appropriate for some areas.

> Only around 5% of finance directors highlighted the localisation of Council Tax Benefit as a positive aspect of the Comprehensive Spending Review, and a few opined that the reduction in funding for the Council Tax Benefit outweighs the positive aspect of its relocalisation.

61 http://www.communities.gov.uk/statements/corporate/counciltax (accessed 23/11/2010)
62 http://www.lgcplus.com/briefings/corporate-core/finance/sign-up-success-for-pickles-council-tax-freeze-deal/5022347.article (accessed 02/12/2010).
63 Spending Review 2010, p.50.

Conclusion

Taking all income streams to local authorities, including council tax and business rates, as a whole, local government spending is projected to fall from £51bn to £49.1bn in 2015/16 – a decrease of 14% in real terms.

This would suggest that, despite a freeze on council tax in 2011/12, the Government expects future council tax rises to cushion the cuts in Whitehall funding to local government. It may also suggest that, as discussed above, by the end of the review period central government will allow local authorities to keep a sizable amount of the business rates they collect locally.

Local authorities will still undoubtedly face extra pressures in various highly sensitive areas of service provision. For instance, they must attempt to make good the shortfall in social care costs which will almost certainly outstrip funding. Another potential difficulty may arise if cuts to Council Tax Benefit mean that some residents are unable to pay council tax to an authority, it will ultimately be the authority that loses out. In this situation, the council faces the choice of prosecuting residents who previously had met hardship criteria, or allowing the residents to continue to live in the property and overlook missed council tax payments.

While the council tax subsidy will be welcomed by local authorities and residents in the short term, the fact that it will cease after the spending review means that councils will immediately face, in effect, a further cut in 2015/16 when they lose around 2.5% of their council tax revenue unless they choose to impose a substantial council tax rise to nullify the shortfall. It should, of course, be pointed out that they may be better placed to deal with taking this difficult decision in a few years, when economic conditions are forecast to be considerably improved. But in this and a number of other respects, many local authorities have found that even the more positive elements have been tainted by related negative aspects or the deferral of difficult decisions.

The Reaction of Local Government

With local government one of the sectors hit hardest by the CSR, councillors and officers alike have generally been deeply critical of the perceived iniquity of the settlement.

Relatively typical of the initial responses from local government was that of Paul Carter, leader of Kent County Council. Cllr Carter stated that the cuts will mean that the council has to find £340 million of savings and termed the settlement a "real sledgehammer blow" for local authorities although he said that it was too early to know what exactly will be affected by the cuts.[64] Similar notes of general dissatisfaction and ongoing uncertainty are also at the heart of one of the more publicised local government reactions to the budgetary constraints on local authorities contained in the CSR. Following heated disagreement at the London Councils Summit in early November, the Mayor of Hackney, Jules Pipe, has written to the Secretary of State for Communities and Local Government, Eric Pickles, requesting that he clarifies Hackney Council's budgetary position. The front-loading of the cuts to some local authorities' budgets is such that Hackney has estimated it must account for first year budget cuts of 19.3%.[65]

64 http://www.bbc.co.uk/news/uk-england-kent-11604509 (accessed 01/12/2010).

65 http://www.lgcplus.com/topics/spending-review/behind-the-spin-have-ministers-lost-the-plot-on-cuts/5022120.blog (accessed 26/11/2010).

Positively Responding to the Challenges of the CSR

Despite the severity of the details of the financial settlement revealed thus far, many local authorities have started to plan to undertake a variety of solutions to ensure that their residents continue to benefit from quality front-line services. Among the most radical of the proposals to be revealed to date is Westminster, Hammersmith & Fulham and Kensington & Chelsea councils plan to merge a range of services. The councils aim to eventually share all services, from chief executive and senior directors to street cleaners and social workers. In the immediate future, sharing will focus on those services that are most viable and can be shown not to disadvantage the public. A joint statement from the councils stated that the "sharing of services in this way can no longer be viewed as a radical concept".[66] The move was at first estimated to save between £50m and £100m a year, although the Chief Executives of the three councils have claimed that this is unlikely and savings of approximately £10 million over four years for each council are more realistic.[67] Nonetheless, local authorities' search for radical solutions is to be applauded, and is certainly necessary given the extent of budgetary constraints.

A number of other councils, aware of the need for innovative approaches to obtain 'more for less', had already devised cost-reducing solutions before the CSR announcement.

In May, the London Borough of Lambeth announced its intention to become the first 'co-operative council' and for Lambeth to become the first 'co-operative borough', in which power and responsibility will be shared more evenly between citizens, communities and public services. Under the plan, services will be more personalised, less tied to a single model of public service provision, and will focus on enabling people, rather than merely providing for them. Services will become more joined-up, with an emphasis, wherever possible, on providing residents with quality services in one location and one transaction, rather than requiring multiple points of contact.[68] Lambeth's focus on designing services around end-user experience to cut out duplication and the need for residents to contact the council on multiple occasions is welcome. Its stated aim to enable communities to provide services themselves when appropriate is also something that other councils could look to follow in order to provide citizens with better outcomes at reduced costs.

Suffolk County Council announced a different, but equally radical cost-saving model following the Emergency Budget in June. Its 'New Strategic Direction' envisages the council as a "Strategic Council" with a focus on managing local budgets and outsourcing services to appropriate providers – both private sector companies and community organisations. Personalised budgets for residents with particular service needs will also be widely introduced, which will give end users the power to choose which services best match their requirements.[69]

Although concerns have been raised over the number of council job losses, Suffolk's proposals indicate yet another method – changing the council's function from provider to strategic overseer – which other councils might consider to achieve 'more for less' in their area. The examples of Lambeth and Suffolk both indicate that innovation to address funding cuts need not involve joining up services across large areas; devolving powers and funding to local communities and individual citizens can be equally effective.

In addition to the three London Boroughs above, there have been various other proposals to join up official functions. A unique instance of this has been Rugby Borough Council's controversial step of combining the roles of Leader

66 http://www.lgcplus.com/briefings/corporate-core/efficiency/london-boroughs-reveal-super-council-plans/5020790.article (accessed 26/11/2010).

67 Ibid; http://www.lgcplus.com/hot-topics/joint-working/chief-execs-urge-caution-over-super-council-savings/5021362.article (accessed 26/11/2010).

68 Lambeth Council, The Co-operative Council, http://www.lambeth.gov.uk/NR/rdonlyres/CA6C2E2F-33E4-48CE-82C1-D7E0E82EEF9E/0/CooperativeCouncilWhitePaper.pdf (accessed 01/12/2010).

69 Suffolk County Council, The New Strategic Direction Explained, http://www.suffolk.gov.uk/NR/rdonlyres/5A0CD747-B785-45C7-9357-77E0DD4A3D7A/0/

and Chief Executive, with Cllr. Craig Humphrey fulfilling the dual role from August following the departure of the former Chief Executive to another council. Cllr. Humphrey, who is receiving some additional money for taking on this extra responsibility, said, "The key question is can an authority of Rugby's size justify paying a Chief Executive?"[70] The move has met with Eric Pickles' approval and, while not suitable for all authorities, is premised on the council's positive desire to cut costs while maintaining quality services for its residents.

At District level, South Holland and Breckland Councils in Lincolnshire and Norfolk respectively have shared a Chief Executive since August and are examining the possibility of joining up further senior managerial functions with the intention of saving 35% of the current cost of senior managers. Although the councils do not share a boundary, their political leaders identified a common set of goals and feel that modern communications allowed the combination of roles to be a success.[71] This example shows the potential for sharing office roles and services is not necessarily limited even by geographical separation, and indicates that the potential for joining up functions and services is just as strong at the district level as for upper tier authorities.

As the examples above make clear, there is potential for innovation to meet budgetary challenges across all types of council. They also show that innovative schemes can, and indeed should, differ significantly from one area to another depending on the specific needs of residents in that area. One important factor which is common to them all is that the solutions have been designed with residents' interests at the forefront of the councils' thinking. The schemes have often involved extensive public consultations, and those that have not are still premised on making savings in areas that have been identified as unlikely to impact on residents.

Despite their understandable concerns about many of the details included in the CSR announcement, in general Finance Directors, and their councils, appear willing to innovate and aware of the imperative to do so given the budgetary constraints which will hit over the next four years.
Opinion was evenly split among respondents to the survey on whether the CSR increased councils' freedoms or not, and relatively few respondents felt that the CSR had provided any new freedoms to local authorities. A number praised the "un-ringfencing" of funding streams and the reduction in central inspection as positive measures increasing councils' freedoms, but most did not feel that the CSR had provided any new freedoms.

However, the survey indicated strong support for outsourcing more services and sharing a range of services with other councils.

- More than seven in ten respondents were supportive of the idea of sharing services with other nearby local authorities
- Most Finance Directors felt that a wide variety of services are potentially appropriate for sharing. There was only significant uncertainty among respondents from upper tier authorities over whether sharing Chief Executives and Senior Directors was advisable, with some strongly approving of the idea but an equal number strongly disapproving.

70 http://www.publicservice.co.uk/news_story.asp?id=13735 (accessed 24/11/2010).
71 http://www.sholland.gov.uk/news/archive/ointchiefexecforsouthhollandandbreckland.htm (accessed 01/12/2010).

- Almost two-thirds of Finance Directors at upper tier authorities supported the suggestion that more services should be outsourced as a means to cut costs, and over half felt that their council would outsource more services. Those who expressed support for further outsourcing all wanted to involve private sector companies to a greater extent, and a large majority also felt that the voluntary/charity sector and community organisations should be involved.
- Their counterparts at lower tier authorities were less certain on outsourcing, although around 45% said that they agreed that further outsourcing is an option to cut costs and 35% believed that their councils are likely to outsource more services (with a further 50% uncertain at present).
- Respondents' estimates of the proportion of services which their council would outsource by the end of the CSR period varied significantly, from around 5% to 60%. The majority suggested that a figure between 20% and 40% was probable.
- Leisure services were widely deemed to be very suitable for outsourcing. There was also strong support for outsourcing waste and recycling, street cleaning, highways and benefit provision.

Conclusions and Recommendations

This report and the survey of Finance Directors have suggested that most councils face the future fully aware of the need to innovate. Many local authorities will have to trim back the services they provide and may have to make forced redundancies. But the impact on residents, as most Finance Directors are aware, can be mitigated through reassessing which organisations are best placed to provide quality services. In many cases sharing services and official roles with neighbouring local authorities may be appropriate. In other instances outsourcing to private companies and community organisations, which can be more responsive to the precise needs of local people, may be a suitable option. Local authorities, invested with some new freedoms by the CSR and expecting that more will follow in the near future, must design solutions that effectively meet residents' needs. There will of course be significant challenges, not least the need for changes in the expectations of many residents, councillors and council officers on what role the council should have in providing services. But if local authorities can successfully innovate to ensure that the quality of services for end users remains high, expectations of councils' roles will doubtless shift. After all, nothing succeeds like success.

Headline Findings of the Survey

- Half of all councils say the CSR was worse than they expected, and of these, 80% feel that the funding cuts in the first year are too steep.

- The survey also showed that councils are thinking innovatively about how to protect front-line services, with nearly three-quarters of Finance Directors saying they are thinking of merging services with other councils, or considering outsourcing service delivery to the private sector (71%), voluntary sector (69%) or community organisations (63%).

- While there was support for the Government's commitment to the removal of ring-fencing, there was disappointment that the community budget pilots did not go far enough.

- Following the CSR, councils are less optimistic that they can achieve the necessary staff cuts through natural wastage, with more than three in four respondents believing that forced redundancies will be necessary, and one in three of upper tier councils projecting staff cuts in excess of 20% by 2015/16.

- Finance Directors at upper tier authorities think that adult social care is the service most likely to be severely affected by funding cuts, despite the announcement of additional funding streams worth £2bn by central government.

Key Recommendations

- Central government should note the appetite for further devolution of power to local government and work to devolve more financial powers and pooled budgets to local authorities to allow them to pursue new delivery models.

- It is essential that councils make use of innovative funding options, and new models of service delivery to provide better and cheaper services for local residents.

- Councils must follow up on their enthusiasm towards the ideas of increased outsourcing and sharing services by accurately assessing the needs of the local population and designing strategic partnerships to serve these needs.

Appendix: List of Survey Questions

Your response to the CSR

1. In terms of the impact on your council, was the Comprehensive Spending Review (CSR): *(Better than expected / As expected / Worse than expected)*

2. Please indicate whether you agree or disagree with the following statements: *(Strongly agree / Agree / Neither agree nor disagree / Disagree / Strongly disagree / Unsure)*

   a) Given the scale of the budget cuts required, the Comprehensive Spending Review (CSR) was an appropriate response
   b) Cuts to grant funding from CLG are too steep in the first year
   c) Councils were treated less fairly than other public sector organisations in the CSR
   d) Shared services, whether on a service by service basis, or via the creation of so-called 'super councils', could act as a tool to cut costs while protecting front-line services
   e) Reductions in the size of the workforce can be met through natural wastage and voluntary reductions, without reverting to forced redundancies
   f) The reduction in 'ring-fencing' of grant funding from CLG, as announced in the CSR, will help your council meet the challenge of budget cuts
   g) The CSR has increased council freedoms
   h) The 'Community Budgets' announced in the CSR go far enough in giving councils greater freedoms to tackle social issues in radically new ways
   i) As a result of the CSR, councils will work increasingly with private sector service providers
   j) Private sector service providers can help councils find more cost effective ways to provide services

3. What, if any, aspects of the CSR did you not anticipate? *(Open-ended)*

4. And has this led you to change your budget plans as a result? *(Open-ended)*

5. BEFORE the announcements of the CSR, what total % reduction in funding, for your council, were you expecting? *(Open-ended)*

6. FOLLOWING the announcements, what total % reduction in funding, for your council, are you now anticipating? *(Open-ended)*

7. Giving as many answers as necessary, what do you see as the principle challenges to be overcome to make the changes needed? *(Open-ended)*

Investment After the CSR

1. Have your long term investment plans changed as a result of the CSR? *(Yes / No / Not sure)*

2. Which specific aspects of the CSR necessitated this change in investment strategy? *(Open-ended)*

3. If your investment plans have changed, could you give brief examples of these changes? *(Open-ended)*

The effect on services

1. What, if any, front-line services do you imagine will be affected most severely by the reduction in funding to your council? Please mention as many services as are applicable *(Open-ended)*

2. Has your council earmarked low priority services that might be ended altogether? *(Yes / No / Not that I am aware of)*

3. If so, in which areas of service provision do these belong? *(Open-ended)*

Outsourcing Services

1. Outsourcing services, whether on a service by service basis, or through 'bundled service' agreements, could act as a tool to cut costs while protecting front-line services? *(Strongly agree / Agree / Neither agree nor disagree / Disagree / Strongly disagree / Unsure)*

2. As a result of the CSR, the council is planning to commission more of its services to various external organisations. *(Strongly agree / Agree / Neither agree nor disagree / Disagree / Strongly disagree / Unsure)*

3. If you agree, please tick which organisations/sectors will be involved in commissioned service provision? *(Please select as many options as necessary) (Voluntary/charity sector / Community organisations / Private sector organisations / Other local authorities / Other)*

4. In total, and given the announcement of the CSR, what % of services do you estimate your council will be outsourcing by the end of the CSR period (i.e. by 2014/5)? *(Open-ended)*

5. Which services do you believe are MOST SUITABLE to being outsourced to a commissioned organisation? (5= very suitable, 1= not suitable)

    i. Back office admin
    ii. Chief Exec/Senior Directors
    iii. Street Cleaning
    iv. Adult Social Services
    v. Children's Services
    vi. Planning
    vii. Council Tax
    viii. Benefit Provision (Housing/Council)
    ix. Waste and recycling
    x. Highways
    xi. Leisure Centres
    xii. Libraries
    xiii. Procurement

6. Which services do you believe are MOST LIKELY to be outsourced to a commissioned organisation? (5= most likely, 1= least likely)

    i. Back office admin
    ii. Chief Exec/Senior Directors
    iii. Street Cleaning
    iv. Adult Social Services
    v. Children's Services
    vi. Planning
    vii. Council Tax
    viii. Benefit Provision (Housing/Council)
    ix. Waste and recycling

x. Highways
xi. Leisure Centres
xii. Libraries
xiii. Procurement

Sharing services

1. Shared services, whether on a service by service basis, or via the creation of so-called 'super councils', could act as a tool to cut costs while protecting front-line services? *(Strongly agree / Agree / Neither agree nor disagree / Disagree / Strongly disagree / Unsure)*

2. Which services do you believe are most suitable to being shared between councils? (5= most suitable, 1= least suitable)

i. Back office admin
ii. Chief Exec/Senior Directors
iii. Street Cleaning
iv. Adult Social Services
v. Children's Services
vi. Planning
vii. Council Tax
viii. Benefit Provision (Housing/Council)
ix. Waste and recycling
x. Highways
xi. Leisure Centres
xii. Libraries
xiii. Procurement

Final thoughts

1. What % reduction do you estimate will occur in the workforce of your council over the spending review period (2010-2015)? *(0-5% / 5-10% / 10-20% / 20-30% / 30-40% / 40%+)*

2. What aspects of the review, if any, have provided increased freedoms for your council? *(Open-ended)*

3. Will the funds made available to subsidise the freeze on council tax changes adequately cover the potential losses in increased revenue caused by the freeze, in your opinion? *(Yes / No / Unsure)*

Facing the Future

The Comprehensive Spending Review (CSR) was announced by the Chancellor on 20th October 2010 and confirmed the fears of many in local government the sector would not be spared the axe. The top-line figures – a 26% cut in real terms funding between 2011 and 2015 – will clearly place a significant strain on the budgets of local authorities across England, although the pill was sweetened by the simultaneous announcement of a number of new initiatives designed to enable greater autonomy at the local level. In order to understand how councils received the CSR announcement and how they intend to respond to the measures it introduced, Localis has undertaken a survey, which we invited the Finance Directors of every local authority in England to complete. This report is a summary and analysis of the results of the survey, and provides a number of recommendations for how local authorities might best face the future.

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