

Pre-Budget Report 2009

9 December 2009

Executive Summary

The LGA has been lobbying hard to show that councils are the most efficient part of the public sector and are leading the way on finding better and cheaper ways of delivering local services.

- Funding for 2010-11 - We argued that the government must not change the final year of the local government finance settlement. **It is good news that the Chancellor has recognised in maintaining his 2010-11 spending commitments that councils need stability with which to plan ahead.** But there remains significant uncertainty about funding for most areas of local government beyond 2011.
- Efficiencies – our PBR submission identified reductions in central government red tape and bureaucracy that could generate £4.5bn in savings by relieving the burden on local government. **The ‘Smarter Government’ plans set out in the PBR are a step in the right direction.** Cutting central bureaucracy, streamlining the number of government targets, reducing the level of ring-fencing, bringing together funding streams and pooling local budgets are what we have been campaigning for. **But it is frustrating that we will have to wait for the detail to be set out in further reviews ahead of the 2010 budget, or in some cases, the 2011/12 financial year.**
- Public sector pay - we argued that local government has led the way in showing restraint in public sector national pay settlements. **The proposed two year 1% cap is the same level as this year’s deal for most council workers.** Many councils will find it very difficult to fund any increases in pay.
- Energy efficiency – we argued that councils can quickly target assistance at the people who need it most. **In introducing a boiler scrappage scheme and spending more money on insulating homes, the Government should work alongside councils.** Councils know their local areas and can make sure money is efficiently and effectively.

Headlines from PBR for Local Government

- Planned levels of overall departmental spending in 2010-11 will not change.
- Public sector current expenditure will grow by an average of 0.8 per cent a year in real terms from 2011-12 until 2014-15.
- NHS and education will increase by more than other areas in 2011-12 and 2012-13.
- £12 billion of savings will be found through ‘smarter government’ and £5 billion from targeting and prioritising spending.
- A 1% cap on public sector pay settlements in 2011-12 and 2012-13.
- Reforms to public service pensions from 2012-13 onwards.
- £200 million to improve energy efficiency through a boiler scrappage scheme and extra resources for Warm Front.

LGA Contact - For further information, please contact Nathan Stower (LGA Public Affairs) on 0207 644 3226, Nathan.stower@lga.gov.uk



Local Government Association

briefing

Local Government House, Smith Square, London SW1P 3HZ
DX 119450 Clerkenwell 3 Email info@lga.gov.uk
Tel 020 7664 3000 Fax 020 7664 3030
Information centre 020 7664 3131 www.lga.gov.uk

Summary of Key Proposals Affecting Local Government

Overall spending plans

- Existing spending plans for 2010-11 will not change, but spending growth will reduce after 2011-12 to help halve the deficit over the next four years.
- Public sector current expenditure will grow by an average of 0.8% a year from 2011-12 until 2014-15.
- The Chancellor did not provide a detailed breakdown of future spending plans post 2011, but did make commitments to protect some services in 2011-12 and 2012-13.

Education funding

- Cash funding for front line schools rises by 0.7% a year in real terms.
- Cash funding for 16-19 participation rises in real terms by 0.9% a year.
- Cash spending on Sure Start children's centres will be maintained in line with inflation.
- An additional £202m will be provided in 2010-11 to ensure that the September guarantee of a place in education or training to every 16 and 17 year old who wants one is met in full.
- The PBR also announced a comprehensive programme to identify increased opportunities for value for money in schools, 16-19 participation and Sure Start Children's Centres. £800m of efficiency savings in front line areas will be achieved by 2012-3, from collaborative procurement of goods and services and rationalising back office costs.

Police

- The PBR commits to providing sufficient funding in the years to 2012-13 to police authorities to maintain the current number of police officers and community support officers and other staff exercising police powers.

LGA view

We are pleased that the Chancellor has restated his commitment to existing 2010-11 spending plans, ensuring stability for local authorities as they budget for next year.

There remains significant uncertainty about funding for most areas of local government beyond 2011, and today's commitments to protect funding for some parts of the public sector will increase the likely reductions in funding to other areas. Protecting education, police, and health is likely to put additional pressure on social care, parks, street lights, libraries, and other essential services that people expect from their council.

The best way to enable councils to protect all local services is to increase the flexibility they have to take the best decisions in the interests of local people. Government should therefore allow greater local control of local spending and services, in line with the research showing that local people want their elected councillors rather than MPs or quangos to take such decisions.

Additionally, Ministers must do more to strip out the unnecessary costs imposed by central government on councils, in line with the recommendations set out by the LGA in *Delivering More for Less*.

Public sector efficiencies

The PBR sets out a number of efficiency savings identified by government's Public Value Programme and the *Smarter Government* report published on 7 December.

Smarter Government is expected to deliver £11bn savings a year by 2012-13, of which £8bn were identified in the Operational Efficiency Programme at Budget

2009. The Public Value Programme has identified efficiency savings of £5bn by 2012-13, but will continue to look for further opportunities for savings.

A number of additional efficiencies (on top of the existing targets) have been identified that appear to come from local government, including:

- £550m from:
 - more efficient **waste collection and disposal**;
 - reducing the **burdens of inspection, assessment and reporting** requirements from across government; and
 - reducing **duplication and inefficiency between different tiers** of government.
- £180m from improvements to the administration of **concessionary travel** (including speeding up the roll-out of smart cards; streamlining arrangements for reimbursing bus operators, aligning eligibility with forthcoming changes in the state pension age, and co-ordinating concessionary fares at the county council level).
- £340m from a variety of measures **reducing regeneration spending**.
- £250m from reducing variations in spending on **residential care**, including greater use of preventative approaches to care for older people allowing people to stay longer in their homes.
- £160m from clamping down on **fraudulent access to social housing** tenancies, and rationalising CLG community programmes and ending time-limited schemes.

The Government also proposes to save £300 million by improving energy efficiency across the public sector. It is unclear how much of this applies to local government.

LGA view

Our discussions with the Treasury following the announcement indicate that these figures have been identified within departments rather than with authorities, and we are pressing for further detail on the basis of these calculations in order to reach a view about whether they are achievable. It is vital that government avoids the risk of duplication in terms of efficiencies which authorities are already making to meet existing efficiency targets.

The LGA's recent *Delivering More for Less* report outlined a series of ways in which government could save £4.5bn through reducing the burden of reporting and inspection, central government micro-management and duplication across quangos. While we are pleased that the *Smarter Government* report picks up some of these issues, and will look at others in advance of Budget 2010. We do not think that Ministers are being ambitious enough in terms of scaling back unnecessary central government intervention and costs; more could and should be done.

Public sector pay and pensions

- A 1% cap on public sector pay settlements in 2011-12 and 2012-13.
- All public sector organisations making senior managerial appointments in excess of £150,000 will be expected to publicly justify this level, and any bonus in excess of £50,000, to the relevant Secretary of State.
- Employer contributions to local government pensions will be capped. Cost increases below the cap will be shared equally between employers and employees, and those above the cap met solely by employees.
- The Government will expect those earning the highest salaries to pay a greater contribution towards their pension.



LGA View

- Local government recognises the need to keep pay settlements down and has led the way in showing restraint in public sector national pay settlements. This year's deal was limited to 1% for all but the lowest paid workers, while chief executives have not been offered any pay rise at all.
- The financial situation will require more difficult decisions to be taken. Many councils will find it very difficult to fund any increases in pay.

National Insurance Contributions

- There will be an additional 0.5 per cent increase in employee, employer and self-employed rates of National Insurance contributions from April 2011.

LGA View

As with all employers, an increase in National Insurance contributions will add to local government wage bills.

Infrastructure UK

- The establishment of Infrastructure UK (IUK), to act as a focal point for the country's infrastructure strategy and its long-term development and delivery.
- IUK will bring together the Treasury Infrastructure Finance Unit, HMT's PPP policy team and also the capabilities within Partnerships UK plc which support the delivery of major projects and programmes. IUK will be a unit within the Treasury, but with its own identity, brand and governance.
- It is intended that PUK's 50% interest in Local Partnerships will be acquired by HM Treasury.

LGA View

The LGA Group was notified on a strictly confidential basis only yesterday afternoon about this proposal and conversations have commenced as to how this announcement may be taken forward.

The acquiring of PUK's 50% interest in Local Partnerships by the Treasury will require the consent of the LGA. Discussions will need to be held between the Treasury and the LGA to agree how and when this will take place. There will be no immediate change. It is intended that the transfer of PUK's interest will take place at the same time as the transfer of PUK activities to IUK, and this will not happen until after the General Election.

Energy Efficiency

- £200 million to improve energy efficiency and tackle fuel poverty by offering:
 - £400 for up to 125,000 households to upgrade their old boilers to the latest energy efficient models with a greener boiler incentive; and
 - extra resources for Warm Front to help 75,000 of the most vulnerable households with heating and insulation.

LGA View

Improving the energy efficiency of homes and reducing fuel bills continues to be a priority for local councils. We welcome these additional resources, but councils could better co-ordinate these funds on an area basis at a local level to ensure the funds are spent efficiently and effectively, where they are needed the most.

Local Investment

- The Government will examine the scope for local authorities to borrow against:
 - future CIL revenues, to enable further investment in the infrastructure required to support growth;
 - Renewable Heat Incentive and Feed-in Tariff revenue streams, to support further investment in low-carbon technologies; and

- revenues from new council homes, to support the delivery of housing where this offers value for money, and the Government will consider interactions with wider reforms of the council housing finance system.

LGA View

The LGA has called for councils to have greater flexibility to borrow to deliver more investment in infrastructure and housing. We will encourage the government to bring forward proposals as quickly as possible.

Centrally Managed Schemes

The PBR contains a number of small new schemes to be administered by central government, including:

- £40m for small scale low carbon generation;
- £30m for chemicals industries in Teesside; and
- £30m for electric charging places in three to six cities (it is not clear if there would be any involvement for councils).

LGA View

This approach, of vertically administered schemes, undermines the Total Place approach to spending which the Government says that it intends to pursue. Whilst there are mentions of areas, there is no mention of local authorities. Councils would be better placed to deliver these types of initiatives at the local level.

Rent Increase Guidelines

- The average guideline rent increase for 2010-11 will be reduced from 6.1% to 3.1% for local authority tenants.

LGA View

Councils should be encouraged that the government has listened to their concerns and decided that imposing large rent increases would be unfair on tenants in the current economic climate. It is pleasing that the government has recognised people are feeling the pinch and will not be pushing through a 6% rise. This episode illustrates the glaring need to reform the way council housing is funded.

One solution would be to allow councils to keep all the money their tenants pay in rent. The Treasury is set to take away £300 million in a single year from councils; this is money that would be better spent locally providing the best possible housing for local people.

Local Housing Allowance

The Government will delay reform of Local Housing Allowance until April 2011 and launch an immediate consultation on its approach to Housing Benefit reform and affordability.

LGA View

We welcome the decision to delay this reform because we do not want the incentives which underpinned the original thinking behind Local Housing Allowance to be removed.

Youth Unemployment

- The young person's guarantee will be brought forward. Beginning from January 2010, 18-24s will now be guaranteed a job, work placement or work-related skills training from six months of their Jobseeker's Allowance claim, and will be required to take up this place from 10 months.

LGA View

There are questions about where the opportunities needed to deliver these guarantees would come from. Councils are creating jobs through the Future Jobs Fund and will be working hard to ensure a supply of places to meet the government's guarantees can be delivered.

Empty Property Business Rates

- The temporary increase in the threshold at which an empty property becomes liable for business rates will be maintained for a further year.
- For financial year 2010-11, empty properties with a rateable value of less than £18,000 will be exempt from business rates.

LGA View

The LGA welcomes this announcement.

Free School Meals

- The Government will extend eligibility to Free School Meals to primary school pupils in working families with a household income below £16,190.
- The extension will be staged, with the first roll-out to up to 50% of eligible primary school pupils from September 2010.
- The Government's aim is that, from September 2011, all primary school pupils in low income working families will be entitled to receive Free School Meals, benefitting around 500,000 children.

LGA View

The LGA will be discussing this proposal with DCSF to ensure that local authorities are fully funded to meet this commitment.

Concessionary Fares

- The government predicts it will save £180m from the concessionary travel scheme by speeding up the roll-out of smartcards across the bus network, streamlining arrangements for reimbursing bus operators (subject to consultation), changing eligibility in line with state pension age changes and co-ordinating concessionary fares at the county council level.

LGA View

We are unsure of the government's calculation concerning concessionary fares. The scheme is currently under review and no decisions have yet been made as to how it will be funded. What is clear is that a large number of councils are not receiving sufficient funding to cover the costs of concessionary fares. These shortfalls add up to £30m in the current year and our forecasts suggest that the costs of the scheme will grow at a faster rate than the overall local government settlement.

City Region Pilots

- Budget 2009 announced two new pilot city-regions with which government would put in place more devolved arrangements, in order to better drive growth. The PBR announces agreements with both pilots.
- For Manchester, this includes designation as the UK's fourth low-carbon economic area specialising in the built environment, new powers over adult skills and a stronger role on 16-19 learning, apprenticeships and transport.
- For Leeds, this includes greater control over housing and regeneration funding, a timetable for new powers on adult skills, and work with Government to deliver low-carbon housing developments and to integrate transport funding.

LGA View

- We welcome the news that deals have been struck with Leeds and Manchester as the two city-region pilots as we have long called for the devolution of greater responsibility for planning, housing, transport, regeneration, employment and skills and economic development to city regions.
- This devolution of powers and funding made available to all areas that are ready for it, not just limited to two areas.

Local Freedoms and Flexibilities

The PBR repeated the commitments set out in Monday's *Putting the Frontline First: smarter government White Paper*, including:

- letting local areas set priorities by: streamlining the national performance framework; removing a number of national indicators from April 2010 and further substantial reductions from 2011; and, by Budget 2010, setting out plans to further align sector-specific performance frameworks across key local agencies;
- letting local areas guide resources by: reducing the level of ring-fencing for local authorities and streamlining different funding streams, with specific plans set out by Budget 2010; publishing guidance on pooling and aligning of local-level budgets; and coordinating the timing of grant payments from departments to local authorities for 2011-12;
- supporting local investment by: allowing local authorities that wish to use their trading powers to create further commercial opportunities; setting out guidance on effective use of joint ventures by local authorities and their partners by February 2010; and considering single-area based capital pots with recommendations by Budget 2010;
- reducing burdens on the front line by: ensuring reporting, inspection and assessment frameworks only include what is necessary to guarantee accountability, access and quality; co-ordinating the timings of assessments and inspections by 2010-11; reviewing the work of inspectorates with firm proposals by Budget 2010; and removing as many burdens identified by Total Place pilots and government departments as possible in time for the 2011-financial year; and
- strengthening the role of civic society in public life by: announcing a pilot of the Social Impact Bonds model; promoting wider use of community shares; enabling community groups already owning community assets acquired with Government funding to maximise their finance-raising potential by considering the scope for removing clawback conditions; and producing a regularly updated Civic Health Index.

On Monday John Denham also confirmed that local government would be covered by the terms of a senior pay review that will report ahead of Budget 2010 and include recommendations on pay and bonus caps. Also new regulations to bring local government pay up to the same transparency standards as the rest of Government will be laid shortly.