

An overview of the local government settlements in the devolved governments in the United Kingdom

To: -All APSE contacts in the United Kingdom

This briefing paper provides an overview of the respective local government settlements in the devolved countries which form the United Kingdom.

Key issues:

- The local government sector has been hit hard by the deficit reduction plan.
- The local grant settlements vary considerably across the devolved governments; Councils in England have been hit particularly hard in terms of grant loss.
- The local government sector in Scotland and Wales have been protected in expenditure terms by their devolved governments.
- A Council Tax freeze or cap exists in both England and Scotland.

1. Introduction

This APSE briefing provides an overview of the UK deficit reduction plan and the different financial settlements for local government, in the devolved governments that exist in the UK. APSE has also prepared a number of other briefings which are available to download from the [APSE website](#).

2. The United Kingdom Deficit Reduction Plan

The financial crisis and recession brought about a serious deterioration in the United Kingdom's fiscal position, but there is a significant divergence of opinion about how best to tackle the current deficit and how deep cuts in public spending will impact on the economic recovery and growth. The Coalition government's emergency budget in June 2010 went much further than that

planned by the previous Labour government. It added a further £40 billion in terms of debt reduction. By 2014/2015 it is planned that the programme of consolidation or deficit reduction will amount to £128 billion. Of this £128 billion, £99 billion is expected to come from spending cuts in the public sector with the balance of £29 billion coming from tax increases. The spending cuts include a £11 billion contribution from the welfare budget.

The Coalition government have pledged to maintain real spending on health and increase spending on overseas aid; the overall spending cuts imply real reductions of 25 percent or more for other services including local government or across the devolved governments.

The next section of this briefing will analyse how different parts of the United Kingdom system of local government has fared in relation to the public sector funding reductions, through their respective financial settlements.

3. England

In December 2010, English local Councils received their respective settlements for the financial year 2011/12. The individual settlements build on the announcements detailed in the Comprehensive Spending Review in October 2010 which indicated that local Councils will experience an approximate 7.25% average loss of grant in each of the next four years. Overall revenue funding from the central government to local government will reduce by 26% in real terms between 2010/11 and 2014/15, this figure could be higher if other factors, such as higher than expected inflation levels are taken into account. Local authority capital funding has been cut by around 45%.

In addition, English local authorities will only be permitted to raise Council Tax levels by 3.5% beyond which a cap will apply. However, if councils operate a Council Tax freeze in 2011/12, the government will fund an equivalent of a 2.5% increase for that year.

Within the overall settlement there are some significant variations in the reductions. For example subject to the "type" of Council the following reductions are planned in 2011/12:

- Metropolitans – 12.7%
- Districts – 12.6%
- Unitaries – 10.6%
- London – 8.5%
- County – 7.9%

In terms of geography and location many Councils with significant levels of deprivation which benefited from area based grant which has been removed with the de ring fencing of specific grants to local authorities, have lost out significantly.

A number of Councils are losing up to 8.9% of their spending power with shire counties losing less than 3% in 2011/12. Analysis of the settlement reveals a clear shift of government funding from urban to rural areas with Councils in the north of England, and Yorkshire and Humberside particularly hit hard. Such

Councils often serve areas which have significant concentrations of poverty and deprivation. Another factor which is causing a degree of concern is the front loaded nature of the reductions in grant, with 2011/12 being the most challenging for English local government.

The Secretary of State maintains that Councils will have more freedom and flexibility than ever before including a proposed general power of competence and the scrapping of a myriad of audit and inspection processes. It should be noted however, that the general power of competence is not linked to the ability of local authorities to generate additional revenues locally and its effectiveness may therefore be diminished. The Secretary of State considers that the savings are achievable. Guidance issued by the Department of Communities and Local Government makes reference to: -

- Local innovation
- Eliminate waste
- Improve productivity to drive through savings.
- Better procurement
- Shared services
- Controlling "excessive" senior pay levels
- Drawing on expertise from the community and volunteer sector

Many of these developments have been reflected in the Localism and Decentralisation Bill which is currently being debated in Parliament.

4. Northern Ireland

The Northern Ireland Executive will make cuts of 6.9% in real terms and the proposed 40% cut in capital investment provide a further challenge. The Executive is consulting about how it should organise spending priorities. It can be reasonably expected that individual Councils in Northern Ireland are anticipating a round of budget cuts and will have to manage their financial resources accordingly.

In the context of the Northern Ireland Assembly decision in June 2010, they have decided not to proceed with local government re-organisation as proposed but there are moves to commence proposals regarding transfer of some functions from the centre to local government.

The local government sector is progressing the improvement, collaboration and efficiency programme (ICE) which is designed to secure both service improvements and cost efficiencies in local government. This has now reported and it has estimated that the programme will deliver efficiency savings of between £257m and £570m over a 25 year period.

5. Scotland

In a Scottish context, the current government have commissioned a range of studies in relation to the financial impact of public sector spending on service delivery. These include: -

- Scottish Parliaments Finance Committee report into the efficient delivery of public services. APSE briefing 10/28.
- Independent Budget Review Report. APSE briefing 10/46.

The Scottish Government announced the outcomes of their own spending review in November 2010. The main highlights of the Spending Plans and Draft Budget for 2011/12 are:-

- The available resources the Scottish Government will have at its disposal will fall by 11% or by £3.3 billion over the period 2011/15.
- The resources available to the public sector will fall by £39 billion over the next 10 years.
- The Scottish Government intend to alleviate immediate pressures on capital resources by reallocating £100 million from revenue to capital.
- Scottish Governments draft budget will see a reduction of £1.3 billion in 2011/12. APSE briefing 10/65.

In December 2010 individual Councils were presented with their respective offers from the Scottish Government following negotiations with the Convention of Scottish Local Authorities. Local government in Scotland was presented with two options a budget reduction of 2.6% or a 6.4% reduction in cash terms. The offer was entirely dependent on Scottish Councils agreeing to deliver a number of national policy priorities including: -

- A further Council Tax freeze for 2011/12
- Maintaining 1000 additional police officers
- Recruiting and maintaining teaching numbers

Individual Councils were given a deadline of 21st December to intimate their acceptance or otherwise of the Scottish government offer. Consequently all Scottish Councils signed up to the offer. If Councils chose not to accept the offer, Council Tax levels would rise by 15-20%, which was not a politically realistic option for any Council in Scotland.

The reductions in grant are again not spread evenly across Councils. The reduction in grant varies from -1.5% to -4.5%. It is difficult to unravel the variances in grant settlement and also to fully understand its coherence in both policy and financial terms. In general, commuter areas have fared better than cities and rural areas have benefited at the expense of urban areas. The formula used to allocate funding remains outdated and is in need of an overhaul, particularly in relation to concentrated amounts of poverty and deprivation.

In addition, as part of the Spending plans and draft budget for 2011/12 which will see a downward pressure on resources, the Government have established the Christie Commission which will investigate and look into the sustainability of Scotland's public services over the long term. See APSE briefing 10/66.

6. Wales

The provisional local government settlement for Wales was announced in November 2010. Councils in Wales will experience a 1.4% decrease in cash funding next year but over the next two years it will rise by 0.2% and 1.3% respectively. However, in real terms, this constitutes a fall in core revenue

funding of 6.7 per cent in the next 3 years. With regard to capital, this is set to fall by 14% in 2011/12 with further reductions planned. This could amount to 41% over the life of the spending review, which will affect spending on large infrastructure projects like building roads, hospitals and schools.

Again there are considerable variances in grant settlements to individual Councils with a range of -1.7% to -0.1%. Like Scotland, there is a degree of ring fencing taking place in that both education and social care have been protected by the Welsh Assembly Government with revenue funding for social services delivered by local government set to rise from £1.056bn to £1.08bn by 2013-14 and funding for schools will increase from £1.83bn to £1.9bn over the same period. However, this could have an adverse impact on other local authority service areas. Economy, transport and environment are down by more than 21% over three years.

With regards to Council Tax, whilst the Assembly are making available £32m to help councils fund council tax freezes should they wish, they are allowing local authorities to determine themselves whether they wish to use this funding for the purposes of freezing council tax or whether they will spend this on services. It will be for each local authority to justify their decision on this to their citizens.

As part of the need to reduce costs, Councils in Wales are working in clusters to explore opportunities to work together to deliver services jointly as well as reducing costs. A range of regional partnerships have been established to oversee these developments.

7. Comparisons between the Local Government Settlements in the United Kingdom

There are obvious differences in the local government settlements across the United Kingdom. English Councils have undoubtedly come off worse compared to their counterparts in Scotland, Wales and Northern Ireland. When the departmental expenditure limits are analysed a cut of -41% in England will be experienced by some Councils over a four year period – a severe cut. The devolved governments in Scotland and Wales have chosen to protect local government funding as far as practically possible. In Wales, this has been partially achieved by the Welsh Assembly Governments (WAG) policy decision not to protect expenditure on health. They have chosen to protect spend on both social care and education. This could have significant implications for the Welsh frontline services which APSE represents.

The toughest individual settlement for a Welsh Council next year is -1.7% in Scotland its -4.5% compared to average English reduction of -8.9%. In Scotland, like England, NHS funding has been protected, however the funding plans and draft budget for 2011/12 offered a degree of protection for Scottish local government with Councils facing an average cut of -2.8%. However the range of reduction is significant from -4.5% to -1.58%. This has been dependant on agreeing to deliver a number of national policy priorities including a Council Tax freeze.

8. APSE Comment

The local government sector in the United Kingdom is making a full contribution to the UK Coalition government deficit reduction plan. The severity of the reductions in local government expenditure varies across the United Kingdom with English local government being subject to harsh reductions and service cuts. In addition to the expenditure reductions, all Councils within the UK will experience an increase in demand for their services owing to both demographic change and the longer term impacts of the recession.

All Councils now have to take policy decisions on which services they are going to retain and fund together with services they will need to rationalise or retreat from providing. The respective funding settlements mean that Councils will need to engage in discussions on what their future service settlements will be with their respective communities and citizens. Member Councils are pointed to the APSE document 'An Ensuing Council' as a potential model.

The level of reductions Councils will need to deliver goes well beyond the traditional and conventional efficiency savings. It can be argued that most if not all of the "low hanging fruit" has been taken in the previous years. Local Government will increasingly need to focus its energy and develop approaches which allow for service prioritisation on a needs basis together with extensive service review/redesign activity in terms of delivering services at a lower cost. Managing with less and doing less will be the new mantra in local government.

APSE remains fully committed to supporting member Councils through challenging times. Its Performance Networks model remains more important than ever in terms of supporting front line services with invaluable benchmarking opportunities. In addition, Councils reviewing services may wish to employ the APSE Competitiveness Continuum model. The APSE website also contains a wide range of briefing papers and other materials which are designed to assist Councils in managing with fewer resources.

If you would like any more details about these briefings please contact Andrew Spowart on aspowart@apse.gov.uk

Andrew Spowart and Debbie Johns
Principal Advisors