

Budget summary: what it means to local councils**Key issues**

- This briefing considers the Budget 2016 as presented to Parliament on the 16 March
- Although the budget contains detailed information on all aspects of the economy and taxation proposals this briefing focusses on the main issues for local government and wider economic issues that will impact upon local council services and the residents that they provide services for.

1. Introduction

The budget opened by setting out forecasting by the Organisation for Economic Co-operation and Development (OECD) which suggests that the UK is the fastest growing major advanced economy this year. However it also contains a revision on predictions made in the Autumn statement, with regard to economic growth, suggesting that a worsening global economy will mean growth is lower than forecast, debt will be higher and productivity lower.

The Chancellor restated a commitment to achieve a surplus by 2019-2020 regardless of the acknowledged changes in the global economic outlook.

2. The headline messages

The executive summary of the budget refers to the Government:-

- Making additional savings equivalent to 0.5% of total government spending ('to ensure the nation lives within its means')
- Carrying out a major overhaul of corporation tax reliefs, a lower corporation tax rate and a big reduction in small business rates
- Boosting enterprise with a reduction in Capital Gains Tax and tax for the self-employed

- Accelerating education reforms and improve children's health with a soft drinks industry levy
- Supporting working people with a £11,500 personal allowance and a £45,000 higher rate threshold
- Backing savers with a new flexible Lifetime ISA for young people and a higher ISA limit for all

3. What does the budget mean for local councils?

i. Headline public sector spending

Although the budget suggests a 0.5% reduction in public sector spending it additionally refers to the further delivery of £3.5 billion of savings from public spending in 2019-20.

This £3.5 billion saving has created some uncertainty as it is not broken down into what this would mean for different Government departments and whether this indicates further reductions would fall upon local councils. Although many commentators have suggested this ought not to be the case local councils will be looking for further assurances. It has been acknowledged that local government has taken a disproportionately higher share of spending cuts since 2010 within the public sector overall.

Calls to bring forward an extra £700 million in the Better Care Fund earmarked for 2019/20, to this year, to help meet the costs of social care, were not taken up by the Chancellor so concerns remain around the gaps in social care funding, and the impact of this on both local councils and the NHS.

From APSE's own analysis for English authorities whilst the head line reduction is 0.5% the impact on frontline services, outside of social care, when increased demands are taken into account still results in a potential pressure nearer to 20% for other council services such as neighbourhood services including refuse and recycling, street scene, leisure and parks, highways, street lighting and winter maintenance.

ii. Business rates

The full retention of business rates was cautiously welcomed by councils following the announcements in the Autumn Statement 2015, however as highlighted by APSE this caused some concerns as to the future ability of councils to increase business rates, appeals mechanisms, aspects of future redistribution and equalisation, and local capacity to grow business rates.

Within the budget the Chancellor announced a series of changes to business rates including:

- **Business rates: indexation** – The government will change the annual uprating of business rates in England from the Retail Prices Index to the main measure of inflation, currently the Consumer Price Index, from 1 April 2020.
- **Small Business Rate Relief (SBRR): doubling** – The government will permanently double SBRR in England from 1 April 2017.
- **Small Business Rate Relief: thresholds** – The government will raise the SBRR threshold in England to rateable values of up to £12,000 tapering to £15,000 from 1 April 2017.

These changes could therefore reduce the value of the business rates collected and adversely impact upon council finances. However the budget papers states that *'Local government will be compensated for the loss of income as a result of the business rates measures [above], and the impact considered as part of the government's consultation on the implementation of 100% business rate retention in summer 2016.'*

In addition the Chancellor announced that there will be a pilot approach to 100% business rates retention in Greater Manchester and Liverpool City Region and further changes, to include a standard multiplier, to properties with rateable values of £51,000 and above from 1 April 2017, discretionary relief on public lavatories, discounts to local newspapers, a long term review of business rates in England by March 2016 and business rates modernisation, to allow for online billing and payments, and linking collection systems with HMRC digital tax accounts by 2022. In addition the budget papers state an aim to introduce valuation reform with an aim to introduce more frequent (at least 3 yearly) revaluations of properties in England for business rates purposes and again a discussion paper is promised by March 2016 outlining options.

4. English Devolution

The budget features heavily on increasing devolution citing 'historic mayoral devolution agreements' with Greater Manchester, Sheffield City Region, the North East, Tees Valley, Liverpool City Region and the West Midlands; it also cites new mayoral devolution deals with English counties and southern cities including the West of England, East Anglia and Greater Lincolnshire. There is also further devolution with Greater Manchester, including a commitment to work towards the devolution of criminal justice powers, and a second devolution deal with Liverpool City Region.

Budget wise unringfenced single pots of funding to spend on local priorities, are cited to be worth £2.86 billion in total over five years rolling together existing transport funding, gainshare investment funds and Local Growth Fund allocations; there is also a promise of future further flexibility over central government funding. The Bus Service Operators Grant will also be devolved to areas that adopt bus franchising, and the Adult Education Budget will be included in the single pot from 2018-19 for those areas with devolved adult skills arrangements.

5. Housing and planning

Many of the housing announcements focus on planning issues including developing garden villages and towns, in return for commitments on significant housing delivery; moving to a more zonal planning system and speeding up the process for assessing housing need and measures to encourage local plans (to be set out later in the year) and increased densities on brownfield land, including London.

There is a commitment by the Government to consult on proposals to increase transparency in the property market, including by improving the visibility of information relating to options to purchase or lease land, together with consultation on a second wave of Compulsory Purchase Order reforms with the objective of making the Compulsory Purchase Order process clearer, fairer and quicker.

There are also measures on starter homes with the government launching the Starter Homes Land Fund prospectus, which invites Local Authorities to access the £1.2 billion of funding, to remediate brownfield land to deliver Starter Homes. There is also a promise to explore investment in low-cost homeownership, and a promise that a Help to Buy: Shared Ownership Prospectus will be launched in April 2016.

On Local Authority land it is stated that there will be collaboration with central government to release land with capacity for at least 160,000 homes, which is stated to be *'helping to support the government's policy of regenerating council housing estates'*.

As many councils have already experienced, homelessness, is on a significant increase, with the numbers of rough sleepers having more than doubled since 2010. There is a commitment to invest £100 million to deliver low-cost 'second stage' accommodation places for rough sleepers leaving hostel accommodation and domestic abuse victims and their families moving on from refuges. There is also a commitment to invest £10 million over two years in initiatives to support and scale-up innovative ways to prevent and reduce rough sleeping, particularly in London.

However, the homelessness measures do little to address the growing pressures on councils as highlighted in recent APSE Research *'Housing the Nation: Ensuring Councils can deliver more and better homes'* since the measures do not provide a positive impact on affordable homes to rent, with councils being the landlord of choice. There are 68,000 people already currently living in temporary accommodation. APSE research also identified that there are more than a million more on council waiting lists. The LGA cite that homelessness spending is at £330 million.

APSE is also concerned that the Right to Buy pilot announced at Autumn Statement, will exacerbate the issues of supply in social housing and, whilst the 'pay to stay' taper is a welcome improvement in the policy it does not address nor go far enough to alleviate the

genuine concerns expressed by APSE member authorities that 'pay to stay' will only compound housing problems in many areas; taken with rent rise restrictions the housing picture remains bleak and business plans for housing provision have been thrown into disarray with the latest measures.

6. Competitive markets – a return to CCT?

One worrying element of the budget statement is its reference to 'competitive markets'. Whilst a large part of the competitive markets statement refers to issues such as better consumer protection on mobile phone contracts, and potential new market entrants into legal services, there is a worrying reference to local councils.

The statement contains the following reference:-

"The government wants to ensure the £60 billion local authorities spend to procure is done in an efficient and competitive way. The government will consult on new rules requiring local authorities to be transparent about the cost of the in-house services they provide, and whether there could be savings from using competitive external providers".

This would at first glance appear to be a tacit reference to the discredited Compulsory Competitive Tendering (CCT) regime. The Local Government Planning and Land Act (1980) and the Local Government Act (1988), along with successive regulatory measures, enforced councils to subject their services to competitive tendering. Services identified as defined activity for the purposes of CCT could only be carried out by in-house teams if they were successful in winning a tender (bid) for the work against private sector competitor organisations.

The reasons why CCT became so discredited are manifold; not least the false and unrealistic purchaser / provider split which led to huge inefficiencies in service delivery; diseconomies of scale and lack of service integration, and, the loss of councils to determine for themselves, the best mode of local service delivery. Moreover CCT became associated with deterioration in the terms, conditions and pay of the local government workforce and in particular that of part-time women employees.

It is of course essential in APSE's view that in-houses services do offer value for money but this needs to be a measure of both cost and quality – not misleading transparency around cost alone, as suggested in the budget statement; quite obviously lower costs do not always reflect quality services.

It is important to note that all local councils are still subject to the duty of Best Value, which is a statutory duty. Indeed the then Coalition Government, on the 14 September 2011, outlined in a commitment to localism, that it would free up local authorities from overly prescriptive guidance (which included withdrawal of the code of practice on workforce

matters) and issued slimmed down statutory guidance on the Best Value Duty. The new Statutory guidance on Best Value included the following:-

'Best Value authorities are under a general Duty of Best Value to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness."

It also included the following:-

'Under the Duty of Best Value, therefore, authorities should consider overall value, including economic, environmental and social value, when reviewing service provision. As a concept, social value is about seeking to maximise the additional benefit that can be created by procuring or commissioning goods and services, above and beyond the benefit of merely the goods and services themselves.'

The guidance went on to both encourage and demand appropriate community consultation. The Localism Act 2011 went on to introduce the General Power of Competence (for English authorities). It is therefore alarming that the budget statement contains a tacit reference to what could be interpreted as a return to regulatory measures, like CCT, without any acknowledgement of the progress that has been made by councils to secure Best Value nor the Government's own policy position, to allow a localist policy setting framework for local councils, rather than through central government dictat or unhelpful and overly prescriptive regulatory measures.

Moreover 'in-house cost' as a measure of transparency can in fact work against Best Value principals. Where councils do choose to go to the market for services, placing in-house price information in that domain is extremely naïve, since markets will set their prices accordingly, and not necessarily at the most competitive level. It is therefore worth noting APSE will be consulting and responding on behalf of our membership to the promised consultation on this budget statement and we hope that this consultation is open and transparent and not simply a listening exercise for those with vested market interests in the public services marketplace.

APSE would however support the ongoing transparency measures and indeed has encourages its member authorities, using APSE Performance Networks data, to look at their cost and quality performance measures in frontline services. However this approach, using cost and quality data in an intelligent way, enabling the sharing of best practice and performance improvement, is a much more mature and realistic approach in a public sector context. Crucially it also allows for robust performance comparison based on local factors, service profiles and local policy preferences of elected councillors – for example the set quality levels of local services, for example, *'how often are refuse bins emptied?' or 'how often are streets swept?',* all of which provide a more balanced score card approach to Best Value considerations. APSE will be keeping a watchful eye on these proposals.

7. Welfare reform

The Government introduced a Welfare Cap in the 2014 Budget. Further reforms were introduced in the summer Budget of 2015 and the Autumn Statement 2015. A key area of reform for the 2016 Budget was changes to Personal Independence Payments (PIP). This was to produce a saving of £4.4 billion over the course of parliament. These controversial changes, would it was expected, have had a knock-on detrimental effect to local councils in terms of leaving gaps in funding and increasing demands upon local authority services. Following some controversy, and the resignation of Iain Duncan Smith, as Secretary of State for Work and Pensions, the proposed changes appear to have been shelved. Addressing Parliament the new Secretary of State for Work and Pensions Stephen Crabb said *'We won't be seeking alternative offsetting savings and ... we are not seeking further savings from the welfare budget,'*

Whilst the announcement by Stephen Crabb is to be welcomed there will however be some remaining nervousness about whether the budget gap, left by the planned savings, will eventually fall upon other departments to find.

8. Academisation

The plans for so called 'academisation' of all schools have now been set out in a new white paper. APSE will produce a separate briefing on this in due course. However for local authorities providing services to schools and academies there will be some concerns about initial media reports which suggested that such services in future would need to be provided by 'spin outs' (mutual organisations made up of former council employees). This is unlikely to be lawful and would require primary legislation changing the very basis of local authority powers and duties. It would appear these reports stemmed from a think-tank report which did not, in APSE view, give sufficient consideration to the legal framework in which local council services operate – or indeed the direction of travel of Government policy in providing councils with a General Power of Competence.

Moreover many Academies work perfectly well with local authority service providers and indeed wish to remain within that relationship; for example catering services providing high quality nutritious school meals, or grounds maintenance services, provided with high quality health and safety considerations and appropriately vetted employees. It would be nonsensical to further complicate those good working business relationships and indeed would hinder the smooth transition to academies. The same is also the case for other education based services to schools. APSE will be carrying out a detailed analysis of the white paper and responding formally to this.

9. APSE comment

This budget briefing is intended as a snapshot of the most salient issues for APSE members, particularly those delivering frontline local government services.

We would welcome further comments and views from APSE members. If you wish to respond or comment on this briefing please email Mo Baines on mbaines@apse.org.uk.

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