apse membership resources

Briefing 18 - 37 **October 2018**
APSE budget analysis 2018

- This briefing considers the impact of the Budget 2018 on local government
- It focusses specifically on the impact on Neighbourhood services delivered by local councils and highlights the findings of recent research produced for APSE by NPI *'**Hollowed Out: the impact of financial localisation on neighbourhood services**'*

1. Introduction Budget 2018 in context

Within this briefing APSE specifically explores Budget 2018 from the context of local government finance. This briefing is intended to therefore provide an overview of the Budget headlines as they impact on local government, particularly frontline services. It also draws information from APSE's new publication with the New Policy Institute (NPI) '***Hollowed Out: The Impact of Financial Localisation on Neighbourhood Services'***

APSE has produced a number of research reports with the New Policy Institute specifically exploring the spending and budget decisions as they relate to frontline services so alongside our new report this briefing also draws on previous research papers; Redefining Neighbourhoods: Beyond austerity? and Sustainable local government finance and liveable local areas: Can we survive to 2020? These research reports have all consistently found that the impact of austerity has fallen severely on frontline neighbourhood level services such as refuse and recycling, streetscene, public realm and parks, highways, street-lighting and winter maintenance, sports and leisure services as well as soft FM services, including school meals. This briefing therefore brings together commentary on Budget 2018 and highlights the findings of APSE's research programme.

2. An end to austerity?

Whilst the Prime Minister suggested an end to austerity as part of her conference speech in October it was the Chancellor Philip Hammond, who was asked to deliver upon this. Ultimately such bold statements depend very much on interpretation and whilst clearly there have been a loosening of the Whitehall purse strings this is less evident in terms of local government spend. The IFS, in response to the budget, in fact suggest that whilst 'day-to-day spending on public services is due to rise by about 8% between now and 2020-23' this is primarily due to the £20 billion allocated to the NHS. The figures for local government overall are less remarkable at a £900m increase; albeit the announcements of ring-fenced money for specific services such as social care and pot-hole repairs are welcome it does not address a return to the previous levels of resourcing local councils experienced pre 2010. The following provides an overview of the newly announced spending plans which impact on local government frontline services

3. Social care funding

The Budget has delivered an extra £650 million in funding for social care for 2019/20, of which only £240 million (previously announced) is ring-fenced to adult social care. This leaves £410 million which could be spent on childrens or adults services. The Budget also announced further additional funds for Disabled Facilities Grants of £55 million and a further £84 million, which would be available for up to 20 local authorities to support children staying at home with their families as opposed to going into a care situation.

4. Highways and Roads

£420 million has been allocated to local councils for road repairs including potholes, damaged roads and bridge repairs. An additional £150 million has been made available for small improvements works; this would include things like roundabout or junction improvement works. In addition to the sums for Highway and Roads major funding has been announced for the National network including a sum of £28.8 billion for 2020 -2025 funded through English Vehicle Excise Duty on a hypothecated basis; this money is essential to upgrade the motorway networks and major routes.

5. Housing

The main announcement on housing was the raising of the HRA borrowing cap which was trialled before the budget and welcomed by APSE. The numbers of new homes that could be built is however still uncertain. Some estimates place this at 10-15,000 new homes however the OBR has suggested councils may only build around 20,000 homes up to 2023/24. Estimates in the Budget state that the lifting of the cap will cost £4.66bn over five years with initial costs of £95m**.** The Chancellor also announced an increase of £500 million to the Housing Infrastructure Fund which would total the fund to £5.5 billion. Again it is estimated that this could deliver up to 650,000 new homes through the private sector. APSE has published the following detailed reports on housing which were produced in conjunction with the Town and Country Planning Association, where we consistently called for the lifting of the HRA borrowing cap. The reports also highlight however the other barriers to meeting housing need. The full reports can be downloaded using the following hyperlinks. 'Delivering affordable homes in a changing world: Ensuring councils can meet local housing need', 'Building homes, creating communities: Ensuring councils provide innovative solutions to meeting housing need' and 'Homes for All!'

6. Business Rates

Again trailed before the Budget was a reduction in Business Rates to help local high streets allowing for a one-third rates cut for those English properties with a rateable value below £51,000. After some initial confusion it was confirmed in the Budget book that the loss of income to councils would be fully compensated. It is suggested that this relief would benefit 90% of retail properties. Alongside this announcement was 100% rate relief for public lavatories and discount rates for local newspaper offices to continue to

2019/2020. There will also be a further process of consultation on self-catering / holiday lets as to their classification as council tax properties or business rate properties. This will be of interest to those councils that have debated the classification of such properties for the purposes of domestic or trade waste categories of refuse collection.

7. Waste and recycling and local environment

The Chancellor rejected calls for a so call 'coffee cup tax' but will look to introduce a new tax on plastic packaging (imported and produced) where it does not contain at least 30% of recycled plastic. There was also a reference to re-examining the Packaging Producer Responsibility System, which would include plastics. An issue that will catch the eye of local authorities as both waste collection and waste disposal authorities is the prospect of a tax on waste incineration, alongside landfill tax. This has been mooted as a means to ensure more waste is diverted into genuine recycling rather than avoiding landfill but ending up as incinerated waste. Government has promised that these measures will consider the impact on local authorities. An allocation of £20 million has been made to support increased recycling measures with £10 million of this allocated to innovative ways to increase recycling and reduce waste. Smart Bins is given as an example. There was also a £10 million allocation for Tree Planting for community streets and urban areas between 2019/20 – 2022/23. The budget did not deliver specific funding to support local authority parks services which are under ongoing and severe financial pressure. APSE continues to advocate for Parks through its ongoing work with the Parks Action Group, and in particular the vital and ongoing role of local authorities in providing and maintaining the quality of local parks.

8. An end to PFI Schemes

The Chancellor announced an end to any new PFI schemes pledging that no new deals would be signed but that existing schemes would not be brought to an end / compensated. Again APSE has long been a critic of the use of PFI in public sector infrastructure schemes and the Chancellors announcement is welcome however the limitations of this announcement will not help those local authority locked into PFIs. In particular in the waste sector waste disposal authorities may be locked into arrangements whereby plant and facilities developed under PFI are no longer fit for purpose. Funding to recast the engineering side of these facilities as well as recalibrate payments where necessary would have had a very positive impact. See further commentary on this below.

9. Devolved administrations and Barnet consequences

The Chancellor announced additional funding for Scotland, Wales and Northern Ireland in the devolved areas of education, health and housing. This includes over £950 million more for the Scottish Government through to 2020-21, £550 million more for the Welsh Government through to 2020-21 and £320 million for a Northern Ireland Executive through to 2020-21. The lifting of the HRA cap for England will be reflected in Wales with the Welsh Government taking immediate steps to lift the cap in Wales. In terms of growth deals there was also announcements of £150 million for a Tay Cities Deal, £120 million for a North Wales Growth Deal, £350 million for a Belfast City Region Deal and the promised 'opening of negotiations' on Derry/Londonderry and Strabane City Region Deal.

APSE comment

Whilst the budget was trailed as an end to austerity it is far from the case for local councils. Whilst there is a reported increase of around 8% in public spending this is swallowed up by the increase of £20 Billion in the NHS and a further £1 Billion in defence spending with some additional pockets of money for Social Care and Highways. As it stands whilst the additional Social Care money will lessen the pressure on some council budgets it will not necessarily remove the impact of the funding drag towards care services that has created more severe pressure on non-statutory services, in particular neighbourhood services. A more detailed commentary on each area is provided below.

a. Housing

There is a considerable change of pace on housing which is welcomed but the lifting of the HRA cap alone will not be enough to deliver the speed and scale of housing needed. The OBR has suggested the impact could be limited due to a slowing down of build-out rates by private developers and housing associations. APSE has also called for a number of other measures to increase house building. The latest APSE housing report prepared by the TCPA **'Delivering affordable homes in a changing world: Ensuring councils can meet local housing need'** can be downloaded using this link. In this report we called for a number of measures on housing which needed to be addressed in tandem with lifting the HRA borrowing cap these included; land-supply; reform of planning; housing quality; jobs and skills; innovative models to speed up the build process as well as ensuring that housing is embedded within communities with proper infrastructure; we were particularly concerned with permitted developments and unsuitable site developments. The long-term housing policy for the UK needs to also address energy efficient new homes which will help to minimise both the costs to home occupiers as well as to the environment. APSE has also called for any new homes to be effective over the life-time of the occupier through considering how we deal with older people in the long-term, such as better integration of homes being adaptable for future use. The interface with housing and dealing with demand pressures in social care cannot be readily separated and nor should they be.

b. Neighbourhood services

APSE research with NPI has consistently shown the impact of funding reductions on frontline neighbourhood level services. These include services such as refuse and recycling; streetscene and public realm, parks, leisure, school meals and meals on wheels catering, highways and street lighting. Our research in 2016 found that £3.1 Billion had been lost from these services since 2010. Whilst the announcement of additional money for Highways services is therefore welcome it does not address the funding losses on other neighbourhood level services. It is worth noting that as estimated by the ALARM survey the renewal of Highways treated as a UK asset, would require a funding pot of some £8 Billion. Therefore the capital injection needed falls far short from the £420 Million allocated within the budget. Similarly the additional funds for waste and recycling initiatives (£20 Million in total) will not reverse the service pressures faced by local environmental services. APSE member councils have already demonstrated considerable efficiency within the sector including huge improvements in recycling and landfill reduction, including changes to collection methods and significant engagement with the public. However to push even further on these improvements an increase in investment in new vehicles, equipment and technology will be necessary alongside resources to fund public engagement and communication campaigns. Overall APSE members have reported a decrease in resources for recycling campaigns as a result of the loss of credits from waste disposal authorities for such activities.

The announcement of a review into the possibility of an incineration tax will be of great interest to many councils, particularly those that have invested in incineration facilities. Uncertainty over the future of single plastic usage will add to the sectors concerns. Changes to collection and disposal methods are not generally achievable very quickly so any uncertainty can hamper change at a local level. Whilst public policy will invariable change, to enable local authorities to adapt to such changes cognisance must be taken of these difficulties, and the associated cost considerations.

c. PFI: What needs to happen

The lack of a coherent approach to PFI is of concern. Whilst the end of new PFI schemes is to be welcomed, given its extraordinary cost to the public purse and it's expensive and inefficient mechanism to fund investment, simply stopping future PFI schemes does not help address the ongoing issues that still exist within local authorities. APSE would have liked to have seen significant investment in means to ameliorate and recalibrate existing PFI schemes. This is of particular significance in waste disposal with facilities which are no longer fit for purpose as recycling, waste treatment, and waste disposal needs are significantly different to those originally specified. This is an issue which impacts on both collection and Disposal Authorities since collection methods generally need to align to the disposal and treatment arrangements. There are some solutions to these misalignments of current collection needs with existing disposal and treatment facilities, including some re-engineering of plant and equipment, and reconfiguring contract mechanisms, as well as in some cases ending and insourcing facilities. APSE Solutions is working on this area with our legal partners Walker Morris LLP but thus far it is a matter for councils or the relevant Disposal Authority to fund such work-streams, including re-engineering works. Arguably some seed funding, specifically to enable authorities to reconfigure the facilities and the financial structures, would have enhanced the Governments approach to PFI, in particular by helping to ameliorate the negative impact that PFI has had on the public purse and on the refuse and waste sector specifically.

d. Social care funding

The LGA has reported a funding gap in care services of around £2.3 Billion for Adult Care and £2 Billion for Childrens Services. The growth in demand on these services is well recognised and reported. However the current narrative of funding social care does not reflect on the impact of losses to other council services that at a neighbourhood level will adversely affect both social care and demand on other services. For example the role of parks and leisure services in addressing isolation and loneliness for older people and the role of these services in supporting young people and families, including crime prevention and youth engagement. In refuse services the increase in demand for assisted collections means costs can increase, and this is a direct result of the demands of an ageing population. However there remains a lack of a holistic approach exploring the total resources needed to best support older and younger people within communities and this delineation of budgets is unhelpful to resource efficiency. The newly announced funds for social care will undoubtedly go some way to staving off the worst excesses of funding pressures; it is therefore likely that lessening pressure on care budgets will go some way towards preventing calls on other services, including non-statutory services effectively cross-funding care services through implementing a disproportionately greater sum of budget cuts.

e. Is Austerity over for local councils: What is the future for funding frontline neighbourhood services?

According to the Budget book local government funding through MHCLG will receive a £900 Million increase in resources and a further £1.3 Billion in capital. However these headline figures do not particularly rebalance the findings of a recent report prepared for APSE by the New Policy Institute (NPI). Our latest report '***Hollowed out: the impact of financial localisation on neighbourhood services***' found that by 2019/2020, council tax and business rates will exceed the spending that local government controls by £7 billion per year. This £7 billion 'reverse subsidy' which benefits central government from income raised by local taxpayers rests on a comparison of locally-raised revenue with 'core spending power' (CSP) plus the ring-fenced public health grant.

Core Spending Power is the sum of a local authority's council tax, revenue support grant, other specific grants from central government, as well as retained business rate income. The 'reverse subsidy' is a recent development: in 2015/16, local government still got slightly more from central government than was raised in local taxation. Council tax and business rates are set to continue to rise until the end of the decade but a fall in central government grant means that councils are now collecting more than they spend. Combined with increasing demand for services, whilst tax payers are unlikely to feel any benefit from paying more council tax, they are likely to see on-going budget pressures, which will impact on local services, especially those delivered at a neighbourhood level. Similarly the issues which impact on local businesses and viable High Streets, such as public realm, streetscene services, and road maintenance are all effected by the ongoing 'reverse subsidy'.

Prior to the Budget APSE called upon the Chancellor to end this 'reverse subsidy'; the value of which at £7 Billion would be enough not only to plug the funding gap in social care but to go at least some of the way towards reversing the cuts in neighbourhood services. An earlier APSE / NPI research report ***'Redefining neighbourhoods: A future beyond austerity?'*** found that since 2010 neighbourhood services have lost £3.1 Billion. Whilst the additional funds for Highways will help that sector specifically, looking across all of the neighbourhood services the existing budget pressures look set to continue, albeit with the opportunity for some lessening of pressure in those councils that have had to utilise cuts in neighbourhood services to offset budget pressures in social care.

Some may ask why it matters if the 'reverse subsidy' is in operation if the Chancellor has made additional and unexpected funds available for councils. APSE would regard this as fundamental to the debate around financial localisation. The promise of greater localisation was choice over funding decisions but because of the way that councils collect money and send to the Treasury the 'core spending power' of local councils, and the ability to determine what they spend on which services, is limited. They essentially have less to spend than they currently collect. This suggests that there is money in the system which could be spent on council services but which is being used at the direction of the Treasury, not local councils, and indeed may not even be spent on local government related expenditure.

Austerity has been very evident at a local council level. Aside from the clearly seismic issues of places like Northamptonshire, and the pressures mounting on other councils facing similarly critical points in their budget, the vast majority of local councils have had to ration or stop some services. Investing in neighbourhood services and placing services like local parks on a more stable financial footing would provide the public with a very visible sign that austerity is coming to end. Therefore it is APSE's view that disregarding the importance of neighbourhood level services is a missed opportunity to demonstrate the pledge to end austerity.

Further findings from '***Hollowed out: the impact of financial localisation on neighbourhood services'*** provide context to the on-going parlous state of local government finance.

- Under the guise of localisation, council tax has represented an ever-growing share of Core Spending Power, up from 44% in 2010, to 54% by 2016/17 and 62% by 2019/20. It varies greatly according to the type of local authority, from 51% for London boroughs and metropolitan districts to 75% for shire counties, by this point.
- With grants from central government continuing to fall, 88% of Core Spending Power will come from two taxes – council tax and business rates – by 2019/20. The share will range from 84% for London and metropolitan districts to 93% for counties.
- The most deprived areas, on average, have seen the biggest cuts to funding.

The changing structure of local council finance matters for a number of reasons. As councils are increasingly reliant upon two forms of property based taxes for their income the likelihood of future divergence based on ability to grow these taxes will be increasingly evident. For those local authorities with good prospects for business rate and council tax growth the emerging structure of local government finance will be positive but for many councils unable to grow one or both of these taxes the new financial picture will be considerably less positive. It is worth correlating that the poorest areas, with low value housing stock for example, will fare worse than more affluent areas. Similarly those areas with poorer infrastructure, including transport links, may be less able to attract and keep new businesses. The Chancellor tacitly recognised the pressure on business rates in the Budget with the rate relief for small businesses, designed to assist the High Street. However with the High Street increasingly becoming an experience destination; with coffee shops, bars and restaurants, this too tends to favour better off areas. The decline in retail, with purchases moving online, which offers no financial income to councils, will only exacerbate the situation in the longer term. This means that for less well-placed areas, the growing dependence on locally-raised finance will worsen their situation, risking further service cuts and risking non-statutory services. Whilst the forthcoming 'Fair Funding Review' provides an opportunity to redress these issues of redistribution the complexities of localisation makes this a difficult task. However it is, in APSE's view, essential that a genuine mechanism is established to take into account needs based funding, as part of that review, and local government funding going forward.

Therefore whilst the additional social care funding for adults and children's services is most certainly helpful, the fact that there is still a funding gap means that other often non-statutory neighbourhood level services will remain under extreme financial pressure. Services like leisure centres, parks, public realm and other services may still suffer the impact of the funding gap in social care, which is often seen as the absolute overriding priority when councils set budgets. This approach risks hollowing out local council capacity to intervene.

As part of APSE's neighbourhood services and local government finance research we have called for a number of matters to be addressed with some urgency:-

- ✓ The issue of the 'reverse subsidy' suggests that money could be made available to local councils to help fund both social care and neighbourhood services. Whilst social care funding needs a long term solution the 'reverse subsidy' would provide some interim measures to support local councils as they potentially move into their ninth year of austerity. The budget has clearly helped but not ended austerity for local councils.
- ✓ If Government returns the £7B 'reverse subsidy' back to councils coffers (a sum which may now be reduced by the Budget Statement) it would provide a real boost to funding neighbourhood services which the public value.
- ✓ To further assist the funding of local government the Treasury should recalibrate its localist claims. To do so it could start by pinning fiscal neutrality (the condition under which central government insists localisation should take place) to the date 2015/16 when it was first proposed that locally raised taxes should fund local government. That was the year when local taxes were first equal to the amount controlled and spent by local government. The year at which there was no reverse subsidy, meaning councils had control over the income they raised.

In the longer term APSE has consistently suggested that local council funding should take into account the issue of need. The localisation debate is impacting upon the resources available to all types of councils and goes beyond any party political divides. In addition local government overall has made greater savings than any other area of the public sector. Localisation, contrary to its meaning has in fact created a top-down approach to funding and is clearly not working in areas of severe deprivation. Any system of local finance needs to meet the test that it works for the least well-placed authorities.

Conclusion

Whilst the loosening of the purse strings to help meet some of the most urgent funding needs is welcomed, alongside additional pockets of funding for other areas and the changes to HRA, the fundamental review of how we fund and sustain the most visible frontline neighbourhood services is not resolved by the Chancellors Budget for 2018. A presentation on Budget 2018 and the need for on-going additional income streams will be discussed at the APSE Commercialisation Advisory Group on **Friday 9 November** in Manchester. Free places can be booked online using this link.

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