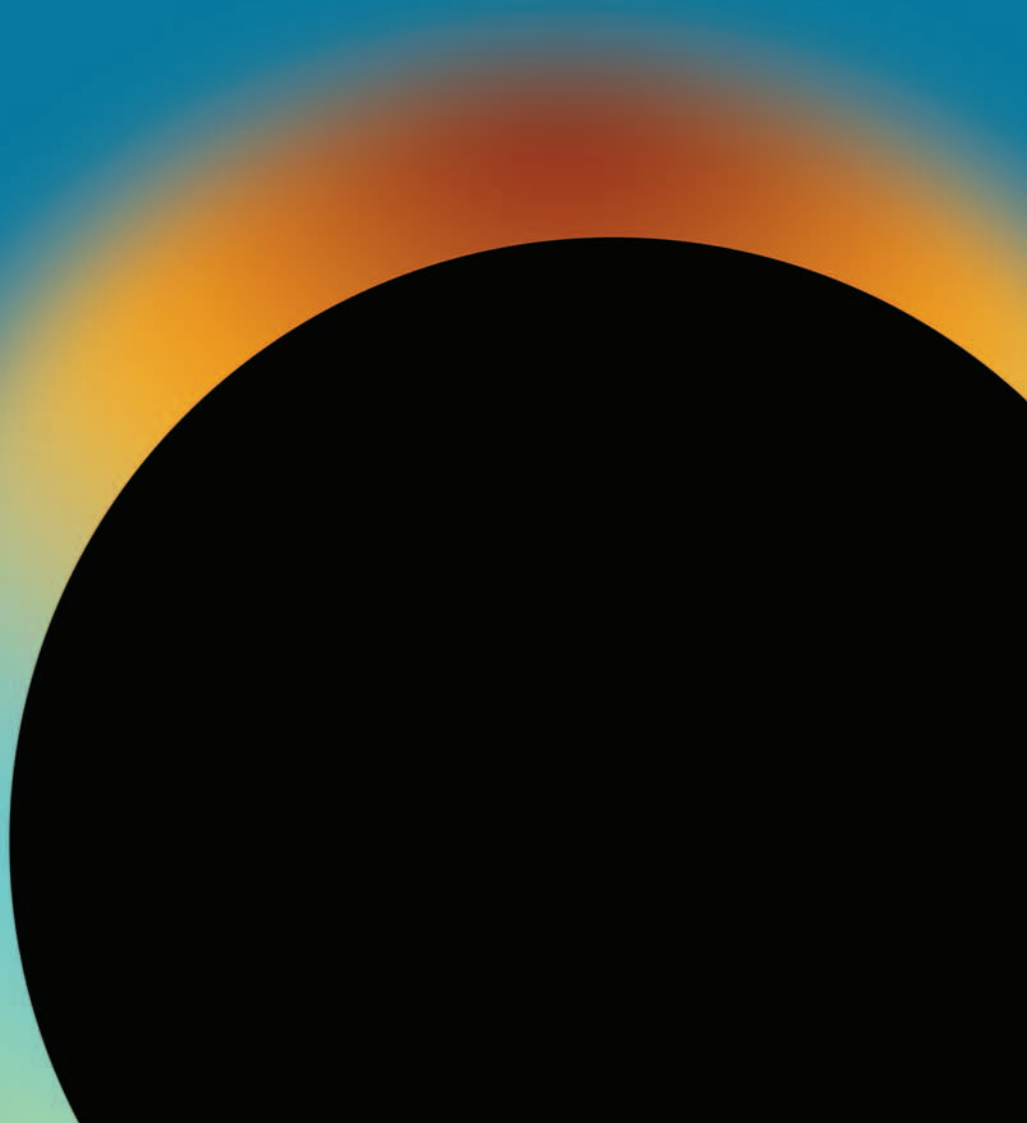




Local Government Association

beyond the black hole - a time of opportunity and challenge

LGA Pre-Budget submission



foreword

It is an enigma likely to baffle most council tax payers. Day in and day out, councils up and down the country are making significant savings, yet council tax rises inexorably every year. How can this be? And is it fair?

In August, figures from the Office of the Deputy Prime Minister confirmed that councils in 2004/5 have been more successful than any other part of the public sector in making efficiency savings, and have cut costs, shaving around £58m a month off town hall bills. At the same time, the Audit Commission, which inspects local authorities, has reported continuing improvement in the performance of councils. Despite these efficiencies and local government's track record of improvement, council tax has risen faster than the rate of inflation. The reason for this is twofold.

Firstly, the council tax system is flawed and needs to be replaced with a fairer means of funding local government. In September, the government announced that it was delaying Sir Michael Lyons's review into local government financing. This was a blow for councils and council tax payers alike. Government grant funds three quarters of the local government expenditure while the council tax share is one quarter; consequently relatively small reductions in government grant have to be made up by significant increases from the council tax payer's share.

The second reason is that in recent years the government has instructed councils to do more and spend more without providing an equivalent increase in funding. This year's extra legislative and cost pressures imposed on local councils by government add up to £2.8bn. In addition, the increase in government grant next year is considerably less than the rate of inflation.

Over the summer, Council Finance Directors covering almost 70 per cent of the local government budget have presented a detailed and clear evidence base of the continuing cost pressures. In the last fortnight, the Office of the Deputy Prime Minister and the Local Government Association have been engaged in constructive discussions about these pressures. Ministers have so far confirmed that the extra, projected costs arising from among others, pensions, licensing, asylum seekers and the disposal of electrical equipment will not fall on the council tax payer. But this still leaves a £2.2bn black hole in the funding for local government, equivalent to an increase of 10 per cent – or around £100 – a year in council tax bills.

Local government will do all it can to continue once again to produce more efficiency savings than the rest of the public sector and to deliver real value for money. Nevertheless it is for the government to ensure that the council tax payer does not have to pick up the bill for another shortfall in grant to local councils. Last December, the government put in an additional £1bn to help overcome similar cost pressures, but this money was one year only, one off, funding.

The government has three options. It can pay its full share of councils' new costs; it can reduce its new standards, legislative and policy demands imposed on local councils; or accept a higher increase in council tax. For 2005/06, the government opted to do part of the first to demonstrate what Nick Raynsford, the then Local Government Minister, said in Parliament was its "commitment both to local government and to council tax payers".

On behalf of the council tax payers we represent, we shall adopt a positive and constructive approach in our financial negotiation with government this autumn. But whatever the outcome of this autumn's financial settlement, we need a longer term, locally based, and more stable financial system for funding the local services that millions of people depend upon.

Cllr Sir Sandy Bruce-Lockhart OBE, Chairman Local Government Association

a time of opportunity and challenge

The next two to five years could well be among the most exciting and challenging years that local government will face.

We will face and overcome the challenges of:

- improving services for the people we serve;
- working to secure the devolution of power from central government to, and through local councils, thus empowering the voice and choice of our local communities;
- implementing the vision of the green paper on adult services to ensure that each person enjoys the quality of life they deserve;
- implementing Every Child Matters to secure a better life for our most vulnerable children;
- facing up to the challenge of making our communities a better place for all to live, work and play in harmony;
- working with the government and the Lyons Inquiry on the function, governance and funding of public services delivered locally.

These opportunities and challenges will consume, quite rightly, energy and drive in both central and local government. It is however crucial that as we move forward we consolidate and add to our record of improvement in service performance. The taxpayer expects and deserves excellence in service delivery coupled with efficiency in costs.

Central and local government may differ on how these challenges can be met but there is no difference in reaching for the prize of more effective, appropriate public services for all who engage with them. If these opportunities and challenges are at the heart of local issues, then the blood that keeps that heart healthy is money.

the council tax challenge

Council tax, that most visible of tax, funds on average some 25 per cent of current local government expenditure. The annual increases in council tax have ranged from five per cent in 1995/96 to 12.9 per cent in 2003/04.

The levels of increases in 2004/05 and 2005/06 have been 5.9 per cent and 4.1 per cent respectively. Whilst acknowledging that these were years in which the capping powers were evoked, these were also years in which the government provided a 'one-off' additional grant to help councils deliver council tax increases of 'low single figures'.

It is in the context of increased public awareness and hopefully public engagement that councils are turning their attention to council tax levels for 2006/07 and the implications for 2007/08. The one overriding concern for any democratically elected institution, whether that be central or local government, is that any tax increase must be transparent and the reason for the increase understood. If local government is to assist central government in meeting some of its national targets, as well as satisfying local needs and demands, then a way forward needs to be found to ease the financial burden facing local government in the coming two years.

In time there may well be a longer term solution that will emerge from the Lyons Inquiry. The immediate issues, however, must be confronted and managed by all concerned.

some myths explored

The public sector, and no sector more than local government, is bedevilled by some myths as to culture, behaviour and financial resources. It is worth exploring some of these misunderstandings to ensure that government, in considering both the annual finance settlement and the pre-budget report, do so in the proper context.

The document will comment briefly on:

- efficiency
- pay
- reserves
- inflation

efficiency

Prior to the word Gershon becoming part of our vocabulary, local government was well practiced in making efficiencies to invest in services and minimise council tax levels. In response to the Gershon targets, which formalised this process, local government is on course to deliver £1.9bn of efficiency gains in 2005/06, well in excess of the £1.0bn target set by government. £700m of these gains have already been achieved in 2004/05, with the remainder planned for 2005/06. The table below illustrates how these gains will be achieved.

Table 1 - Efficiency savings for 2004/05 and 2005/06

Sector	04/05 Actual+05/06 Expected £m	2005/06 Target £m	% 05/06 target achieved
Adult social services	289	228	126.8
Children's services	125	99	126.6
Culture and sport	77	49	157.1
Environmental services	135	25	541.5
Local transport	125	15	831.2
LA social housing	149	73	204.6
Non-school educational services	86	131	65.9
Supporting people	57	n/a	N/A
Homelessness	26	n/a	N/A
Corporate services	305	n/a	N/A
Procurement	168	50	335.2
Productive time	122	25	486.8
Transactions	73	25	293.4
Miscellaneous efficiencies	177	n/a	N/A
Total	1,915	1,023	187.2

Source: ODPM

Local authorities are reinvesting efficiency gains into improving frontline services for local people, as was the government's stated aim. This local retention of savings is the main incentive for local authorities to deliver. Authorities have already taken efficiency gains into account in their budget setting process - yet unfunded pressures remain. Efficiency gains cannot and must not therefore be used in an attempt to plug gaps in central government funding.

The Gershon agenda has given a welcome impetus to the need for greater collaboration across the whole of the public sector and not just the local government sector. The best of local government has already seized the agenda and is taking the opportunity to work across boundaries to deliver efficiencies. The challenge is to ensure that all local government and partners explore and take advantage of these opportunities. Indeed with police and PCT boundaries under review and the Lyons Inquiry continuing in local government, there is an exciting opportunity to drive the efficiency agenda across the whole public sector.

Councils have already proved they can deliver and either have or are in the process of embedding a culture of efficiency and transformational change. Local government would welcome the opportunity to lead and drive the efficiency agenda across the public sector in their town/city/region/county.

pay

Much has been said in recent months about the level of pay and pensions in local government and other public sectors. Much of the debate has been around the level of pay of chief executives/senior officers; a group who account for around 7000 out of 1.5m employees in local government (about 0.5 per cent).

It is true that employment in local government has risen in recent years. The increase, which began in 1997 following a number of years of decline, reflects the expansion of the public sector following a change of government.

Since 1999, the number of local government employees has increased seven per cent, whilst the number of central government employees has increased by 20 per cent. Much of the increase in local government is driven by increasing numbers of education staff (18 per cent), reflecting government priorities.

One of the biggest myths when it comes to local government employment is the increasing number of 'back-office bureaucrats'. In fact, whilst the number of staff in the local government services pay group (essentially all staff excluding police, fire and teachers) has increased, this was driven by a 60 per cent increase in the number of school support staff (also included in this group).

During this time the paybill and average salary for this group of staff (around 50 per cent of all local government staff) has increased. In 2003/04 (the most recent year available), average salary increased by 5.5 per cent. The annual pay settlement for this year was 4.6 per cent. Whilst the increase in average salary is above the 4.5 per cent increase in average earnings recorded for the economy as a whole, this can be explained by:

- The implementation of equal pay: Although 2003/04 was the year a number of local authorities first implemented equal pay, this has been an issue since 1997. It was intended to be implemented at nil cost but the reality is a long way from the rhetoric. Councils were struggling, but just about managing, until the equal pay claims came along. The costs of these claims are proving to be the last straw, with the costs having to be passed on reluctantly to council tax payers.
- Increasing recruitment and retention pressures, now felt in most parts of the country for certain professional jobs (mainly those where local government is a main employer), and in some regions for less skilled jobs. For example, in 2004, 93.6 per cent of all authorities reported experiencing recruitment and retention difficulties with one or more

professional/managerial occupations (Employers' Organisation survey).

- To recruit and retain staff in the current mixed economy is becoming an increasing challenge to local government. Like any scarce commodity, prices rise to meet the market demand. Professional groups such as social workers, engineers, planners etc are very much in demand in the current economy. Compare and contrast the position in the NHS workforce, where government funds the increased pay levels for scarce skilled professional staff. The issue is not whether we should be paying employees the market rate for their skills but how to ensure there is an adequate supply of the appropriate skilled persons.
- Decreasing frequency of early retirement, so relatively expensive experienced staff are less frequently replaced by less expensive and less experienced staff.

- A shift from administrative and manual employment towards managerial and professional employment, reflecting a trend in the wider economy (a trend which was well established in the 1990s too).

reserves

There is a misconception that local government is sitting with reserves that it doesn't use and indeed adds to over the years.

Local authorities hold earmarked and non-earmarked reserves. They also hold schools' balances.

The following table shows the position from 1997/98. Pension reserves are not included.

Table 2 - Reserves from 1997/98 to 2004/05

Financial year	Schools' reserves £m	Other earmarked reserves £m	Unallocated reserves £m	Total
1997-98	538	3,354	2,254	6,146
1998-99	499	3,336	2,011	5,846
1999-00	539	3,799	2,064	6,402
2000-01	694	3,895	1,863	6,452
2001-02	1,007	4,047	1,755	6,809
2002-03	1,103	3,732	1,756	6,591
2003-04	1,132	4,198	2,224	7,554
2004-05 (estimate)	1,280	4,945	2,595	8,820

Source: ONS/ODPM Local Authority Revenue Expenditure and Financing England 2003-04 Outturn

It is estimated that unallocated reserves represented 3.1 per cent of total revenue expenditure in 2004/05. In 1997/98 unallocated reserves represented 4.8 per cent of total revenue expenditure.

The 2003 Local Government Act (sections 25 and 26) requires CFOs to report on the robustness of authority budget estimates and the adequacy of reserves.

The LGA has looked at movement in reserves for the three years from 2001/02 to 2003/04, as detailed in the following table:

Table 3 - Change in reserves from 2001/02 to 2003/04

	2001/02 £m	2002/03 £m	2003/04 £m
Total budgets (less GLA, police and fire)	46,728	48,162	53,244
Total movement in reserves (less GLA, police, fire)	348	517	677
Movement in reserves as a proportion of total budgets (less GLA, police and fire)	0.7%	1.2%	1.3%

Table 4 - Analysis of movement in reserves

	2001/02 £m	2002/03 £m	2003/04 £m
Drawing on reserves	132	117	103
Adding 0 - £1m	118	127	122
Adding £1m - £5m	103	104	113
Subtotal	353	348	338
Adding £5m - £10m	22	25	29
Adding over £10m	13	15	21
Total number of authorities	388	388	388

In 2003/04, for example, some 60 per cent of authorities had either negative movement in their balances or a positive movement of less than £1m. Of the 13 per cent of authorities where reserves moved by £5m plus, over 50 per cent were excellent/good authorities and 58 per cent had council tax increases below the average level.

In an analysis of the reserves position for the years 2001/02, 2002/03 and 2003/04 the following were found to be the main reasons for changes in reserves:

provision for uncertainties that did not materialise

Examples of this in 2003/04 were:

- provision for a single status reserve. This did not materialise in 2003/04 for some local authorities but is expected to do so in future years;
- NNDR appeals were more favourable than expected.

underspends and efficiency savings

A number of authorities reported underspends and efficiency savings, as a result of tighter budgetary control and other efficiencies. A number of these underspends were carried forward as commitments:

- one authority saved £2.4m on employees and £2m on running costs;
- the same authority reported a lower contribution to its Insurance Fund reflecting better claims management.

preparation for new prudential borrowing system

- A number of authorities ceased funding their capital by revenue; subsequent expenditure was slipped into 2004/05 and financed by the new prudential borrowing arrangements.

The dilemma of ensuring an adequate level of reserves are maintained, in accordance with the Audit Commission guidance and expectation is

one that authorities struggle with continuously. No one, least of all elected members, wish to see money tied up in reserves that could be better used in improving services or minimising council tax levels. Equally local government would be serving council tax payers badly if it did not understand and provide for liabilities it will face either in the current or next financial year. In looking at any figures of reserves it is important that officers and elected politicians at both central and local level understand the rationale behind the figures and do not jump to the conclusion that the money is available for use to meet the latest new demand for resources.

inflation

The government, quite correctly, takes great pride in claiming that government support to local government has grown by 33 per cent in real terms in the period from 1997/98 to 2007/08. However in the six year period up to 2004/05 there were significant real increases in expenditure of over 50 per cent in education and social

services, these contributed to a 50 per cent rise in total service expenditure in real terms.

In December 2003 the chancellor of the exchequer announced that the UK inflation target changed from the retail price index (RPI) to the consumer price index (CPI). Some 65 per cent of the CPI is accounted for by the following:

Recreation and culture - 15.1 per cent

Transport - 14.8 per cent

Restaurants and hotels - 13.9 per cent

Miscellaneous goods and services - 11.1 per cent

Food and non-alcoholic beverages - 10.5 per cent

An Index of Local Government Prices, which would more accurately reflect the local authority basket of goods, could be based on the following:

Table 5 - Labour, goods and services 2002/03

	£m	%
Total pay:	44,345	55
<i>Education</i>	16,984	21
<i>Police</i>	5,536	7
<i>Fire</i>	1,125	1
<i>LGS and other pay</i>	18,549	23
<i>Pay related costs</i>	2,151	3
Total procurement:	36,183	45
<i>Premises related expenditure</i>	4,633	6
<i>Transport related expenditure</i>	2,299	3
<i>Supplies and services expenditure</i>	12,309	15
<i>Voluntary organisation/private contractor</i>	14,330	18
<i>Internal trading services</i>	1,640	2
<i>Other</i>	972	1
Total pay and procurement	80,528	100

As staff costs comprise just over half of all costs it is evident that the most significant pressure on local authority budgets is wage inflation. Any move to link local authority budget increases to the CPI has the effect of squeezing funding further.

The LGA has commissioned IPF to develop an Index of Local Government Prices and this work is on going at the present time. Some early work has been carried out in children's services. The following foster care example illustrates the complex interaction of number, costs and type of provider.

Table 6 - Foster care costs and numbers (1999/00 - 03/04)

	Unit cost	Foster weeks
(in-house)	14%	-0.1%
(other)	38%	+65.0%

If these trends are projected forward to 2006/07 and 2007/08 the estimated increase in cost per annum for children in foster care would be between £75 and £125m for each year.

Determining an appropriate Index of Local Government Prices is a complex matter but one which needs to be addressed, if central and local government are to make progress on the costs of local services.

the black hole challenge

In the LGA publication *Beyond the black hole - the case for a long-term local community funding solution* published earlier this year, it was estimated that funding pressures could well be of the region of £1.5bn in 2006/07. We in the LGA recognised the need to evidence the pressures facing local government in 2006/07 and this we have done in a series of

factsheets available separate from this document. The context in which the funding pressures have been determined are as follows:

- a pragmatic view, however unwelcome, that the government will continue with its capping policy;
- an acknowledgement that local authorities will be expected to use cashable efficiency savings to keep council tax down, rather than invest in improving services;
- a considered approach to the financial risk management process to determine the level of balances (as required by the Local Government Act 2003);
- a political will to minimise council tax increases but not at the cost of delivering poor value/quality of services.

In preparing this submission evidence from external sources and government figures have been used extensively. In addition a survey has been undertaken over the summer months. The responses from that survey, which covered some 67 per cent of the local government budget, were consistent across the areas of concern and desire to minimise council tax levels.

The following paragraphs attempt to summarise the main pressures affecting each of the spending blocks.

adults' social services (£663m)

The main funding pressures for adult social care relates to:

- Demographic costs - particularly for:
 - older people (an increase in the overall population, an increase in numbers with dementia, social changes which see a reduction in support networks and the growth of older people in BME communities);
 - learning disability clients (rising numbers and increased life expectancy of people with complex disabilities (survival at birth and longevity) and the increasing age of carers who are no longer able to cope without additional support);
- increasing costs of care - social care contract increases are significantly outstripping inflation as a result of market pressures, workforce changes and rising consumer expectations;
- difficulties in managing social care budgets are exacerbated by turbulence and changes elsewhere in the system, including:
 - changes to the FSS formula and Preserved Rights grant;
 - loss of the additional £100m Access and Systems Capacity grant;
 - the uncertainty of the allocation and the real terms reduction in Supporting People funding;
 - PCTs are facing cost pressures, which could potentially feed through to local authorities;
 - disinvestment by the NHS and other providers in services for clients with learning disabilities.

children's services (up to £599m)

Providing support to looked-after children accounts for around 45 per cent of children's and families' services expenditure, and has been increasing by around 10 per cent pa in recent years as a result of:

- demographic changes, including increasing number of children with severe and complex needs;
- the implementation of Every Child Matters, where improved services and a more joined up approach is tending to uncover more children who need care, a trend likely to continue for the next few years before the impact of better preventative strategies is felt;
- change in the provision of residential care, in terms of both type and provider of care;
- there has been a shift from residential to foster care, reflecting a policy of seeking to locate looked after children in families, which, the evidence suggests, will tend to produce better outcomes;
- there has also been a continuing shift from local authority own provision towards care provided by the private, voluntary and independent sector, both as a result of policy change and market failure. The cost of private provision, particularly foster care, is more expensive and is increasing at a much faster rate.

In addition, local authorities are facing cost pressures as a result of:

- supporting destitute asylum seekers and securing the settlement of refugees in the UK, with continuing delays in settling grant claims since 2001 and a significant shortfall between the amount provided by government to reimburse reasonable expenditure and the amount claimed by local government;
- cost of delivering the 10 Year Childcare Strategy's commitments on extended early years education and higher skill levels in the child care workforce;
- home/school transport pressures;
- additional children's centres;

- a range of new burdens, such as, implementing the Bichard recommendation, school meals changes, a minimum fostering allowance and the youth green paper.

waste management and street cleansing (£632m)

- Local authorities in England manage almost 30m tonnes of waste every year costing over £3bn. The volume of waste has been increasing by about three per cent pa. This is expected to continue.
- The array of waste materials that, due to legislation, have to be dealt with in a separate and more costly manner is also increasing, for example, electrical goods and vehicles.
- European directives have resulted in a number of legislative changes and national targets. This has led to a change in the proportions of type of waste (ie recycled vs landfill), and marked a move increasingly towards more expensive, yet more sustainable, forms of waste management.
- The government has also introduced a landfill tax and landfill allowance trading scheme to discourage local authorities from sending waste to landfill. This imposes increasing costs.
- At the same time, issues of street scene and liveability are moving up the political agenda, and as a result, local authorities are increasing expenditure to meet increasing public expectations.

other EPCS (£669m)

In addition to waste management and street cleansing, other major pressures include:

- anti-social behaviour - The consequences of longer term costs as new orders and provisions bed-in are only now starting to become clear. The savings from investment in enforcement, prevention and rehabilitation are not directly recouped by local authorities. However, the associated costs of tackling anti-social behaviour are often the burden of local

government. This burden needs to be recognised by central government;

- strategic housing - Local authorities are incurring costs in the prevention of homelessness and as a result of the new duty under the Homelessness Act 2002 to house vulnerable 16-17 year- olds;
- licensing - Commitments have repeatedly been given by ministers that the system would not be under-funded and that council tax would not have to cover deficits. However, we find ourselves in the second year of expenditure with no sign of any funding from DCMS to cover the shortfall;
- additional pension costs over the next two years resulting from the 2004 actuarial revaluation of pension funds. Our original submission to SR 2004 estimated that these costs might amount to about 1.5 per cent of the paybill, equivalent to £240m pa, based on the assumption that authorities would seek to make good pension fund deficits over the valuation cycle. Authorities, with their actuaries, have looked at ways of minimising these costs and through extending the deficit recovery period have managed to limit the impact on council tax. Our current estimate is that additional costs will be £100m in 2006/07 and a further £100m in 2007/08;
- a greater cost will fall on local authorities next year through the revocation of the 2004 pension scheme regulations unless other changes are introduced that result in compensating savings. Actuaries have estimated the initial cost of revocation at about £320m pa. This estimate is currently subject to review as authorities were asked to submit to ODPM by 30 September their own estimates of the cost of revocation.

transport (£292m)

Local authorities are facing pressure on transport expenditure as a result of:

- addressing the backlog of highway maintenance;

- above RPI inflation for highways maintenance, local bus contracts and street lighting energy costs;
- pressures arising from new burdens in relation to accessibility planning, the Transport Management Act 2004 and new LTP Guidance. The Road Safety Bill 2005 will also impact on resource requirements when enacted.

Table 7 below summarises the potential costs of these pressures. Local government, in setting low council tax levels in the last two years, has already taken efficiency savings in revenue budgets and the indications are that a number of councils are struggling to keep their 2005/06 budgets in balance, thus forcing pressures to fall onto 2006/07 budgets.

Table 7 - Summary of pressures 2006/07 and 2007/08

Additional resources required	2006/07 £m	2007/08 £m
Adults PSS		
Demographic pressures	197	226
<i>Older People</i>	43	72
<i>People with learning disabilities</i>	107	104
<i>People with physical disabilities</i>	24	26
<i>Mental health</i>	20	20
Other adult services	3	4
Market/price pressures	466	485
Total	663	711
Children's services		
Foster care	75-150	75-150
Residential care	115	131
Asylum seekers (NB. 06/07 includes backlog and adults)	147	57
Childcare workforce	25	150
Children's centres	0	100
Home/school transport	45	95
Minimum fostering allowance	30	30
Schools food trust recommendations	87	79
Bichard (top end cost)	0	42
Total (max)	599	834
Waste management and street cleansing		
Waste collection and disposal	396	246
Street cleansing	68	68
Other environment	50	50
WEEE delay in 2005	100	0
New burden - OPRA	18	18
Total	632	382
Other EPCS		
Anti-social behaviour	42	42
Strategic housing	132	132
Flood defence	4	0
Licensing	71	0

Pensions revaluation	100	100
Pensions revocation	320	0
Total	669	274
Transport		
Highway maintenance revenue shortfall	106	106
Highway maintenance inflation	131	137
New burdens	27	27
Bus support inflation	28	31
Total	292	301
Total additional resources required	2855	2502

police and fire (£848m)

In addition, the protective services, particularly police, are facing a number of pressures as they strive to provide improved services in a fast-changing environment. Government is well aware of the pressures facing these services.

According to the Home Secretary, "the challenges facing policing have never been greater". The service needs to be properly funded if it is to continue to deliver a high quality policing service. Pressures include:

- proper financial provision needs to be made for infrastructure and accommodation costs for the neighbourhood policing teams, supported by funding for 24,000 PCSOs;
- the expansion of the policing workload in response to new national initiatives and legislation, for example the Lord Laming and Richard reports;
- funding the anti-terrorist agenda;

- withdrawal of specific grant funding: for example grants for Airwave and Street Crime (£23.8m) are ending;
- the modernisation agenda.

The fire service is aiming to reduce the number of accidental fire related deaths in the home by 20 per cent, and the number of deliberate fires by 10 per cent by 2010. To do this it requires additional resources to:

- respond to the significant increases in calls, incidents and inspections;
- provide services to a changing population, with increased elderly and urban population;
- support the expanded functions in areas such as New Dimensions, CFS initiatives, and developing the broader based rescue role;
- continue the modernisation agenda.

Table 8 - Additional resources required

	2006/07 £m	2007/08 £m
Police and fire		
Police	722	948
Fire	126	59
Total	848	1007

The figures are based on driving forward and delivering on central as well as local priorities and policies. It is therefore important that if these priorities are to be delivered, then ways of funding them need to be resolved.

The figures do not, however, take account of pressures on pay costs, which comprise half of what local government spends. These will depend on the increases in pay settlements.

The figures in table 7 and 8 are based, as far as possible, on external evidence or government figures. Experience has shown that no matter how well constructed estimates are, there will be some movement in them with the passage of time. Members and officers will, over the next few months, work hard at minimising the pressures. Even with the best endeavours, not all the pressures will be overcome and a funding gap will remain to be resolved.

the other side of financial pressures

It would be wrong to assert that there are pressures alone. There are opportunities to work better and smarter, to stabilise services and to drive down costs. These opportunities and the consequential savings are very much at the heart of the efficiency agenda. There are occasional opportunities to save money. For example, when interest rates were falling there were savings in the cost of borrowing, albeit there was also a drop in income receipts and future years grant support levels. In determining their final budgets and council tax levels, all councils will review both sides of the equation with equal vigour.

increase in government grant

In the HMT/ODPM papers to the Central Local Partnership meeting in October 2005 the government stated that grant would increase by 1.5 per cent, or new money of £300m in 2006/07 and by 3.3 per cent, or new money of £664m in 2007/08.

However when one examines the figure in detail for 2006/07, the following needs to be taken into account. Grants for Safeguarding Children (£100m) are ending and there is a £100m drop in the Access and Systems Capacity grant and a £35m drop in Planning Delivery grant. This reduces the new money to £65m, or 0.3 per cent.

resolving the funding gap

In the current financial year government came forward with a package of approximately £1bn to ease the pressures in 2005/06. This package consisted of cash, continuation of grant, pension changes and changes in charging policies.

There is the opportunity in seeking to resolve the pressures for 2006/07 and 2007/08 to explore options to mitigate costs, maximise income, alter fiscal policy, extend grant regimes as well as seek additional funding.

In seeking to mitigate costs the following could be considered:

- closing the current loophole that allows private search companies to profit at the expense of the local authority, by charging a search fee that covers local authority costs;
- reducing the burden of inspection by half;
- reinstating the 2004 pension scheme regulations;
- extending the Home Office's 'New Asylum Model' for the assessment and removal of asylum seekers to cover unaccompanied asylum seeking children. This could minimise the impact on local authorities of the costs of supporting young asylum seekers and refugees (it will cover adults and families). Additionally, the unit cost of supporting children and young people is actually increasing as a consequence of the Hillingdon Judgment and further clarification in legislation about the expectations for support would help reduce escalating costs.

- allowing local authorities to share or recycle savings from the benefits system, achieved as a result of local interventions and measures within LAAs;
 - if the government wished to assist councils in maximising income then freeing them up to set their own fees and charges would allow market forces to work. This freedom, particularly for the smaller authorities where income equals or surpasses central government grant levels, would be of great assistance;
 - index the business rates by RPI + one per cent to begin to address the imbalance between council tax payers and business rate payers;
- If business was still paying 29 per cent of the cost of local government, as it was in 1990/91, band D council tax payers would be paying approximately £327 less;
- in addition the government could take the opportunity to amend the council tax benefit scheme to enable the low paid and pensioners to receive the appropriate level of benefit. The government in 2005/06 gave pensioners a £200 non-means tested grant to assist in meeting the rising cost of council tax. The cost of that initiative was £800m. If the government is to avoid similar pressures in 2006/07 it should consider amending the council tax benefit system;
 - there are two grants where continuation at the current level would be immensely important in driving forward the government's agenda. These grants are:
 - supporting people - In 2005/06 the government cut the supporting people budget by five per cent to £1.72bn, and reduced it to £1.7bn for the years 2006/07 and 2007/08, taking no account of inflation;
 - Access & Systems Capacity - An extra £100 million was added to the Access & Systems Capacity Grant in 2005/06. This is not continuing in 2006/07.

By continuing these grants at the current level some of the more complicated policy changes could be driven forward and more importantly some of the lives of the most vulnerable citizens would be safeguarded and improved.

conclusion

This paper along with the supporting papers substantiates funding pressures in excess of £1.5bn. These pressures are not a wish list of what local government would like to do; but are based on what local government must do if both national and local policies and priorities are to be addressed.

The budget process for 2006/07 has already commenced with the grant settlement due mid to end November 2005. There is not a lot of time if progress is to be made in resolving the issues contained in this paper. Both central and local government are ready, willing and able for change. Both central and local government are united by their joint desire to deliver excellent public services at a cost that is reasonable to tax payers. By working in partnership central and local government can and must address the issue of pressure to ensure our joint objectives are delivered.

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