Coping with the cuts? Local government and poorer communities

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Summary

• This briefing is on the Joseph Rowntree Foundation’s (JRF) recent report Coping with the cuts? Local government and poorer communities, published 28 November 2013.

• The Joseph Rowntree Foundation commissioned this paper as part of its programme on austerity, which aims to track, understand and highlight the effects of policy changes, tighter public spending and the state of the economy on poor people and places.

• The research contends that cuts in spending power and budgeted spend are systematically greater in more deprived local authorities than in more affluent ones, with a difference of around £100 per head in both England and Scotland; cuts are also generally greater in the North and Midlands than in the south of England, and in the west rather than the east of Scotland.

• Three case study local authorities in England – two in deprived urban centres, one in a relatively better off ‘growth area’ – are used to illustrate the real scale of the ‘budget gap’ that councils have to tackle. In two cases, the annual level of savings required since the 2010 Local Government Grant Settlement averages 9 per cent. In the third, the average is 12 per cent. Substantial savings have been generated by the case study authorities via a range of ‘efficiency’ programmes which, in theory at least, do not impact directly on the level and quality of front-line services - but opportunities to identify such savings are rapidly diminishing. As a result of having to find other kinds of savings, significant repositioning of local government is currently underway. In the coming years, local government will play a different role in relation to individual well-being and quality of life as well as economic leadership.

• This briefing will be of interest to members and officers in all tiers of council, especially those leading on finance, service delivery and equality issues, and to councillors on council executives/executives.
Briefing in full

This report is part of a larger study being conducted by the JRF of the management of austerity by local government in England and Scotland. It is particularly concerned with impacts on disadvantaged people and places. The core of the project comprises detailed analysis of change in local government finances nationally as well as in-depth case studies of four local authorities – three in England and one in Scotland. The project is being conducted in three phases, considering local government cuts over the period 2010 - 2015.

The national picture of financial change to local government

The scale of the cuts in context

JRF argues that the sharp cutbacks in local government funding revealed by their analysis should be placed in context by noting that local expenditure in both England and Scotland increased substantially in the period 1998–2006. However, examining spending relative to GDP over a twenty year period (1991–2011) it can be seen that, although there was some fluctuation, the share of local government in the economy at the end of this period was similar to the position at the beginning. From a peak in 2008–2009, spending has declined sharply in real terms and is planned to decline further to 2015, especially in England.

The research argues that taking nearly 30 per cent out of local authority budgets, while still expecting them to deliver the same statutory services and respond to increased demand for some services, represents a massive challenge, and cannot be achieved solely by ‘efficiency’ changes.

The impact on deprived local authorities

The local finance system is complex and has been subject to considerable changes over this period. However, JRF argues that it is clear from their analysis that the largest factor accounting for overall reductions and the differential effect on different areas has been the reduction, scrapping or consolidation of many specific grants, for example the former Area-Based Grant, although the general formula grant has also been subject to some reduction, again to a different degree in different types of area. Figure 1 illustrates this, but also highlights a key finding of the JRF’s study: that the scale of the cutback has been greater in more deprived local authorities than in more affluent ones. Figure 1 expresses this in terms of per capita spending power, where there is a difference of over £100 per head between the most and least deprived. Deprived authorities were previously more grant-dependent and have suffered disproportionately. However, even in percentage terms, deprived areas have seen a greater reduction in spending power (-21.4 per cent) than affluent areas (-15.8 per cent).

Figure 1: Spending power cut from formula and specific grants by deprivation level of local authority, English all-purpose authorities 2010/11–14/15
The impact on different services

The research finds that cuts have impacted differentially on different services, with some being more ‘protected’ by statutory responsibilities, policy priorities and levels of demand. Figure 2 summarises changes between 2009 and 2013 for both England and Scotland. Social care services have been cut least overall, and indeed as is shown below in some areas these are still expanding, partly supported by funding transfers from NHS but also by demand or need pressures. Education has seen small cuts in Scotland, with larger reductions in spending reported for the local government maintained sector in England due to the effects of the academies policy. Services in the culture, environment and planning fields have generally seen rather larger cuts, as have transport and housing services. In general, the cuts in most service groups are greater in England than in Scotland. Exceptions include central and ‘other’ services (where there are some definitional differences) and police and fire (where Scottish spend reduced noticeably to 2012 in the run-up to these services being transferred to national authorities from 2013).

Figure 2: Actual spending changes by main services in real terms, England and Scotland, 2009/10–13/14

Note: Housing grouped with ‘other’ in Scotland
Sources: Authors’ analysis of DCLG (2013); CIPFA (2013); Scottish Government (2013a; 2013b).
The impact on different kinds of authority and regions

JRF examined the pattern of spending changes in terms of the political control of councils. Overall, they find that the differences are small, although the reductions are greater for Labour councils and those with no overall control than for Conservative and Liberal Democrat councils in England, when looking at expenditure excluding education. However, their statistical modelling of budget changes suggests that political control has, in fact, very little independent effect after allowing for other factors such as deprivation and level of grant income, and this is true for most individual services and overall.

The ‘budget gap’ in the case study authorities

This section and the following two focus on JRF’s three English case studies. This section explains how and why the case studies were selected. It then sets out the size of the crucial ‘budget gap’ that each is facing. The budget gap is the sum of the kinds of funding gaps discussed in the previous section (largely cuts in funding from central government) and of expenditure pressures from rising costs or demands. It is this budget gap that each authority must close through savings in order to balance its budget every year.

The case studies and how they were selected

JRF selected the case studies on the basis of the first phase of the project, which involved a telephone survey with 25 broadly representative English local authorities. The three English case studies are:

- Newcastle City Council: a deprived urban authority in the North-East, historically Labour-run although between 2004 and 2011, it was run by the Liberal Democrats.
- Coventry City Council: a deprived urban authority in the West Midlands, historically governed by the Labour Party although, for the period 2004 to 2010, the Conservative Party held control.
- Milton Keynes Council: a non-deprived urban authority in the South-East, governed by a Conservative minority administration since May 2012, with no party being in overall control since 2006.

All three authorities were working with three-year budget cycles by 2013/14, partly because of the need to develop far-reaching savings plans to cope with austerity. This means that JRF had budgetary information for all three councils for the period until 2015/16.

Funding gaps and cost pressures

The funding gap measures the reduction in each authority’s net revenue budget from one year to the next. Newcastle’s annual funding gap has averaged at 5.6 per cent over the five year period 2011/12 to 2015/16. This is a markedly higher level of funding gap than that faced by the other two authorities: Coventry averaged 3.5 per cent and Milton Keynes 1.7 per cent. As a less deprived authority, Milton Keynes did not face such significant losses in this period as it had not been receiving the various specific grants targeted at deprivation which were brought to an end at this time.

The research argues that funding gaps tell only half the story about the financial pressures on authorities. It says that even if funding had remained constant, authorities would still have had to make savings each year to offset expenditure pressures. Salary costs as well as general inflation in the price of goods and services drive up costs. Population growth as well as demographic change may increase demand for services in general and for some (such as care) in particular. They argue that recessions also tend to increase demand for some local authority services (e.g. looked after children) or to reduce some income receivable by councils. Other expenditure pressures include workforce pension scheme costs and redundancy as well as the need to comply with legal judgements (e.g. on equal pay) or legislative changes. Council policy decisions may also lead to new or increased areas of expenditure.
The three councils report broadly similar levels of expenditure pressure overall, although these are marginally lower in Coventry (5.0 per cent) than in Newcastle or Milton Keynes (6.3 and 7.8 per cent respectively). The two established cities have similar levels of socio-economic disadvantage. Both have marginally fewer elderly people than the national average but, given the high correlation between deprivation and poor health, experience significant demand for care services for the elderly. Milton Keynes is not only relatively wealthy in comparison with the other case studies, but has been growing faster for some time. Population growth has largely been a result of in-migration so the city has relatively fewer older people and more around 30–40 and, as a consequence, more children.

The budget gap in the case study authorities

Figure 3: The budget gap by case study – 2011/12 to 2015/16

![Graph showing budget gap by case study]

Notes: Figures as a percentage of previous year's budget. Projections for 2014/15 and 2015/16 subject to increasing uncertainty.
Sources: Mid-term financial plans, pre-budget reports and budget reports – various years and authorities.

JRF argues that the scale of the budget gaps year on year, plus the fact that pressure is expected to remain for some years to come, suggests a very challenging financial context for the case studies. It suggests that very profound changes must be being made in patterns of expenditure to balance the books.

Strategic approaches to managing the budget gap

This section identifies the key strategic approaches developed by the case study authorities in order to tackle their budget gaps.

Fig 4: Comparison of 2011–2013 and 2013–2016 savings by headline strategy and case study
JRF’s analysis shows:

- The substantial role played by efficiency savings in all three case study authorities in the two financial years following the 2010 Grant Settlement.
- The scale of efficiency savings generated thus far will not be sustainable as austerity continues. This is particularly apparent in the two deprived urban authorities, Newcastle and Coventry. Qualitative evidence also suggests that, in Milton Keynes, efficiency savings will become much more difficult to identify by 2015/16.
- That investment strategies designed to manage or reduce need are not anticipated to have a major impact in the short to medium term.
- As a consequence, that the retrenchment of service provision will increasingly replace efficiency measures as the major means to manage the budget gap in the coming years. This will happen more quickly in the major urban centres, which are disproportionately home to more deprived populations.

The end of efficiency?

All three of JRF’s case study authorities have been implementing major organisational change projects, which are designed to achieve substantial efficiency savings. These have been underway since at least the 2008 recession, which led to incremental reductions to local government budgets in the last years of the Labour administration. However, the budget contraction announced in the 2010 Grant Settlement provoked a step change in the nature and scale of these programmes.

In Newcastle, total efficiency savings delivered or planned for the five year period 2011 to 2016 amount to £84m. Efficiency savings in Coventry are £56m over the same period, while for Milton Keynes they are £45m. This is clearly a very significant scale of activity.

JRF finds the proportion of these savings generated from ‘back office’ initiatives, such as corporate restructuring, striking. In Newcastle’s case, this is over £51m, or just over 60 per cent of the total. In Coventry, it is over £35m or nearly 64 per cent, while in Milton Keynes it is £23m or just over 50 per cent of total efficiency savings. Across the three councils, nearly £110m of savings have been generated by this means alone.

In contrast, JRF found that savings in front-line services generated via service consolidation or greater generic working are much smaller in scale: £27m across the three case studies. They do however find some significant variation. In Newcastle, the total is £14m (just over 16 per cent); in Coventry it is just £2m (or just over 3 per cent of the total) while the Milton Keynes figures are more substantial at £12m (26 per cent). This reflects explicit attempts by the councils to protect front-line services in the first years of austerity. However, JRF argues that as austerity unfolds, front-line
services are likely to be increasingly subjected to changes beyond efficiency measures, as the
discussion below of retrenchment shows.

JRF found that one of the main ways in which efficiencies have been generated is via a substantial
programme of staff reductions, managed in large part via voluntary severance. In all three
authorities, many senior posts have been deleted through ‘management delayering’. By 2015/16,
Newcastle will have reduced its 2010 staffing complement by 2,300 full-time equivalent (FTE) (36
per cent). In Coventry, staffing reductions amounted to 1,427 FTE (22 per cent) in the shorter time
period 2010–2013 and in Milton Keynes – again over this shorter period – reductions were of the
order of 450 FTE (18 per cent).

JRF makes it clear that not all staffing reductions should be understood as efficiency savings and
that not all of the staff reductions identified in their research are in back office rather than front-line
functions, although they are not in a position to quantify the actual balance. The third phase of the
research will attempt to explore the impacts on front-line services of staff losses and efficiency
measures more generally. Their interviews with senior officers did suggest, however, that the
effects of staff losses were already being felt.

However, the research argues that the key point to emerge both from the quantitative and
qualitative evidence was that efficiency savings were becoming harder to find and that other
strategies would, by necessity, come to the fore to manage the budget gap. This view was strongly
voiced in both Newcastle and Coventry, but was also a significant concern in Milton Keynes where –
as the quantitative analysis showed – significant efficiencies were still thought possible until
2016.

The research argues that as the number of people providing key services is cut down, there is a
growing risk that the services will not have the resilience or capacity to respond to additional
pressures. There is therefore concern about the impact and cost of service failures.

Investing – to grow and to save

Local government has played a significant role in economic development for more than 30 years.
However, JRF argues that the interviews in the deprived urban centres of Newcastle and Coventry
in particular suggested strategies focused on economic development and growth were being given
a new emphasis. They found this was both a direct result of budget contraction and a response to
the incentives provided by the change in the Business Rates system. In parallel, there was quite
vigorous activity around devising interventions to diversify the labour market or re-distribute
opportunities from it.

Retrenchment – who provides which services and for whom?

JRF argues that while local government’s role as an economic leader might be expanding, its role
in relation to providing services designed to promote individual well-being and quality of life would
appear to be contracting. Retrenchment in respect of direct service provision has been ongoing
since the 1980s and the advent of the ‘enabling local authority’, which focused on commissioning
rather than delivering services. However, the evidence of their research is that a step change is on
the horizon in relation to the role of local councils in both the direct and indirect provision of a
broad range of services. This is despite the fact that none of the three local authorities taking part
in the research were vigorously setting out to divest themselves of a responsibility to provide a
broad range of services to a diversity of social groups.

Increased contribution of other agencies and citizens

JRF argues that there is an ambition to increase the contributions made by other agencies and
ordinary citizens to the outcomes which local government has traditionally worked to achieve –
such as appropriate levels of social care for individuals, or clean streets and good quality
recreational facilities within neighbourhoods. As others take over these responsibilities, the council
can step back from them. It is in this sense that developments of this nature can be understood as
a form of retrenchment for local government.
The savings plans designed by JRF’s case studies to close budget gaps with respect to social care illustrate this trend. In both Newcastle and Coventry, there are moves to renegotiate the boundary between council-provided services and those provided via the NHS. In Coventry, the council aims to make use of NHS health visitors to facilitate earlier identification of problems and to allow the council to target its services more effectively. Newcastle is developing a ‘Health and Care City Deal’ in which the health and social care needs of older people and people with long-term health conditions are dealt with in an integrated manner by the council and NHS. That this will involve a reduction in inputs from the council is indicated by the identification of potential savings to the council of around £2m for 2015/16 as a result of this initiative.

Narrowing the range and level of services

JRF found that the three case studies involved in their research have made strong efforts to avoid wholesale and severe cuts to services. Despite this, they found a substantial number of examples where the councils are withdrawing from providing a service:

- A range of services for children and young people, including those designed to promote play, are key areas where local authorities have withdrawn from provision.
- Arts and culture activities have also seen significant withdrawals of subsidy from councils.
- Services designed to enhance neighbourhood liveability have also been targets of retrenchment strategies.

An alternative strategy to deleting or withdrawing support from particular services is to maintain universal coverage but in a diluted form. Examples from the case studies include:

- In Newcastle, library provision has been a controversial example of such an approach. Ten local libraries were initially identified for closure, but subsequent to consultation the closure of three of these was delayed. The council are keen to emphasise that the principle of universality had been maintained ‘96 per cent of Newcastle residents will still live within 1.5 miles from a library’.
- In Coventry, a number of services are being provided on a reduced frequency such as grass cutting and cleaning peripheral roads. A confidential counselling service has also seen staff reductions.
- A similar list of reductions have been implemented in Milton Keynes: street lights have been ‘trimmed and dimmed’ and a housing advice service is now offered as an online service. Quite significant reductions have been made to staffing complements in community safety, trading standards and environmental health.

Selective targeting according to need

A final way in which services are being retrenched is by targeting provision towards need. Two main approaches to this can be identified. In the ‘proportionate universalism’ model there is a guarantee of a minimum level of universal service, but the scale and intensity with which that service is provided is designed to vary across the social gradient. A second approach is to wholly or substantially allocate resources only to the neediest clients, effectively withdrawing from providing services on a universal basis.

Conclusion

JRF argues that the scale and nature of change underway – through efficiency, investment and retrenchment strategies – amounts to a substantial repositioning of local government. As a result of the demands of austerity, councils are undoubtedly much leaner organisations. However, they argue that it remains to be seen if councils are also more efficient. The impact of efficiency savings on the capacity of local government to develop innovative ways of managing in the new funding climate will become apparent in the coming years. There may also be a longer-term, indirect impact of these measures on front-line service provision.

In some ways, JRF argues that local authorities are expanding aspects of their role. They find that this is particularly apparent in the investment in economic leadership within the case studies. Austerity would appear to have provoked a renewed emphasis on developing and managing economic growth in order both to develop economic competitiveness and to generate income.
which can be spent on service provision. Economic growth as a means of managing and, indeed, reducing demands on council services is also key to understanding the vigour with which such activities are being developed.

However, JRF argues that as local government repositions itself to cope with the cuts, key aspects of its role appear to be retrenching. In future, they argue that council services may play a less central role than hitherto in services designed to support individual well-being as well as quality of life within neighbourhoods. A narrowing of the functions of councils is in evidence as services are withdrawn or diluted. An enhanced role for other agencies is also apparent. Attempts to transfer a range of responsibilities to service users are likely to have far-reaching implications for the nature and role of local government over the medium to longer term.

Finally, they find a contraction of the client base for local government is beginning to emerge. Particularly in the larger cities, some services are being increasingly targeted on needier and more vulnerable groups. In the context of diminishing resources, such developments could lead to a loss of middle class 'buy-in' to the idea that local councils need to be resourced for the capacity to provide quality services to a range of social groups. Residualisation of the sector is therefore a real issue.

**Are deprived communities being served by strategies to manage the budget gap?**

At the core of JRF’s analysis is a body of research showing that there is variation across the income spectrum in relation to which groups use or benefit from which council services. Essentially, the research identifies:

- which services are ‘pro-poor’, in that these services tend to be used more by lower income households who therefore benefit disproportionately from spend on these services;
- which services are ‘pro-rich’ in their pattern of use; and
- which are used relatively equally across social groups (and are therefore neutral to a greater or lesser extent in their distributional impact).

**The distributional impact of spending changes – the national picture**

*Figure 5: Expenditure change (per cent) by distributional character of service – English local authorities 2010/11 to 2013/14*

Note: 'Parking' excluded in both as largely income. Adjustment made for changes in early years services. Source: CIPFA budget data.
Using the pro-poor/pro-rich classification, JRF analyses the distributional character of local authority expenditure at a national level.

Figure 5 shows that services which are used more by the better-off have seen greater budget reductions. Indeed, services which are very pro-poor have seen an increase in expenditure over this period. This is mainly driven by an increase in spending on children’s social care (although this offsets reductions in Supporting People and other housing spending).

Figure 5 shows relative increases or decreases in expenditure rather than absolute changes. It therefore captures the scale of any change relative to baseline spending on those services, the scale of which can vary significantly. This means that, while the figure shows that services which are moderately pro-poor – such as adult social care – have seen a small decline in relative terms, the absolute level of spending reductions in this category is in fact four or five times greater than the level in ‘pro-rich’ or ‘neutral-minus’ services.

It is important to note that Figure 5 is only an analysis of change in budgets or expenditure. Expenditure may need to rise just to keep pace with demand or cost pressures. Services with rising or static patterns of expenditure will still be faced with making savings to meet demand or cost pressures. It should also be stressed that some increase is driven by statutory responsibilities. Local authorities cannot avoid their child protection duties and these tend to increase during recessions.

The distributional impact of spending changes and savings plans – the case study picture

Figure 6: Expenditure change (per cent) by distributional character of service – English case study authorities 2010/11 to 2013/14

Figure 6 shows a broadly similar ‘positive’ gradient for the case study authorities compared to the national picture. There is some variation in the case studies, however. In Newcastle, there are spending reductions in almost every category of service, with greater relative reductions for the more ‘pro-rich’ services. Coventry follows a similar pattern (although the lack of change in ‘neutral-minus’ services is striking). In Milton Keynes, the positive gradient reflects a range of increases for the more pro-poor service and cuts for the more pro-rich.

Conclusion
Overall, in proportional terms, JRF found that services which are used to a greater extent by more affluent groups have tended to see greater budget reductions and a greater share of savings. This is not necessarily true in all authorities; in one of their case studies, Coventry, the distribution of savings looks even rather than skewed in this direction. Nevertheless they found it is true in general. They flag that this does not mean that services used more by more deprived groups have been immune from savings. The case study data on budget savings provide a more complete picture, and show significant savings being made in all categories of services in all three authorities. Importantly, this includes those where the CIPFA budget data show some increase in total expenditure. And in absolute terms, the ‘pro-poor’ services account for a much larger proportion of all savings because they also account for a larger proportion of all expenditure.

The analysis also shows how the savings are being achieved for different kinds of services. They argue this reveals more differences between the authorities in terms of the likely distributional impacts. They focus on savings through retrenchment since these are more likely to have a direct impact on service users. In two authorities, these kinds of savings are targeted more on ‘neutral’ to ‘pro-rich’ kinds of service and are relatively uncommon on ‘pro-poor’ services. In the third, retrenchment occurs almost entirely in ‘pro-poor’ services.

When examining the savings made through the case studies’ use of retrenchment strategies, they claim they are able to glimpse the future role of the council in these areas. For example, targeting ‘need’ is a common strategy employed by both Newcastle and Coventry when making savings in ‘pro-poor’ services. Newcastle also makes savings in this area through closer working with the NHS, whereas Coventry focuses on transferring responsibility to and promoting behaviour change among service users.

Reflections and key messages

- Reductions in funding for local government reflect the aim of central government to reduce the reliance of local government on grants. Almost inevitably this means that local authorities with the highest levels of deprivation will be disproportionately affected by austerity.
- Poorer groups have enjoyed a degree of protection from the worst effects of budget contraction thus far. But poor people and places still stand to lose the most from austerity now and as it rolls out in the coming years.
- Local government has largely coped with the cuts thus far by paring back costs and capacities. To cope with the cuts to come, it is being forced to re-consider what services it can provide and for whom.
- Councils are energetically encouraging ordinary citizens to take on more responsibility for their individual well-being and quality of life in their neighbourhoods. The potential for this strategy to impact unevenly on poor people and places needs to be considered.
- The residualisation of local government service provision is a potential outcome of this refocusing of services onto more disadvantaged groups. In order to maintain a broad base of support – and of funding, councils will arguably need to find ways to continue to serve better-off social groups.
- Councils can keep track of how their budget savings strategies deliver on social justice objectives. Assessing the impact of savings on services used more by disadvantaged groups provides important evidence to feed into budgetary decision-making processes.

Comment

Local authorities will not find anything particularly surprising in this report, but it is nevertheless a useful and timely report.

It has, however, caused a degree of controversy with Brandon Lewis MP, Parliamentary Under Secretary of State at the Department for Communities and Local Government. He commented: “The independent House of Commons library has already shown that deprived areas continue to receive and spend far more funding per household than other parts of the country... Councils
should be making sensible savings, such as through joint working, cutting fraud, better procurement and tackling tax evasion."

The Minister is clearly referring to the total level of funding a council receives and it is true that the most deprived areas will receive the most, but the JRF report refers to the relative reductions in funding to specific areas, not to the total. The recent Audit Commission report ‘Tough Times’ (LGiU briefing to follow) concurs with the JRF view in this respect “councils serving the most deprived areas have seen the largest reductions in funding since 2010-11”.

Councils will be well aware that the impact of austerity and of government changes to how councils are funded varies considerably from area to area. The cumulative effects of these changes need to be understood and monitored (for example the increasing impact of the New Homes Bonus incentive – see recent LGiU briefing). No council is immune, however, from austerity and other pressures, such as in social care (where even districts are affected because of the scale of social care budgets and the effect on the rest of local government funding). As the JRF report shows very clearly, the scope for more and more ‘efficiency’ savings is running out rapidly: the LGA has warned that discretionary services in some councils are under serious threat and that one in ten councils are in serious financial trouble. Glen Bramley, professor of Urban Studies at Edinburgh’s Heriot-Watt University and co-author of the JRF report, concludes:

“Our findings on how councils are coping suggests that they have very little real financial independence left, squeezed between falling grants, frozen council tax, uncertain business rates and the rising cost of statutory social care services. They also show that, after the first couple of years, the scope for back office efficiency savings drops away and the predominant picture will be one of real reductions in front line services”.

The government’s response to the JRF report does not bode well for a change of direction in this week’s Autumn Statement.

For more information about this, or any other LGiU member briefing, please contact Janet Sillett, Briefings Manager, on janet.sillett@lgiu.org.uk