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Coping with the Cuts: Lessons from English Councils' Responses to Budget Reductions

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Summary

- This report analyses the cuts in the funding which councils in England receive from central government; the ways in which councils have responded; and emerging evidence of the impact on services. It suggests that Welsh councils may gain helpful insights from the strategies that have been adopted by local government in England.
- Local government funding in England is estimated to have been reduced by 25% between 2010-11 and 2015-16. Statutory services have been relatively protected but spending on some non-statutory services has been cut by half.
- Budget reductions have had the greatest impact on urban authorities experiencing relatively high rates of population growth. The gap between high and low spending councils has decreased, as has the difference in spending between local authorities in the most and least deprived quintiles.
- Councils have used three broad strategies to cope with the cuts:
 - Reducing costs by withdrawing or scaling back services ('doing less'), and/or by introducing efficiency programmes that enable them to deliver services at a lower cost ('doing things better');
 - Using reserves to make up the shortfall between income and expenditure; and
 - Transforming approaches to service delivery ('doing things differently') and introducing new ways to meet the needs and aspirations of citizens and service users ('doing different things').
- Initially most councils cut costs by reducing services and improving efficiency. Some also drew on reserves to maintain services. As they reached the limits of what can be achieved through streamlining and eliminating waste, they have adopted transformative strategies focused on demand management; strategic commissioning; collaboration; place based approaches; promoting economic growth and commercialisation; and better use of digital technology.
- These measures are not mutually exclusive. The combination of strategies adopted by a council needs to be tailored to local priorities, capacity and capability.
- Councils in Wales need to look beyond short-term measures to balance the books and explore ways of doing things differently and doing different things to secure better outcomes for those who depend most on public services.

Introduction

The Public Policy Institute for Wales (PPIW) is funded by the Economic and Social Research Council (ESRC) and the Welsh Government and works directly with Welsh Ministers to help them to identify their evidence needs and access expert analysis and advice to meet those needs.

The Minister for Finance and Government Business asked the PPIW to analyse the impact of reduction in central government funding for councils in England and to identify potential lessons for Welsh local government.

This report provides an overview of the evidence of the impact of budget reductions in England and a thematic analysis of the strategies used by councils to mitigate the effects of the cuts.

The first section outlines the scale of budget reductions and the impact on council's spending power. The report then identifies broad strategies and more detailed measures that have been used by English councils to maintain services. The third section presents emerging evidence on the impact of the spending cuts on service users, and the outlook for the next few years.

Context

The 2010 Spending Review sought to reduce the United Kingdom's budget deficit primarily through cutting public spending. There were reductions in the budgets of most UK government departments, with the Department for Communities and Local Government (DCLG) making some of the largest percentage savings. As a result overall government funding to English councils has reduced by 37% in real terms since the Spending Review (NAO, 2014)¹.

Reductions in government grant on this scale are unprecedented and further cuts are expected to continue well beyond the 2015 Spending Review into the latter stages of the current Parliament. Councils in Scotland and Wales have fared well by comparison. Councils in Wales have already had to absorb real term reductions in government grant but not on the

¹ Education spending is excluded from these figures and from the analysis at other points in this report because comparisons over time (and between England and Wales) are made difficult as some schools in England have changed their status by becoming academies, which are funded centrally rather than by local authorities. For further details see this update from the Welsh Government's Chief Statistician: <http://gov.wales/docs/statistics/2015/150511-chief-statisticians-update-issue-4-en.pdf>

scale faced by their English counterparts. However, all the signs are that they will be forced to operate with significantly smaller budgets for the foreseeable future.

Councils in England have adopted a number of strategies to enable them to continue to provide essential services. Understanding these approaches and the ways in which they have been applied could assist policy makers and practitioners (in local government and the Welsh Government) to manage the need to reduce local authority spending while safeguarding key services.

Reductions in Council Income

Taking account of income from council tax, local government funding in England is estimated to have been reduced by a quarter (25%) over the period 2010-11 to 2015-16 (NAO, 2014).

At the same time, councils have faced demand-side pressures on many local services as a result of population growth and the ageing of the population. Spending per person by English councils was cut by 23% between 2009-10 and 2014-15 (Innes and Tetlow, 2015). Regionally, the spending cuts per person have been greatest in London (31%), the North East (27%) and the North West (26%). At the local authority level, decreases in spending per person have ranged from 6% in North East Lincolnshire to 46% in Westminster.

Different types of local authorities have experienced different rates of reductions in spending power, with the largest reductions concentrated among metropolitan districts and London boroughs. However there is wide variation within different types of authorities. For example, reductions in spending power among metropolitan authorities range from 23% to 37% (NAO, 2014).

The geographical variations in cuts to council spending reflect the extent to which they rely on government grants. Authorities with higher levels of deprivation and needs have experienced the largest reductions in spending power (Hastings et al., 2013). In addition, cuts in spending per person have also been greater in areas that have experienced faster population growth. Modelling carried out by DCLG suggests that these authorities will continue to face larger cuts in spending power, even if they can achieve strong growth in business rates.

Variation by Service

Local authorities are obliged to provide a range of statutory services, such as social care and refuse collection. They are also often seen as ‘political priorities’ by councils (LGA, 2014a: 8), and as a result have been protected from the worst of the cuts to date at the expense of other services.

Table 1 compares the net current spend on different council run services in 2009-10 and 2014-15. The largest absolute cut has been on transport, which has decreased by more than £2.5 billion, while spend on planning and development has been cut by around £1.2 billion.

Table 1: Real terms changes in current net spend (2009-10 to 2014-15)

Service area	Net current spend 2009-10 (£ million)	Net current spend 2014-15 (£ million)
Social care	23,064	22,602
Transport	7,184	4,547
Environmental	5,828	4,940
Cultural	3,811	2,670
Housing	2,990	1,826
Planning and development	2,519	1,294

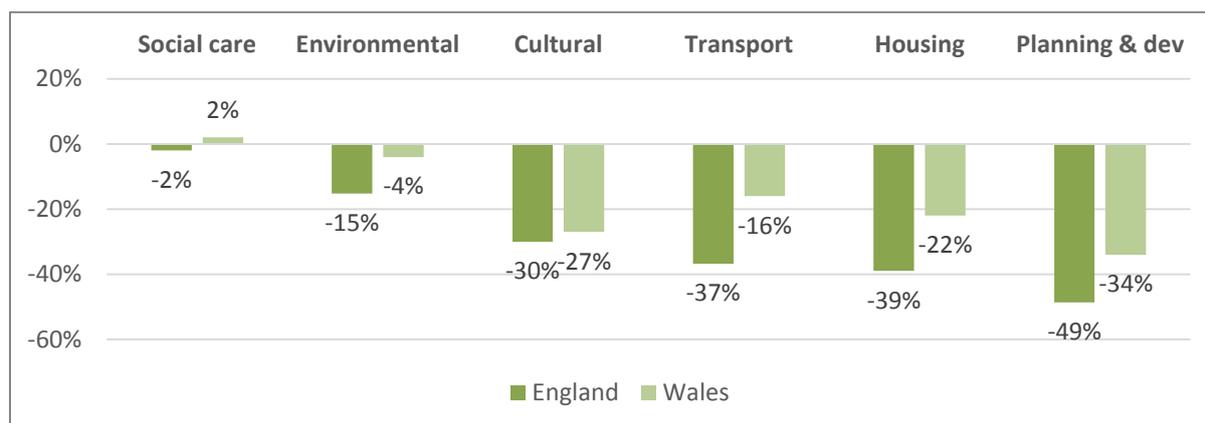
Source: DCLG (2011 and 2015a). 2009-10 figures given at 2014-15 prices using HM Treasury GDP deflators.

Figure 1 shows the cuts to services in proportional terms, with Wales included for comparison. Choices about which services to protect have followed a similar pattern in both countries, although cuts have been deeper in England across all of the services shown.

In both countries, social care has received the most protection, with little overall change in spending between 2009-10 and 2014-15 (there was a 2% decrease in England and a 2% increase in Wales). Environmental services have also been relatively protected – spending has decreased by 15% in England and 4% in Wales.

The largest reductions in spending in England have been in planning and development which has been cut by almost a half (49%), followed by housing (39%) and transport (37%). While cultural services have been cut by a similar proportion in both countries, the cuts in spend to transport, housing, and planning and development have been less severe in Wales.

Figure 1: Real terms changes in net current spend by service area (2009-10 to 2014-15)

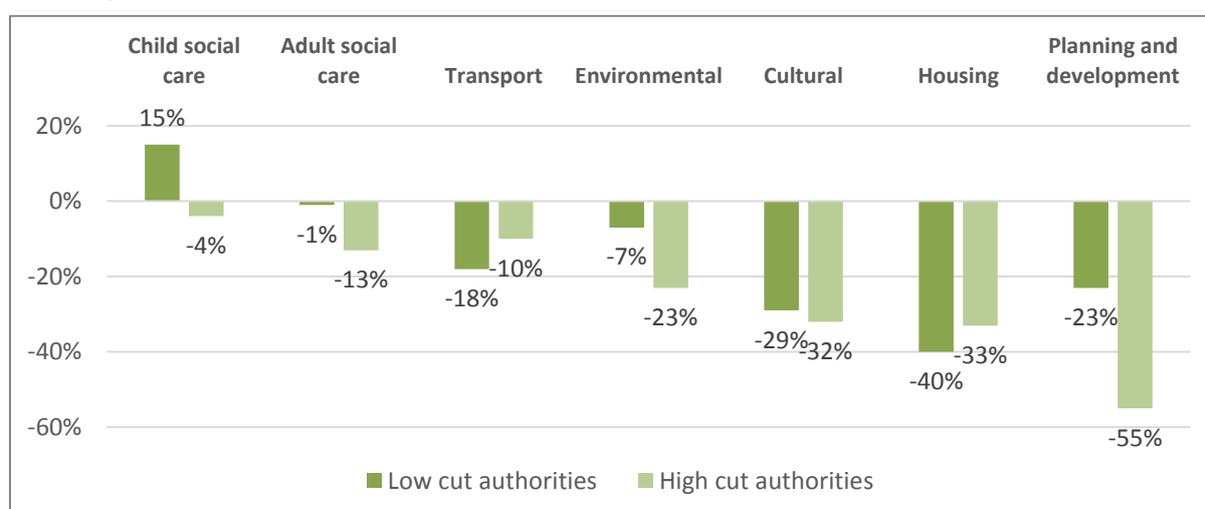


Source: DCLG (2011 and 2015a) and WLGA (2015). 2009-10 figures given at 2014-15 prices using HM Treasury GDP deflators.

When demand-side pressures (such as from population growth) are taken into account, the picture is even worse. For example, net spending per person on social care was cut by 17% over the period 2009-10 and 2014-15 (Innes and Tetlow, 2015). Moreover, average cuts across England mask wide variations between councils.

Analysis by the NAO (2014) compared changes in budgets between local authorities. It found that between 2010-11 and 2014-15 councils which experienced larger cuts have been less able to protect social care budgets, reducing budgets for child social care by 4% while low cut authorities increased it by 15% (Figure 2). The largest difference was in respect of planning and development budgets, which were reduced by 23% in authorities that faced the lowest reductions in government grant and 55% in councils experiencing the largest cuts.

Figure 2: Real-terms budget changes according to reductions in spending power (2010-11 to 2014-15)



Source: NAO (2014). Low cut = spending power reduced less than 15%. High cut = spending power reduced greater than 23.5%.

Variations between Councils

Table 2 shows that spending has reduced most in the more deprived urban authorities experiencing faster population growth, concentrated in London and metropolitan areas in the North West and North East of England. Spending on planning and development has been cut the most since 2010, while social care, and to a lesser degree environmental services, have been offered relative protection.

While some councils have made deeper cuts in spending on services than others, overall there has been convergence between formerly high and low spending local authorities (Hastings et al., 2015; Innes and Tetlow, 2015). This is because spending per person has been highest and the cuts have been largest (in absolute and proportional terms) in deprived areas and urban areas. Hastings et al. report that, as a result, between 2010-11 and 2015-16 the difference in spending between councils in the most and least deprived quintiles narrowed from 45% to 17%.

Table 2: Highest and lowest cuts to spending power in English local authorities

Highest cuts	Lowest cuts
Poorer areas (more reliant on government grants)	Affluent areas (less reliant on government grants)
Urban	Suburban and rural
Fastest population growth	Slowest population growth
London, North East and North West	South East
Planning and development services Regulation and safety Culture Libraries Housing	Adult and child social care Environment and refuse services

Sources: Crawford and Phillips (2012); Hastings et al. (2013 and 2015); NAO (2014); Innes and Tetlow (2015).

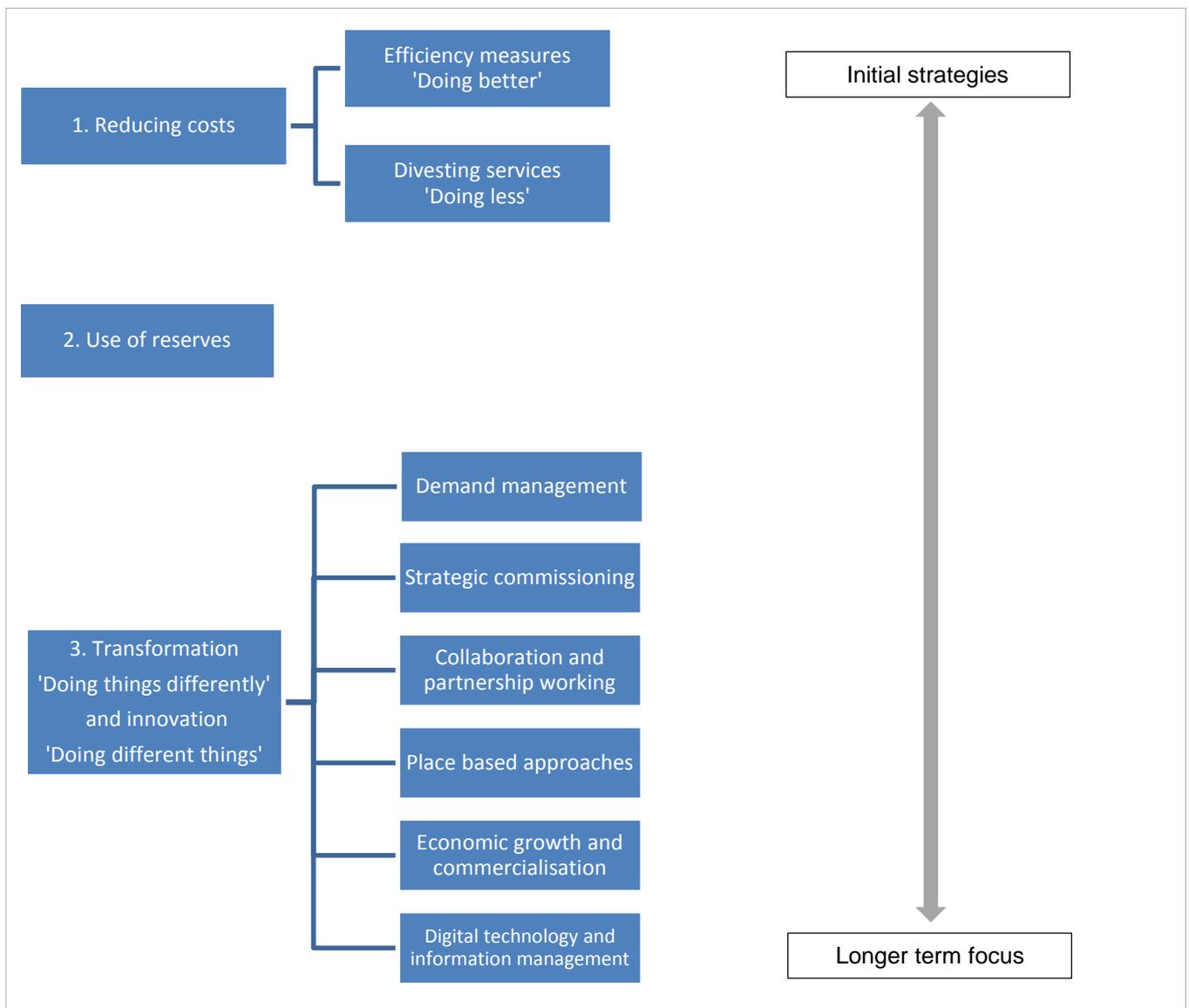
Analysis at service level shows that social care spending was reduced by 14% (£65 per person) in the most deprived quintile but increased by 8% (£28 per head) in the least deprived. There is a similar pattern for other services such as planning, environment and culture where spending per head has decreased most among poorer local authorities, leading Hastings et al. to surmise that the cuts are likely to increase inequality.

Strategies for Coping with Cuts

Councils in England have adopted three broad strategies to help mitigate the effects of spending cuts:

- Reducing costs either by withdrawing or scaling back services, or by introducing efficiency programmes that enable them to deliver services at a lower cost;
- Using reserves to make up the shortfall between income and expenditure; and
- Transforming their approaches to service delivery and introducing new ways to meet the needs and aspirations of citizens and service users (Figure 3).

Figure 3: Strategies for coping with budget cuts



In general, councils sought in the first instance to reduce costs through efficiency programmes, what might be described as 'doing things better'. More recently they have had to give more attention to withdrawing services ('doing less'), transformation ('doing things differently) and innovation ('doing different things').

It is important to note that these three broad strategies, and the more detailed measures that each of them encompasses, are not mutually exclusive. They can, and need to, complement each other.

It is also important to be clear that the mix of strategies that are deployed need to be tailored to local context including local needs and aspirations. Strategies that are very effective in some areas may be ineffective, politically unacceptable or unworkable for other councils. So authorities need to shape their own solutions in light of local priorities, capacity and capability.

Reducing Costs

Efficiency Measures

For most English councils, the first response to the 2010 Spending Review was to implement efficiency measures. These took a wide variety of forms including scaling back or withdrawing services and finding ways of operating more efficiently so that they were able to maintain existing levels of provision and service quality using methods such as 'process re-engineering' (PCF, 2014), 'lean' approaches and improved asset management.

The most common and effective cost reduction measures have included:

- Reducing overall staff numbers;
- Restructuring senior management teams; and
- Reducing entitlement to services – for example by restricting opening hours or raising thresholds (Coughlin, 2013).

As explained in the previous section, councils have protected social care and environmental services from the worst effects of budget reductions and the most severe cuts have been in non-statutory services.

There has been an emphasis on improving procurement – buying the right products of the right quality at the right price. It has long been recognised that councils need good commercial knowledge and to develop effective relationships with suppliers. The cuts have led to a renewed focus on saving money by improving internal procurement data,

aggregating demand across departments, working with other councils to jointly procure, and renegotiating contracts with suppliers (PCF, 2014).

A third approach has involved asset assessment and rationalisation. A local authority's estate and accommodation costs can represent a significant portion of its expenditure. Reviewing its needs, rationalising estate and ensuring that working processes are as flexible, effective and efficient as possible (for example through team-based desk sharing) can result in significant savings.

All local authorities in England have been forced to undertake some form of efficiency programme in the past five years, and there is evidence that they have resulted in significant savings. For example, Norwich City Council reported that between 2009-10 and 2012-13 it made savings of £20 million (equivalent to more than a 33% reduction in its general fund spend) through efficiency measures. This included renegotiating its IT contract, sharing back office functions, reducing the number of council offices, and reducing non-core services such as grass verge cutting (NAO, 2013).

There is similar evidence from other public bodies that have been faced with significant reductions in funding that these strategies can yield savings. It is claimed that the National Archives, for example, made savings of £400,000 per year through improved procurement practices, and the Electoral Commission achieved a 40% reduction in accommodation costs (£600,000 per year recurring of savings) through reducing the number of offices and allowing staff to operate remotely from home (PCF, 2014).

Divesting Services

Another cost reduction measure available to councils is to divest services. This can be done in a variety of ways including:

- Stopping services altogether (e.g. closing libraries or withdrawing bus routes);
- Reducing service provision (e.g. having less frequent waste collections or shorter library opening hours);
- Raising eligibility thresholds (in order to provide a service to fewer people); and
- Promoting community ownership of assets that were previously run by the council.

Services that are not considered critical are likely to be the most suitable candidates for divestment (PACG, 2014) and when assessing alternative options for reducing service provision it is important for councils to take account not just of the potential savings but also the impact on vulnerable groups. There are a variety of ways of doing this. For example, the

Joseph Rowntree Foundation and Glasgow University have developed a social impact tool based on an analysis of the implications for poorer groups of council savings over the past five years. This enables councils to assess how their savings plans will affect different types of service user (JRF, 2015).

Handing services to alternative providers is not a new phenomenon. There are examples of services being transferred to community ownership prior to 2010. Central Surrey Health, which is co-owned by the nurses and therapists, was established in 2006 to provide community nursing and therapy on behalf of the local NHS trust and Surrey County Council, and many councils have established not-for-profit enterprises to take over council run leisure centres.

Services may be handed over to third sector organisations, social enterprises, or members of the local community (Cabinet Office, 2010). It is claimed that smaller community based organisations with low overheads can sometimes run services better than councils, especially if they are able to use volunteers. However, councils often still have a role to play including, for example, drawing up specifications for service delivery, monitoring performance and quality, and providing guidance and support to the new service providers. And this approach is not suitable for all services or may not be feasible in some communities.

Suffolk County Council (2010) planned to hand almost all council run services over to social enterprises or private ownership, starting with libraries, youth clubs, children's centres and a records office. However, the process has not gone as far or as fast as planned because of the complexity of the governance, legal and financial arrangements that were involved (Dunn, 2014). Despite the difficulties, there are some services where it appears to have been successful, with Suffolk Libraries – a not-for-profit charity established in 2012 – reporting increased satisfaction with services (Dunn, 2014).

Several councils in different parts of England – including Devon, Kensington and Chelsea, and Knowsley – have set up, or are in the process of setting up, public service mutuals to deliver youth services. These are employee owned, but councils still play a role in specifying the services to be provided and monitoring quality standards.

Although cost reduction measures are necessary and often highly effective for dealing with cuts in the short term, they are not an adequate response during a time of prolonged austerity and year-on-year budget reductions. In England, many local authorities reached this efficiency 'tipping point' after the first two years of austerity policy (Audit Commission,

2012). At this point other measures have to be deployed alongside continued attempts to drive down costs.

Use of Reserves

Local authorities that find cost reduction measures alone are not sufficient to cope with cuts in their income from central government, may turn to their reserves to make up the shortfall. Councils are required to maintain adequate financial reserves to manage financial risks, although the level of reserves is determined locally. Generally, English councils maintain two types of reserve: those earmarked for specific purposes such as anticipated costs for business rate appeals (in Wales, rates risk is pooled); and unallocated general reserves to help manage uneven cash flows and use as contingency for unexpected events, such as flooding (LGA, 2014a; CIPFA, 2015).

Councils can also use reserves to fund 'invest to save' projects. Typically these enable them to reconfigure service delivery in ways which are more efficient and effective or to earn income from the investment. The range of projects that have been funded is broad but includes schemes such as upgrading IT infrastructure and investing in property portfolio in order to produce rental and other income to supplement council budgets.

Since 2010, however, reserves have been most commonly used to support revenue budgets and mitigate or delay the impact of cuts on services. Some councils have used them to buy the time while the benefits of cost reduction strategies come through. Whilst reserves can help balance the books in short term, this approach can not address the fundamental challenge presented by year-on-year reductions in income. This is a particularly pertinent issue for councils which experience the greatest financial pressure in the early years of austerity because they are likely to drain their reserves more quickly.

Many English authorities have, in fact, increased their reserves in recent years. At first sight this seems counterintuitive but councils argue that it has been necessary in order to cope with long-term financial uncertainty (NAO, 2014). More recently though, a number of these authorities have started to draw on these reserves to plug gaps in their budgets (LGA, 2015).

Transformation and Innovation

A third way to respond to reductions in government grant is to rethink the role of local government, what services it provides and the way in which they are delivered. This involves a re-assessment of council services (what they do and why) and of the relationship between

councils and citizens. It typically means shedding staff, delayering of management structures and significant changes in the working practices for those who remain.

These strategies are designed to provide a long term response to austerity which will enable councils to live within their means but they often require major adjustments in expectations of local government on the part of local politicians, council staff, service users and council tax payers.

Demand Management

As pressures on local services have increased at the same time that budgets are being tightened, many English councils have taken action to reduce demand for their services. This involves identifying demand that may be avoidable or preventable – for example, demand for services that arise from public service failure, or not intervening early enough (Randle and Kippin, 2014). Demand management therefore switches the emphasis to prevention and early intervention, positioning council services as a place of later or last resort for users whose needs cannot be met more effectively at an earlier stage elsewhere.

Typical ways of seeking to manage demand include:

- Investing in client self-service capabilities (for example, encouraging clients to establish community litter picking or street sweeping groups);
- Engaging the community to discover what local authority provided services they would be willing to take responsibility for themselves; and
- Commissioning service providers on a payment by results basis in order to incentivise them to reduce demand (Manning, 2013).

There has been a lot of attention paid to managing future demand through investment in prevention and early intervention. Greater Manchester councils identified that over a third of their public spending was reactive i.e. was spent on issues that could have been prevented through earlier intervention. As a result, they are proposing a switch from a focus on reactive spending to proactive investment in order to reduce future demand for services (Randle and Kippin, 2014). For example, after achieving improvements in outcomes for troubled families they have worked with, Oldham Council has seen a reduction in the need for police call outs, Accident and Emergency attendances, and school support attendances. They estimate that if this approach was standardised across the whole borough, there is a potential public sector cost saving of £1.1 million (LGITF, 2014).

It is important to understand that demand management does not involve arbitrarily restricting the supply of services, or redirecting or failing to meet customer demand to save money. Instead it is about changing the relationship between local authority services and the service user to ensure that their needs are met in a strategic fashion which brings outcomes to the fore. How costs and rewards are shared between councils and other stakeholders is a key issue for agencies to consider when working together in this way to manage demand. Councils also face challenges resulting from having to continue to fund existing services in parallel with investment in preventative measures because the benefits of early intervention take time to come through.

Strategic Commissioning

Strategic commissioning involves a range of measures that enable local authorities to better understand the current and future needs of their clients, and work effectively to meet them. Used in conjunction with demand management, it can help to reduce pressures on local services. It requires councils to build up accurate knowledge of client requirements and tailor services to these. They need accurate and up to date data about needs, and information technology can help with this and enable services to operate more flexibly. This can assist with effective prioritisation of services, enabling councils to make choices about which to protect and which to cut rather than ‘salami slicing’ across all areas.

An important element is the focus on the needs of the user rather the service – it is far easier to operate strategically if you know what services local people really require, and whether those services could be provided more cheaply or more effectively in a different way or by another agency. Rather than acting purely as a commissioner of services, the focus is placed on the commissioning of outcomes for clients (PwC, 2014). This requires dialogue between commissioners and clients and it is important to focus on what is in clients’ best interests, how public value can best be realised, and how can decisions by commissioners be explained and fed back to the public (Quirk, 2014).

Strategic working practices enable local authorities to become more ‘agile’. This means simplifying and standardising operational procedures in order to reduce complexity, which leads to greater flexibility, scalability, and an ability to respond rapidly to changing circumstances. Councils also need to adopt a more holistic perspective on local service provision, rather than viewing services as compartmentalised silos addressing separate social needs. According to PwC (2102) agile councils are change oriented, have a project centred culture, and are able to identify changing circumstances and address them

effectively through continuous improvement. The five key steps that councils can take to become more agile are:

- Reducing the complexity of operations;
- Developing greater customer intelligence;
- Managing demand (as covered above);
- Developing new delivery models; and
- Creating new support models.

Collaboration and Partnership Working

As funding for services continues to be cut, local authorities in England are increasingly working with partners in the public, private, and third sectors to deliver more effective outcomes than they would be able to on an independent basis. Collaboration and partnership working can take a number of different forms, from working cooperatively with other agencies to provide services, to outsourcing functions, to selling off elements of service provision altogether to a third party who is better able to provide the service.

Working with partners to address shared problems can provide a number of benefits. One of the most important is that it enables councils to save time and resources and draw on a level of capacity which would be otherwise unavailable to them. Working with other public bodies, and particularly with the third and private sectors, enables local authorities to draw on the expertise, knowledge, and experience of multiple organisations, often leading to the development of better service provision.

Collaboration and partnership working can also result in the establishment of improved information sharing processes between local authorities and other organisations working in areas such as health, education, and social care. This is frequently accompanied by the development of IT systems which also contribute to service provision efficiency. Information sharing can be used to facilitate the development of more informed, more appropriately tailored services.

In addition to collaborating with other public bodies and organisations, English councils have also increasingly entered into cooperative working arrangements with each another. In 2010, Cambridgeshire and Northamptonshire County Councils formed Local Government Shared Services, a venture designed to share services with one another and other local authorities. The project is credited with making savings by reducing staff, reducing the amount of leased office space, and retendering IT contracts. In 2012 the project entered into partnership with Norwich City Council to provide finance and IT services, and is

estimated to have secured immediate annual savings of £1.5 million. Similarly, Brent Council are part of a consortium of six local authorities which are making savings by jointly purchasing adult social care (NAO, 2013).

Closer cooperation between local authorities and other public bodies can also help to reduce duplication. For example Natural England, the government advisor which develops practical guidance on how best to safeguard England's natural environment, is now working more closely with English councils to provide integrated environmental advice (PCF, 2014). While the provision of environmental advice is a very small part of the majority of local authorities' service provision, it is this kind of collaborative arrangement which enables councils to maintain services with fewer resources.

Place Based Approaches

Place based approaches seek to tailor service provision to local needs and involve those using and working in local services more directly in decisions about their services. The aim is to achieve more joined up approaches across council services and with other agencies.

Place based approaches often start with the agreement within and between organisations of a set of jointly owned priorities and strategies. Implementation often requires councils and other agencies to pool their budgets. It may also involve staff working more flexibly across departmental and organisational boundaries. By encouraging their own departments to work more closely with each other and with other agencies, councils can reduce the duplication that results from silo based approaches. This requires a policy environment which is conducive to collaboration which means that central government needs to address silo-based funding mechanism and monitoring system. In England, the significant reduction in specific grants has been helpful, enabling councils to exercise more freedom about how they deploy dwindling resources. There are also implications for data sharing since councils have to be able to share information and to communicate effectively between departments and agencies (LGITF, 2014).

In 2012 Whole Place Community Budget pilot projects tested the potential of the place based approaches in four areas of England – Cheshire; Greater Manchester; Essex; and a partnership of London boroughs – to address cross-cutting issues such as worklessness, complex dependency and health and social care. The results of place based approaches to health and social care, troubled families, and work and skills, offered the potential for better services and for overall savings of between £9.4 billion and £20.6 billion over five years (Ernst and Young, 2013).

Another example of a place based approach has been the devolution of the Youth Contract which, it is claimed, has enabled services to be tailored to local conditions. Nationally, the Youth Contract programme has helped 27% of young people into work or learning, while in Leeds, Bradford and Wakefield – where the service has been attuned more closely to local needs – the programme has assisted 57% of young people (LGITF, 2014).

The introduction of combined authorities and city deals are another important example of place based approaches in England. The devolution of health and social care budgets to the Greater Manchester Combined Authorities (made up of 10 councils) is based on the assumption that closer integration of services aligned with local needs has the potential to result in better outcomes. Other councils in England are working together on particular functions, with the Sheffield city region and West Yorkshire both being offered devolution deals by central government. These examples suggest that councils can work together across boundaries without structural reorganisation. But collaboration on this scale will not be easy and it is too early to judge whether combined authorities will deliver the results expected of them (Carter-Davies et al., forthcoming).

Economic Growth and Commercialisation

Councils in England have expanded their trading and commercial activities to generate income. This is not new approach but is becoming increasingly prevalent as a means of offsetting cuts in government grant.

One of the more cost-effective and relatively straightforward measures available to local authorities is to increase the revenue generated from fees and charges. While councils cannot charge for core services, they can charge up to the full cost for the provision of discretionary services such as leisure centres, and facilities such as parking. Sometimes increasing charges may be the only way in which they can continue to afford to provide discretionary services (LGA, 2014c).

There has also been renewed interest in what councils can do to develop their local economies and increase their tax base. For example, by encouraging house building councils are able to take advantage of greater council tax revenue from additional occupied homes, and new homes bonus funding from central government. However, it may be several years before they feel the benefits of such measures.

Councils have also taken steps to encourage development of local businesses and investment, since an increase in business rates may also produce additional revenue. From April 2013, local authorities in England have kept a share of any growth in business rates in

their area as an incentive to promote local business growth. Overall, local authorities retain approximately 50% of business rate income, while the other 50% enters a central government pool which is redistributed to local authorities through grant funding (NAO, 2013). Some neighbouring councils have also developed local pooling of business rates. Across the Leeds city region for example, seven councils have entered a voluntary agreement to pool business rates revenue which is then distributed across the region to support economic growth and regeneration (LCR, 2015). Another development that has taken place is the 'earn back' model included within Greater Manchester's city deal (Cabinet Office and DPMO, 2012). Under this model, the combined authorities will receive a proportion of investment in infrastructure projects from central government over a 30 year period. The amount earned back is linked with growth in business rates revenue, with the rationale being that investment will drive local economic growth, and councils will be rewarded by receiving a larger proportion of the tax revenue generated than they otherwise would.

Local authorities have begun to examine how they can develop more lucrative asset management processes. The UK government has encouraged them to review their assets with a view to allowing the use of receipts from sales of capital assets to fund the one-off costs of service transformation. There is some indication however, that the benefits to councils are marginal (LGA, 2014c). Similarly, while local authorities have investigated the possibilities of investing in assets such as property to increase rental income, many are not in the position to make the initial capital outlay.

Seen by many councils as a last resort, an increase in council tax is an option available to local authorities, although the scope for using council tax increases has been limited by central government. The 2015-16 limit to which local authorities are allowed to increase council tax without that increase being subject to a referendum is 2% which would not generate enough additional revenue to offset the cuts in government grants (LGA, 2014c). In addition, councils in England and Scotland are incentivised not to raise their council tax levels through the offer of government freeze grants.

Digital Technology and Information Management

In combination with many of the other strategies described above, councils have sought to make greater use of digital technology and information management systems to improve services and make service delivery more cost effective. This can help them to coordinate services, and ensure that they are better tailored to the needs of a local area.

As citizens are increasingly technology-literate and expect to be able to access public services digitally through the internet and social media platforms, councils are shifting more services online, including providing information and enabling clients to access services through the internet. This can result in an overall reduction in the number of staff required to operate the services, reducing staff costs and/or freeing up staff to undertake other tasks.

Not only can embracing new technology allow local authorities to provide services more efficiently, it also enables them to more easily communicate with service users and monitor their service needs. Local authorities are increasingly looking to engage with citizens via social media as a cost effective and responsive method of maintaining communication channels. This can give them improved knowledge of users' expectations and enable better decisions about service provision. It also allows for an ongoing and more immediate identification of emerging needs and priorities.

Digital technologies also offer significant benefits in relation to information management and back-office support. Improved information management systems enable councils to track service outputs more closely to ensure that they are operating efficiently, and improve information sharing between local authorities and other agencies which should help to facilitate better coordination and reduce duplication. In moving to greater digitisation, local authorities can draw on best practices developed in the private sector (PCF, 2014).

The Impact of the Cuts

The previous sections provide an overview of the scale and distribution of cuts in English councils' income from central government, and strategies that they have adopted to respond to them. This section considers the evidence that is now beginning to emerge about the impact that the spending cuts are having on services and service users, and the outlook for councils over the next few years.

Impact on Service Users

It is becoming clear that in some parts of England, service users are now experiencing a reduction in the quantity and quality of service provision, even in services for vulnerable groups (such as children and older people) and in areas such as environmental services that have been cushioned from cuts.

Between 2009 and 2014, there was a sevenfold increase in the number of children staying in bed and breakfasts or shared hostels for more than six consecutive weeks (which means

councils are breaching the law) and a 31% increase in the number of children living in temporary accommodation (DCLG, 2015b) – a symptom of the shortage in housing. It is also estimated that around 150,000 pensioners have lost access to vital services since 2010 (Gainsbury and Neville, 2015).

In some areas the frequency of household waste collections has been reduced. There have been reductions in food inspections and workplace health and safety checks. Between 2009-10 and 2013-14, health and safety inspection visits to local factories and workplaces decreased by 91%, from 56,175 visits to 4,901 (Gainsbury and Neville, 2015). In addition, the use of local authority leisure facilities, and visits to museums and galleries have declined (Hastings et al., 2015).

While councils have sought to protect spending on core services for vulnerable groups, the provision of services such as homecare and day care for adults, and residential care for adults and children, has reduced since 2010-11 (NAO, 2014). Consistent with overall cuts to spending, reductions have been greatest among authorities facing the highest cuts in funding. In addition, discretionary spending on preventative services – such as the Supporting People Fund and on Sure Start children's centres – have also decreased substantially (Hastings et al., 2015; Neville and Gainsbury, 2015).

The spending cuts have also had a direct impact on the council workforce, with a 17% reduction in full-time equivalent posts in local authorities (excluding school workforce) between 2010 and 2013 (NAO, 2014).

Despite the evidence that budget cuts are having a significant impact on services in England, survey data suggest that public satisfaction remained remarkably constant (LGA, 2014b; ICM, 2013). Evidence from Wales shows a small reduction in satisfaction with Welsh councils' services, with the proportion of respondents to the National Survey of Wales agreeing with the statement 'my council provides high quality services' falling from 57% in 2012-13 and 2013-14 to 53% in 2014-15 (Welsh Government, 2015). By contrast, in Scotland, the proportion of adults agreeing that their 'local council provides high quality services' increased slightly from 45% to 47% between 2013 and 2014 (Scottish Government, 2015).

There are a number of possible explanations for this. It might be seen as a testament to councils' ability to manage budget reductions without damaging essential services. A more plausible explanation is that it reflects the fact that many people don't know which services councils are responsible for, and a majority of the public have no direct experience of key services such as social care. They are not, therefore, well placed to detect changes in

service quality. There is also a possibility that public expectations of services have reduced because they are aware that councils have had to cut back.

While satisfaction with services has not changed significantly, there is evidence of public anxiety about the impact of the cuts. A survey by PwC found that in 2015 54% of adults in Britain were concerned about the impact cuts were having on themselves, and 62% said that they were concerned for their community. Public awareness of local service reductions or closures was found to be highest for roads and pavements (27%) and libraries (24%). There also appeared to be a decreasing acceptance of the need for councils to make cuts to local services. In 2011 47% of the public said that they accepted that there was a need for cuts in council services. By 2015 this had fallen to just 35% (PwC, 2015).

Looking Ahead

To be financially sustainable, local authorities must at least be able to fulfil their statutory duties. This is becoming more difficult to achieve as English councils have to absorb year-on-year cuts in government grant. According to local auditors, more than half (56%) of metropolitan and unitary councils in England are not expected to meet medium-term savings targets (NAO, 2014). Their concerns are based on assessments of capacity to identify additional savings on top of those already made. And the LGA projects a shortfall in local government funding in England of £15.6bn by 2019-20. With social care and environmental services continuing to take up a growing proportion of available spend, funding for other council services is projected to decrease by 43% between 2010-11 and 2019-20 (LGA, 2014a). Similar concerns are echoed in Wales, with available spend for controllable budgets (i.e. not including social care, education or fixed budgets) projected to have decreased substantially by the start of the next decade with an estimated budget shortfall of £941m in 2019-20 (WLGA, 2015), and a funding gap forecast to be between £2.6bn and £4.6bn by 2025 (Jefferies, 2013). These estimates assume no change in current policy.

There is a risk that for the first time some councils in England will struggle to finance even statutory services. A recent survey of council leaders and chief executives in England found that 80% believed that 'some local authorities will fail to deliver the essential services residents require' over the next five years (PwC, 2015). The same survey found that while 69% of council chief executives are confident they can make necessary savings over the next year without seriously impacting on service delivery and outcomes, only one in ten was confident about their council's ability to do this over the next five years.

Conclusion – Insights for Wales

Councils in Wales may be able to gain useful insights from the experiences of their counterparts in England. As we have shown, there is a range of options available to councils, and most will need to adopt a combination of these in order to cope with an extended period of reductions in income.

Initial funding cuts have been typically first met with efficiency drives, designed to eliminate any waste and make operations as lean as possible. Over the longer term, however, many councils reach a point at which they are unable to make further efficiency savings without having a detrimental impact on service provision. So all local authorities in Wales need to consider how to transform services and the ways in which they work with citizens and service users.

The strategies that they adopt need to be tailored to local conditions and some councils may lack the capacity to implement some of the approaches outlined in this report. In particular, there is a danger that meeting short-term needs will crowd out transformative strategies, which increases the risk of essential services for vulnerable people failing in future.

It is also important that councils assess rigorously the potential savings and the social impacts of alternative approaches to coping with the cuts in their area. As noted above, there are methodologies that may assist with this, for example the social impact tool developed by the Joseph Rowntree Foundation and Glasgow University.

The Welsh Government also has a role to play. The experiences of English councils suggest two ways that it could help to mitigate the impacts of the cuts.

England councils report that to adopt a strategic approach to reducing costs and transforming services they need to be able to plan ahead (NAO, 2013) and finance directors give uncertainty about future settlements as one of the main reasons that they have sought to build up council reserves. In general, councils in Wales need to develop more robust medium term financial planning (AGW, 2014) but this is difficult to do if they do not know what future settlements will be. There is, therefore, a need to find a way for councils to know what resources will be available two to three years ahead. Without this they will inevitably focus on short term measures to balance this year's budget rather than investing in longer term measures to transform services.

Secondly, the experience of English councils suggests that having more discretion about how they use funding has helped them to absorb reductions in government grant. Since 2010 the UK government has reduced the number of specific grants which has given

councils more flexibility about how they choose to spend their budget. Under the current arrangements in Wales where there is far greater use of grants that are given to councils for specific purposes, it will be difficult to secure the same degree of local flexibility which may make it more difficult for local authorities to respond to cuts in their overall budgets. Welsh Ministers may, therefore, wish to consider whether there is a case for allowing greater local fiscal autonomy and if so how to achieve this.

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