

The MJ Future Forum discussed the shape of the next Spending Review and the impact on local government finances. **Michael Burton** reports on the key conclusions

The shape of the next Spending Review

The next Spending Review, announced in June for 2015/16, will also outline the shape of public spending plans for the next four years, chief executives heard at *The MJ's* second annual Future Forum held last month.

Expert speakers from Whitehall, the private sector, local government and think-tanks, addressed more than 100 delegates during the 24-hour forum in Warwickshire on 21/22 March. Its subject was planning for the next Spending Review and it took place just one day after the Budget. Speakers included DCLG permanent secretary and civil service head Sir Bob Kerslake; Simon Ridley, acting director general of localism; Brandon Lewis, local government minister; Sarah Pickup, director of health and community services at Hertfordshire CC and president of the Association of Directors of Adult Social Services; Institute of Fiscal Studies director Paul Johnson; LGA chief executive Carolyn Downs; Martin Reeves, chief executive of Coventry City Council and president of SOLACE, and Mark Lloyd, chief executive of Cambridgeshire CC and chair of the Association of County Chief Executives.

The tone of the next Spending Review, to be announced on 26 June, was set by Sir Bob who joked to del-



Cold front: Sir Bob Kerslake warns the forum of the chill over the public finances

egates: 'It's cold out there and what I'm about to say won't make things any warmer.' The Budget on 20 March warned of £10.5bn in further savings to be found for 2015/16. The flatlining economy means public sector net debt continues to increase and gobble up spending. But the Treasury has little room for manoeuvre as it plans the review and local government fears it will once again bear the brunt of further cuts, especially as health and education continue to be protected. The Home Office, Ministry of Justice and defence and work and pensions departments will also be hit.

The Government has agreed in principle to Lord Heseltine's 'single pot' idea, more details of which will be unveiled on 26 June. Another priority is developing the community budgets/whole place programme. Brandon Lewis chose Future Forum to announce the expansion of the scheme which is clearly now a major gleam in the Treasury's eye. The small print of the Budget, in mentioning the programme, also quoted the £800m in savings so far identified by the four whole place pilots.

It clearly believes there is scope for major savings from this programme

but local government is fearful that these will simply be incorporated into another round of cuts when the projected savings are medium to long term rather than short term. A senior Whitehall official told forum delegates: 'Community budgets are central to the way we deliver reductions.'

The 2015/16 review will, as a result, set the tone for the consequent next four-year Spending Review to be announced in the Autumn Statement of 2015 – covering 2016/17 to 2019/20, or effectively the lifetime of the next government. The cuts for 2015/16 are set to be 2.8% overall compared to 2.4% a year during the current review or an average 5% if education and health are protected. Paul Johnson told forum delegates that in his view there would be tax rises after 2015 as part of a further round of fiscal consolidation and we can assume these will certainly include the scrapping of benefits for the elderly such as subsidised travel, fuel allowances and even housing benefit protection.

One final point raised by Mr Johnson is that extra national insurance payments announced in the Budget to fund extra capital spending will impose an extra £3bn on public sector employers of which £500m will be from local government. ■

By Jonathan Werran

Lewis sets out trio of targets

Local government minister Brandon Lewis focused on three main areas: the huge opportunity financial planning presents; the need to transform services for the long-term, and pioneering and responsive community budget schemes.

Mr Lewis (pictured) said local government accounted for a quarter of public spending and so had to play its proportionate part in deficit reduction measures

Despite massive pressures, current circumstances represent a 'massive opportunity to rectify errors from the past' he said.

Coventry City Council, Warwickshire CC and Solihull MBC's transformative triumvirate was cited as a shared services success story, and Devon CC and Hants CC's shared management plans were also praised.

'Some day this artificial division between sharing services and shared management, will become, to pardon a pun, "Much ado about nothing," Mr Lewis quipped.

Urging this type of collaboration to become the norm, Mr Lewis said the former arrangements could drive deeper savings, while the



latter could enhance productivity.

Calling for a root and branch reform of how local services are provided, the minister urged an overhaul

of how authorities undertook commissioning, procurement and delivery.

The Transformation Challenge Award would go to the seven councils receiving the efficiency support grant if they agreed to go further and faster, Mr Lewis said.

However, the rest of the award is available to any councils able to show clear and imaginative plans – such as unifying front and back office operations, joining up contracting or encouraging local people to do more for themselves. Councils who band together would receive set up

costs of up to £2m, Lewis confirmed.

The four community budget 'whole place' pilots had delivered bigger savings and better services, which had encouraged the chancellor to fund a £1.5m new network to help replicate their success nationwide.

Having ensured councils avoided further in-year cuts this year, ministers wanted to see pathfinding local government leaders who could change the way the public sector delivers before the next spending round.

Community budget schemes, which could prove self-financing within years, are a chance to deliver this goal, Mr Lewis concluded. ■

You can see our video of the Future Forum event and photographs plus speakers' slides (subscribers only) at themj.co.uk/futureforum



The game of life...

By Heather Jameson

Rushcliffe BC chief executive Graham Allen kicked off the Northgate workshop at *The MJ* Future Forum with the image of kids boardgame, Kerplunk. He compared the game with the Government's approach to benefit reform.



'If you pull one strand, you don't know what impact it will have elsewhere,' he said. 'The Government is pulling out the strands and the marbles are falling.'

Chief executive of the Institute of Revenues Rating and Valuation, David Magor, warned: 'We are on the edge of chaos.'

In bringing together the Department for Work and Pensions with the HMRC, he said we are 'joining together two chaotic organisations with no experience of what works with the public... and we are fronting it.'

While local government is able to see this policy through, he asked, 'is this a real policy, or a study?' If it is a real policy, it needs to be done properly and as a result, local government will need it to be properly funded.

He called on the pathfinders to be honest and 'say what is really happening' rather than giving the Government a sanitised version of the difficulties they face. 'This is a defining moment for local government,' he said. 'It is not just about what is going wrong. There is a chance that this could be very exciting.'

He called on every local authority to profile their population to consider what impact the changes will make – and on the government to fully fund what they are asking local government to do. ■

Johnson cuts loose on the

By Jonathan Werran

At last year's inaugural Future Forum, Paul Johnson, director of influential economics think tank the Institute for Fiscal Studies, issued a stark warning that local government faced at least another decade of austerity.

This year Mr Johnson stated in his opening remarks that he couldn't promise to smile, but could promise doom and gloom in a high-level review of fiscal and spending decisions.

On this he duly delivered, in a sobering, no-holds barred analysis of the state of public finances.

Economic forecasts had got worse in every Budget and Autumn Statement since 2010, Mr Johnson began. The March Budget was no exception. The Office for Budget Responsibility halved projections for national economic growth from 1.2% at the time of the Autumn Statement to 0.6%.

Mr Johnson said chancellor George Osborne had allowed the fiscal position to deteriorate for the last three years without imposing either additional tax increases or spending cuts to undo the damage wreaked by low growth on the public finances.

While meeting the coalition's first, fiscal rule – ensuring the cyclically adjusted current budget is in balance over five years – Mr Osborne has 'driven a coach and horses' through his second target that debt ought to be falling in 2015.

Instead debt will be growing in both 2015 and 2016 and is set to reach up to 85% of national income, far larger than originally expected.

Actual deficit reduction depends on some 'extraordinary tight spending assumptions' and the return of elusive economic growth.

Total public spending is flat-lining, but the real story is the amount allocated to annual managed expenditure (AME) as compared with departmental



Paul Johnson: things are set to get even tighter for local government

expenditure limits (DEL). AME, mockingly referred to by Treasury officials as 'Annual Unmanaged Expenditure', comprises Government debt interest payments, benefits for people of working age, state pensions and public service pensions.

Despite attempts to restrain working age benefits, increased pension allowances have ensured a

A healthy approach to moving services

By Michael Burton

With public health transferring to local government from 1 April, a well-attended workshop at *The MJ* Future Forum looked at how one county area has been handling the changes.

Nottinghamshire CC is working with its districts, with Nottingham City Council and with its six clinical commissioning groups while the city and county are sharing the costs of a director of public health. Some 30 NHS staff transferred to the city with a budget of £27m and 60 staff to the county with a budget of £35m. The figure sounds substantial but for the county it represents under 10% of its annual £590m budget.

Session speakers county chief executive Mick Burrows and Andrew Muter, chief executive of Newark and Sherwood DC (pictured left and centre), outlined their own perspectives. Andrew's concern as a district is that public health could be dominated by the adult care budget and that in a two-tier area districts might lose out. His own council is in discussion about hosting a GP practice at one of its



leisure centres and as he commented: 'I couldn't imagine doing that when local government didn't have responsibility for public health.'

Mr Burrows noted differences in the decision-making process between ex-NHS and council staff where the former still have a 'fear' about dealing with councillors in a political environment. The NHS culture is also 'on a different wavelength' when it comes to efficiency.

But as he concluded, the public health agenda should be integral to all service provision while it is also influenced by demand management – and he added: 'Don't get fixated on the money.' ■

Time to work on our relationships

By Heather Jameson

The funding crisis which faces local government, is not the biggest problem for the sector, Local Government Association (LGA) chief executive Carolyn Downs told *The MJ* Future Forum. Instead, it is the relationship with central government which is a bigger barrier to the future.

'There has to be a seismic shift in the relationship between central and local government,' she said. 'There is a lack of trust and a lack of respect from central government to local government.'

Analysing the figures from a National Audit Office report, Ms Downs said: 'It is clear that we have had the biggest cuts and we have responded well. I would say we have responded magnificently.'

Again, the cuts reflect Government's lack of interest and priorities when it comes to the local government sector. The received wisdom for local

the true impact on spending



in the next decade

remorseless upward trend in AME spend – which provoked the chancellor's determination to be more actively in control of this part of public spending.

DEL refers to resource budgets, and effectively means public services spending, where the bulk of the Spending Review cuts have been delivered.

Moving forward to the next spending round –

which takes place on 26 June and covers the year 2015/16 – departments face average 2.8% DEL cuts, which are deeper than the average 2.4% annual Spending Review reductions.

This does not include the extra annual £3bn cost to public sector employers – working out at a £1bn charge to local government – from paying extra national insurance contributions due to pension changes from 2016.

However, because the NHS, schools and overseas aid budgets remain protected, average cuts across all other departments would be 5.2% – rising to 6.2% if the defence budget is also protected.

Factoring in the implications of the March Budget, public service budgets would have, since 2010, experienced 18% reductions by 2017/18.

'The sort-of-even-worse news is that, if you continue to protect the health service, schools and overseas aid [budget], for all other departments the average cut becomes 33%. And that of course, I'm afraid, includes local government,' Mr Johnson said.

However, despite a period of unbelievably tight cuts, total public spending in 2017/18 will be the same as 2003 – because higher AME spend necessitates less spending on all other items of public expenditure.

In the absence of further action, departmental spending would be cut by another 7.6% between 2015/16 and 2017/18.

'But of course there's worse news than that,' Johnson said to ironic cheers.

He said the chancellor's additional £5bn of additional unfunded spending measures outlined in the Budget – £3bn extra capital spending, £1bn to fund the Dilnot social care reforms and £750m for child-care support – would come out of the reduced total spending available, making things even tighter than they would have been. ■

Start budgeting for the future

By Michael Burton

Community budgets are the future model for public service delivery, delegates at *The MJ* Future Forum heard from key government speakers and local authority pilots. The mantra is that while Total Place was a first stab at breaking down public sector silos, the community budgets programme and the four whole place pilots have been extensively trialled and supported by Whitehall. Indeed the projected savings of £800m were cited in the small print of the March Budget and will certainly form a key part of the Spending Review on 26 June, and the next review after 2015.

Steve Robinson, chief executive of whole place pilot Cheshire West and Chester Council, described how 21 projects could be 'boiled down' to six with an investment of £50m and a saving of £107m. Simon Ridley (pictured), the then acting DCLG director of localism, advised delegates to 'follow the money' and stressed the importance of local solutions.

Closing speaker, local government minister Brandon Lewis, in announcing the £1.5m investment into a community budgets network, also stressed that this must be the future design for cross-public sector working.

He said the new network will share the learning from the pilots and include people with 'experience and expertise from across government departments, councils and local agencies' adding that 'their aim will be to secure improved outcomes by co-designing better services for less.' ■



Carolyn Downs: there is a lack of trust and respect from central government to local government

government is that there are two years of cuts ahead for the sector. However, Ms Downs told Future Forum delegates: 'I don't think it will only be two years.'

The problems are further compounded by the financial corner local government has been forced into. 'If you are in another business, when you face

cuts you rise your income.' However, council tax capping has prevented local authorities from doing that, and fees and charges have also dropped.

She claimed it was also difficult to predict what is likely to happen when the first local authorities 'fall over' and are not able to fulfil their statutory duties. 'I'm still not clear what will happen,' she says.

Ms Downs's response is to be more stringent. 'We need to get out of the place where we allow ourselves to be treated as central government's delivery arm.'

But despite the difficulties facing local government, Cambridgeshire CC chief executive Mark Lloyd described the past two years as 'among the most exciting of my career'.

His authority has made moves to increase its financial base within the context of the financial crisis – and the lack of respect from central government is not an issue. 'We have put council tax up. We are on the naughty step by central government, but my politicians don't care because they know it's the right thing to do.'

Cambridgeshire has made huge steps in changing to meet the needs of the future – including setting up its own bank. While it was nearly impossible today, again he claimed it was 'the right thing', and is not as much of a gamble as it may look at first. 'This isn't casino banking its asset backed lending. However, the biggest assets which could be used are not available – the government estate is the prime asset which is not being utilised.'

The problem, he claimed, is that the Government has forgotten that 'not all debt is bad.' ■

By Heather Jameson

Leadership strategy is key to progress

'**T**here is no normal,' Penna chief executive Julie Towers (*pictured*) told *The MJ Future Forum*. If anyone is still of the opinion that local government will return to halcyon days of full funding and financial security, then think again. To describe 'the new normal' Ms Towers borrows a phrase from the military: *VUCA*.



Usually used to describe conflict areas, it stands for:

- Volatile
- Uncertain
- Complex
- Ambiguous

Now local government is also in that position.

Penna's Oliver Johnson warned of the importance of management and leadership during these tough times.

While there is a belief that leadership starts at the top of an organisation and 'trickles down', he told delegates: 'I have never seen that happen yet.'

He warned that all organisations need a strategy, but need to be able to see it through. He said: 'Culture eats strategy for breakfast... And line managers eat culture for breakfast. Your future depends on your

line managers.'

Mr Johnson told delegates that being chief executive of a local authority is one of the hardest jobs going. But for council chiefs, they need to decide what brand of leadership they want for their organisations and put it in place.

'It is a neverending journey. If you are doing this for a large organisation, you need to start again as soon as you have worked it through the whole organisation.' ■

Facing up to demand



(Pictured left to right) Martin Reeves, Nick Bell, and Jon Ainger

By Michael Burton

As councils, in preparing for another difficult Spending Review, grapple with how to cut services against rising demand, increasing emphasis is being placed on 'demand management.'

So unsurprisingly it was standing room only at the session sponsored by iMPower which posed the question: 'Why are councils failing to use demand management to reduce budget pressures?'

Speakers were Jon Ainger, its director, Nick Bell, chief executive of Staffordshire CC and Martin Reeves, chief executive of Coventry City Council and president of SOLACE.

Jon Ainger outlined a recent survey into the barriers to changing citizen behaviour which found most scope for reducing customer

demand in school transport, education and children's services. But there is also potential for savings in adult care. He cited his 'graph of hope' which found that if the able-bodied 65-74 age group could allocate an extra 3% of their time to help the infirm elderly then by 2030 there would be little need for home care provision.

As Nick Bell commented, 'if you get it right you can both reduce public spending and generate better outcomes.'

Martin Reeves, who has set up a 'virtual network' for councils to share experiences on demand management pointed out that a service like school transport is 'politically incendiary' but parents should take more responsibility themselves.

He added: 'We have to help them become less dependent.' ■

Housing investment 'a must'

By Michael Burton



MORE investment in housing will generate jobs and kickstart the economy, a workshop heard at *The MJ Future Forum*.

The session, *Austerity should not mean poor housing*, hosted by Pinnacle PSG, looked at how investment in social

housing will both create a better environment for tenants and stimulate the stagnant economy.

The speakers, Pinnacle PSG managing director Neil Euesden, and Steve Partridge (*pictured*), director of financial policy and development at the Chartered Institute of Housing, noted that an investment of £1m in social housing injects £2.84m back into the economy. For every pound spent on building, 92p stays in the UK.

A few statistics were also presented to the audience. Some £4.6bn is spent on managing housing and there are 2.4m retained housing units. If management costs can be reduced then more funding can be directed to creating housing for £100,000 in management costs is equal to one new home. Councils still have a key role in housing and some are talking to pension funds while the government still represents 30%-40% of construction demand.

Two issues were also raised. Universal Credit could lead to a 25% increase in arrears because benefits are going to the tenant not the landlord creating real cashflow headaches for providers.

Secondly, housing ought to be part of the public health and wellbeing agenda, for as Steve Partridge noted: 'all buttons are pressed when you build a home.'

By Heather Jameson

Dispelling the relationship myths

John Swinney, business development director of Carillion, told delegates at the Future Forum that the financial pressures had created a 'new relationship' between the public and private sector as local government strived to solve its financial problems.

He said this was an opportunity to dismiss the myths

between both sides 'most of which are tosh because there is good and bad in every sector'.

However, Mr Swinney (*pictured*) was challenged by chief executives in the audience who claims the myths had been shattered a long time ago, and the 'public sector good, private sector bad' view



was no longer prevalent in local government.

'The private sector used to see us as a source of money,' a delegate told the forum. Now that has changed and it is all about 'relationships'.

Another council chief said some of the blame rested with the private sector. 'We were probably not smart enough

in some of the contracts we negotiated in the past.'

But he added that he did not want a relationship with a private sector company which provided all its contracts. 'I don't want a partner of choice, I want different people for different contracts - I want choice.'

A Carillion project in Birmingham is, Mr Swinney said, dispelling some of the myths. 'It is about social impacts.' ■