The Chartered Institute of Public Finance & Accountancy

A Brief Guide to

local government finance

for Councillors

2011 Edition

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Printed on stock sourced from well-managed forests, ISO 14001.

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Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

3 Robert Street, London WC2N 6RL

020 7543 5600 \ publications@cipfa.org.uk \ www.cipfa.org.uk

ISBN 978 1 84508 290 1

Designed and typeset by Ministry of Design, Bath
(www.ministryofdesign.co.uk)

Printed by Hobbs the Printers, Southampton

Preface

This guide aims to provide councillors with an overview of local government income, expenditure and funding. It also covers current issues that will impact on the finances of local authorities.

This is a time of unprecedented change for local government. Since the 2010 edition of this guide the coalition government has started to implement its proposals. At the same time, public expenditure has been cut to cope with Britain's deficit. Overall total service expenditure by local authorities in England is estimated to fall in 2011-12 to just over £99.5bn – a decrease of 5.7% compared to 2010-11. This is the first fall in spending since council tax was introduced in the early 1990s. Estimated spending levels for 2011-12 have reduced to near 2008-09 spending levels, equivalent to spending of £1,921 per person.

This guide reflects proposals for academies, housing revenue account (HRA) self-financing, the future of local audit, police and crime commissioners and social care reform, to name but a few. In addition it looks at the impact the recent cuts have had on local authority finances.

This new brief guide has been produced as a companion to CIPFA's *Comprehensive Guide to Local Government Finance*, which covers considerably more ground and in greater depth.

Abbreviations

ABG	Area Based Grant
AEF	Aggregate External Finance
ALMO	Arm’s-length Management Organisation
APA	Association of Police Authorities
BID	Business Improvement District
BRS	Business Rate Supplement
CIL	Community Infrastructure Levy
CLG	Department for Communities and Local Government
CLP	Central/Local Partnership
CSR	Comprehensive Spending Review
DfE	Department for Education
DSG	Dedicated Schools Grant
DWP	Department for Work and Pensions
EPCS	Environmental, Protective and Cultural Services
FSS	Formula Spending Share
GDP	Gross Domestic Product
GO	Government Office
HCA	Homes and Communities Agency
HMIC	Her Majesty’s Inspectorate of Constabulary
HMO	House in Multiple Occupation
HMR	Housing Market Renewal
HRA	Housing Revenue Account
IFRS	International Financial Reporting Standards
LGA	Local Government Association
LSC	Learning and Skills Council
NAO	National Audit Office
NNDR	National Non-Domestic Rates
OBR	Office for Budget Responsibility
PBR	Pre-Budget Report

PCT	Primary Care Trust
PFI	Private Finance Initiative
PFP	Private Finance Project
PFT	Private Finance Transaction
PPP	Public/Private Partnership
PSNB	Public Sector Net Borrowing
PSS	Personal Social Services
PWLB	Public Works Loan Board
RNF	Relative Needs Formula
RSG	Revenue Support Grant
RSL	Registered Social Landlord
SCS	Sustainable Community Strategy
SWG	Settlement Working Group
VCS	Voluntary and Community Sector

Contents

CHAPTER ONE

Introduction and Current Issues

HEADLINE NEWS

This is a time of unprecedented change for local government. Work is currently progressing on implementing the coalition government's policies for academies, the abolition of the Audit Commission, the housing finance review and the big society. *The Localism Bill* is working its way through Parliament.

The most recent announcement, at the time of writing, was to confirm the relocalisation of business rates. While the proposals included in CLG's consultation document *Local Government Review: Proposals for Business Rates Retention*, published in July 2011, do not represent a full return of control to local authorities, they do represent a very important first step.

Time will tell whether the current initiatives and changes will provide for a major renaissance of powers and freedoms for local government or an erosion of its scope and size. One dichotomy of the current localism agenda is that it may well result in a combination of both.

CURRENT ISSUES

Since the 2010 election, the coalition government has introduced a number of major policy changes that will impact on local government. This chapter provides a brief introduction to some of the key policy changes. It is perhaps an indication of the scale of change that this section can only cover some of the key changes.

The *Localism Bill* being progressed through Parliament in 2011 will bring important changes for local government. The biggest change will be the introduction of a general power of competence that will radically increase the freedoms available to local government. Under the proposed general power of competence local authorities will have the legal capacity to do anything that an individual can do that is not specifically banned by other laws. They will not, for example, be able to impose new taxes as other laws make clear they cannot. The new general power will give councils more freedom to work in partnership and the confidence to be more innovative in the way services are provided.

For planning the *Localism Bill* will abolish regional strategies. Regional strategies were first required by law in 2004 and set out where new development needed to take place, including housing targets for different areas. Instead, the Bill will introduce neighbourhood planning, with a right for communities to draw up a 'neighbourhood development plan' including the ability to bring forward small developments. Local planning authorities will be required to support neighbourhoods in drawing up these plans.

On 13 August 2010 the secretary of state for communities and local government announced plans to disband the Audit Commission and refocus audit of local public bodies on helping local people hold those bodies to account for local spending decisions. The aim is to replace the current, centralised audit systems managed by the Audit Commission with a new decentralised regime, while ensuring that there continues to be robust local public audit.

The government produced its consultation paper on 30 March 2011 setting out proposals for a new audit framework where:

- audit quality is regulated within a statutory framework, overseen by the National Audit Office and the accountancy profession
- local public bodies will be free to appoint their own external auditors with stringent safeguards for independence.

The consultation ended on 30 June 2011.

On 2 June 2011 the communities and local government permanent secretary wrote to all local authority chief executives to inform them that the Audit Commission had been asked to start preparatory work to outsource the 70% of local authority work currently provided directly by the Audit Commission for the 2012-13 audits.

The *Academies Act 2010* legislated to allow schools to opt out of local authority control if they can successfully apply to convert to academy status. Academies are publicly funded independent schools. They are outside local authority control, they can set their own pay and conditions for staff, they have freedoms around the delivery of the curriculum and they have the ability to change the lengths of terms and school days. By January 2011 there were 407 academies open in England and a further 254 schools had applied to become academies. The 2010 Schools White Paper *The Importance of Teaching* introduced the concept of free schools which is aimed at allowing groups of people to set up new schools, free of local authority control.

Within housing, from 2012-13 each stock holding housing authority will be reliant on its own rent income to provide council housing. The system of HRA subsidy whereby authorities pay into or receive from a national pool will cease. To bring this change into operation housing authorities will complete a 30-year business plan for their long-term investment requirements as well as the day-to-day cost of running their homes. Depending on the business plan and their current long-term borrowing, authorities will either receive an additional share of the national housing debt or have some of their housing debt repaid. This will put the new system in operation with parity between different housing authorities.

Local housing authorities will still be expected to follow the rent restructuring programme. There will be some scope in the new system for building new property. However 75% of right to buy receipts from existing properties must still be paid to HM Treasury.

At the time of writing (summer 2011) the government's *Police Reform and Social Responsibility Bill* was proceeding through Parliament. It will provide for directly elected police and crime commissioners to oversee local police forces, replacing police authorities (apart from in the City of London). For the Metropolitan Police area, the mayor of London will be the police and crime commissioner. In addition, police and crime panels will be established to provide scrutiny of the police and crime commissioner's work for their force area. The government's aim is for the changes proposed in the Bill to begin in May 2012.

What is less clear is how the concept of the 'big society' will impact upon local authorities. The *Open Public Services* White Paper published in July 2011 fails to address the dichotomy between increasing personalisation, localism and the involvement of the third sector.

CHAPTER TWO
The National Framework

FISCAL POLICY

After the 2008 financial crisis, recession and subsequent collapse in government revenues, the UK's public deficit reached levels not seen since the Second World War. Public spending increased from around 41% of GDP to 48% between 2006-07 and 2009-10, while receipts fell to 37%. This meant that the government was running a deficit of 11% and had to borrow one pound for every four it spent.

Before the 2010 election, all of the major parties agreed that tackling the deficit was a priority, and that spending reductions would have to play a major part in this – although they did not agree over the timing and depth of these cuts. Shortly afterwards, the 'emergency budget' gave a taster of what was to come. The October 2010 spending review then provided substantive details on how the government aims to reduce the deficit over the next four years.

To put the figures into context, public expenditure in the 2004–2007 spending review period grew by just over 4% per annum in real terms, while it increased by around 2% per annum in real terms between 2007 and 2010. Departmental spending will fall by 19% over the next four years from 2011-12 to 2014-15, in order to save £81bn. This is in keeping with the government's policy to wipe out the 'structural' deficit by 2014-15, and to do so primarily by cutting spending, rather than increasing taxes.

THE PUBLIC EXPENDITURE PLANNING PROCESS

Following the 1997 general election, the Labour government introduced a new public expenditure planning system based on periodic reviews of all public spending. The new public spending plans covered a three-year period, but not a rolling three-year period – the last year of the previous review became the first year of the next review. However, it would only be in exceptional circumstances that the figures for the last year of the previous review would be amended.

During Labour's 13 years in power, there were two comprehensive spending reviews (CSRs) and a further three spending reviews.

- The 1998 comprehensive spending review set spending plans for 1999-2000 to 2001-02.
- The 2000 spending review set spending plans for 2001-02 to 2003-04.
- The 2002 spending review set spending plans for 2003-04 to 2005-06.
- The 2004 spending review set spending plans for 2005-06 to 2007-08.

It was announced in 2005 that there would be no 2006 spending review. Instead, a second comprehensive spending review would be undertaken in 2007. The 2007 comprehensive spending review set spending plans for 2008-09, 2009-10 and 2010-11.

The next spending review should have been in 2009 but was deferred because of the 2010 general election and was announced in the autumn of 2010.

TABLE 2.1 sets out the headline figures from the 2010 spending review. It highlights the significant real terms cuts facing public services with only health and international development seeing real terms increases in spending power. Perhaps of biggest significance to local government was not the size of the cuts, which was well heralded, but the front loading of the cuts which was unexpected.

Table 2.1: Headline Figures from 2010 Spending Review

	Baseline			Plans		Cumulative real growth
	2010-11	2011-12	2012-13	2013-14	2014-15	
	£bn	£bn	£bn	£bn	£bn	%
Departmental programme and administration budgets	326.6	326.7	326.9	330.9	328.9	-8.3
Included in the above:						
Education	50.8	51.2	52.1	52.9	53.9	-3.4
NHS	98.7	101.5	104.0	106.9	109.8	1.3
CLG – local government	28.5	26.1	24.4	24.2	22.9	-27.0
Local government, including council tax estimate	51.8	49.8	49.5	49.5	49.1	-14.0

Source: HM Treasury.

Some of the key proposals included within the spending review are set out below.

- There are cuts in real terms of 7.25% for each of the next four years (a total of 27% in cash terms) to funding streams for English councils. This means that authorities' budgets will shrink by an average of 14% once council tax is taken into account. There will also be a reduction in the number of specific grants from over 90 to less than ten, leaving just public health, schools, fire, policing and a handful of others.
- £650m in annual funding has been awarded to cover a four-year council tax freeze from 2011-12. CLG will give those authorities that agree to freeze or reduce council tax in 2011-12 a grant equivalent to a 2.5% increase in their 2010-11 basic amount of council tax, multiplied by the authority's tax base for 2011-12. In the three subsequent years,

the government will provide supplementary funding via specific section 31 grants to compensate them for the council tax income that they would forego.

- Sixteen pilots of pooled 'community budgets' (the successor to Total Place) began from April 2011 to bring together government spending that is aimed at families with complex needs. The approach will be rolled out across England from 2013-14. This will require councils to commission some local health, police, criminal justice, education, transport and benefits services, with a view to improving outcomes within their areas.
- English councils will be given direct control over council tax benefit from 2013-14. However, there will also be a 10% reduction in the overall budget for this benefit.
- New powers to introduce tax increment financing have been granted, but there was no other mention of business rates, or how their levying, collection and distribution might be affected by the local government finance review.
- An extra £2bn a year for adult social care, which will be merged into local government formula grant, together with £6bn for Supporting People, has been made available. However, many authorities may still need to reduce their commitments in this area in order to balance their books. Over four years funding will be lower in cash terms than previous years.
- Extending personalised budgets to children with disabilities or special educational needs is envisaged, as well as to people with long-term health conditions and users of adult social care services.

COUNCIL TAX AND CAPPING

The spending review determines the total level of grant to local authorities for the spending review period. Local authorities also fund their spending by raising council tax.

Although the Labour government abandoned universal capping of local authorities' budgets in 1999, it took new reserve powers to enable the secretary of state:

- to regulate increases in the council tax
- to adopt such criteria as he or she thinks fit, but to focus on increases in local authorities' budget requirements – with powers to look at changes in budgets over a number of years
- to apply different criteria to different categories of local authority, or indeed different authorities.

So despite the abolition of universal capping, capping did not go away. Indeed, since 2004, the capping of local authority budgets has once again been a regular feature of English local government finance. By way of note, no Welsh local authority has ever been capped.

Under new proposals in the *Localism Bill*, capping will be replaced by a requirement to hold local referenda for increases above a certain level. However, because these referenda will take place after council tax bills have been issued and with outcomes that will be by no means certain, it is likely that few authorities will want to risk setting council tax increases that trigger a referendum and may lead to a new budget and re-billing costs.

WALES 2011-12 TO 2013-14

The final revenue and capital settlements for the 22 unitary authorities in Wales for 2011-12 were announced on 2 February 2011.

For 2011-12, before accounting for transfers, local authorities in Wales received a reduction of 1.4% on the previous year's revenue settlement. This was broadly unchanged from the provisional settlement announcement on 23 November 2010.

The final settlement confirmed the inclusion of a floor mechanism to ensure that no authority would have its grant reduced by more than 1.7%.

Included in the final settlement were a further two specific grants in line with the Welsh Government's commitment to reduce the amount of hypothecated funding provided outside the Revenue Support Grant. These were the Performance Management Development Fund (£3m) and Implementation of the Strategy for Older People (£1m).

The settlement also included a slightly revised £10.117m for the implementation of the social care First Steps Improvement package.

In addition Welsh authorities received over £600m in specific grants. Included within this are major grants for areas such as Foundation Phase (for early years education) and Supporting People.

CONSULTATION ON LOCAL GOVERNMENT FINANCE

Between 1975 and 1996, the main forum for discussion between central and local government was the Consultative Council on Local Government Finance. This provided regular consultation and co-operation between central and local government on major financial and economic issues of common concern, with special emphasis on the deployment of resources in both the long term and the short term.

Since the 1997 general election, this discussion has taken place within the Central/Local Partnership (CLP) and the Finance Sub-Group of the CLP.

The CLP is usually chaired by the secretary of state for communities and local government. The sub-group is usually chaired by the minister for local government.

The members of the sub-group are drawn from:

- secretaries of state and ministers from government departments with interests in local government services – such as the Treasury, the Department for Education, the Department of Health, the Home Office and the Department for Business, Innovation and Skills
- councillors representing the Local Government Association (LGA).

Members of the sub-group are supported by civil servants and local government officers.

Discussion centres on:

- the level of local government spending
- the level and distribution of central government support
- policy initiatives on local government finance.

Meetings between the officer representatives of local government and civil servants take place in working groups, such as the Settlement Working Group.

2007 saw a sea change in how central/local relations are governed, with the signing of a Central–Local Concordat on 12 December 2007. The

Concordat is between the government and the LGA and established a framework of principles for how central and local government work together to serve the public.

The Concordat lists the following reciprocal rights and responsibilities.

- Central government has the **right** to set national policies, including minimum standards of services and, as a last resort, to intervene to avoid significant underperformance.
- Central government has the **responsibility** to consult and collaborate with councils in exercising these rights. It undertakes to reduce the burden of appraisal and approval regimes, the ringfencing of funds for specific purposes and the volume of guidance it issues.
- Councils have the **right** to address the priorities of their communities and shape their future without unnecessary direction or control.
- Councils have the **responsibility** to provide leadership that is accountable, visible and responsive to their communities and to work in partnership with the local statutory, business and third sectors and, collectively, to drive continuing improvement.
- Both partners have the **responsibility** to use taxpayers' money well and to engage and empower communities and individual citizens.

LOCAL GOVERNMENT RESOURCE REVIEW

In July 2011 the government published its proposals for the return of non-domestic rates to local government in the consultation paper *Local Government Resource Review: Proposals for Business Rates Retention*. The proposals include a system of 'top-ups' and 'tariffs' that will redistribute business rates between local authorities. The level of the top-up and tariff will be set for a period of time, allowing local authorities to benefit from business rate growth in their areas.

At the time of writing detailed proposals on how the arrangements would work had still to be published, but it is clear that the proposals represent a major change in the way local authorities are funded and may be an important first step towards greater local authority control of resources.

CHAPTER THREE

Revenue Expenditure and Funding

OVERVIEW

Overall total service expenditure by local authorities in England has been budgeted to fall by 5.7% in 2011-12 to just over £99.5bn. This is the first fall in spending since council tax was introduced in the early 1990s. Spending levels for 2011-12 have reduced to near 2008-09 spending levels, equivalent to spending £1,921 per person.

Some areas have had their spending reduced more significantly than others. Planning (32.1%), highways (20.7%) and housing (14.9%) have taken the hardest hits to their budgets compared to 2010-11, while social care spending will rise slightly (by 1.6%).

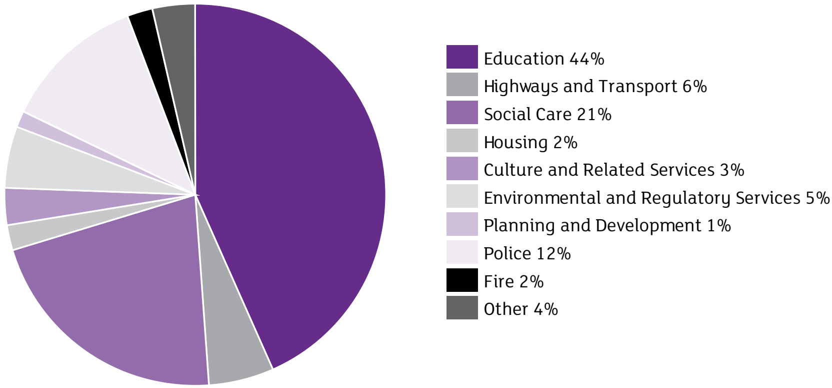
The figures also show regional variation in spending by local authorities. Local authorities in the North West (-7.8%), North East (-6.9%) and South West (-7.0%) are reducing their spending the most, while councils in the South East (excluding London) are reducing theirs the least (-3.2%).

ENGLISH LOCAL AUTHORITIES

In 2011-12, local authority total service expenditure in England was budgeted to be £99.5bn. GRAPH 3.1 shows how this is split across services.

It can be seen from the graph that education is still the biggest service by a long way, accounting for 44% of spending. Social care accounts for a further 21% and police 12%.

Graph 3.1: Local Government Net Current Expenditure England Budget 2011-12



Source: CIPFA Finance and General Statistics 2011-12.

Once the £99.5bn total expenditure is adjusted for other items such as housing benefit, council tax benefit, interest receipts, capital financing costs, specific grants and transfers from reserves, it leaves a final budget to be funded of £56bn.

The three main sources of income for local government in England are government grants, council tax and redistributed business rates. The £56bn was funded from these in 2011-12 as follows:

- £10.5bn (19%) – government grants (including Police Grant)
- £26.5bn (47%) – council tax
- £19.0bn (34%) – redistributed national non-domestic rates (NNDR).

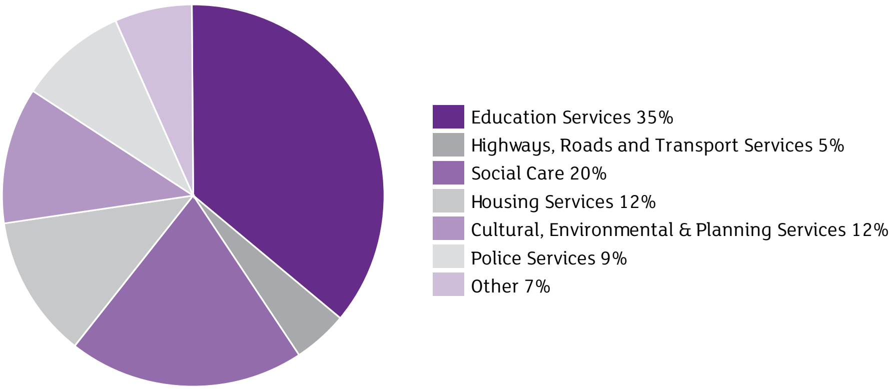
Councils also receive income from sales, fees and charges and council rents. Rents, however, are held separate from general fund services. Council housing finance is covered in chapter ten of this guide.

WELSH LOCAL AUTHORITIES

For 2010-11 local authority total service expenditure in Wales was budgeted to be £7.2bn.

GRAPH 3.2 shows that education is again the biggest service by a long way, accounting for 35% of spending. Social care accounts for a further 20%, police 9% and cultural, environmental and planning services 12%.

Graph 3.2: Local Government Net Current Expenditure Wales 2010-11



Source: CIPFA Finance and General Statistics.

Once the £7.2bn total expenditure is adjusted for other items such as housing benefit, council tax benefit, interest receipts, capital financing costs, specific grants and transfers from reserves, it leaves a final budget to be funded of £5.7bn.

The three main sources of income for local government in Wales are government grants, council tax and redistributed business rates. The £5.7bn was funded from these in 2010-11 as follows:

- £3.5bn (61%) – government grants (including Police Grant)
- £1.3bn (23%) – council tax
- £0.9bn (16%) – redistributed national non-domestic rates (NNDR).

RATIONALE BEHIND CENTRAL FUNDING OF LOCAL SERVICES

Central government funds part of local government spending for a number of reasons, including:

- to support local government services, such as education, which are important to the nation as a whole
- to enable local authorities to provide a similar range and level of service at broadly the same cost to local taxpayers across the whole country
- to provide a subsidy to local taxpayers
- to influence, or control, local government spending on some services
- to encourage local authorities to implement central government's policy initiatives
- to act as a pump primer for development works
- to redistribute resources from one part of the country to another.

CENTRAL GOVERNMENT GRANTS

Government supports local authorities' revenue expenditure through formula grant, Area Based Grant and specific grants.

The annual local government finance settlement is concerned with the distribution of formula grant, which is made up of Revenue Support Grant, redistributed business rates and principal formula Police Grant. There are no restrictions on what local government can spend formula grant on.

Under the proposals announced by the government for non-domestic rates, local authorities other than police and fire authorities will no longer be funded by general grant but will receive funding directly via non-domestic rates under a system of top-ups and tariffs. The proposals are set out in the consultation paper *Local Government Resource Review: Proposals for Business Rates Retention*, published in July 2011.

FOUR-BLOCK GRANT SYSTEM

A four-block cash grant system was introduced in England from 2006-07. This relates to the main general grant received by local authorities.

The four-block system is made up of the following elements:

- relative needs block
- relative resources block
- central allocation
- floor damping amounts.

RELATIVE NEEDS FORMULA

The starting point for determining each local authority's relative needs amount is the assessment of its total need.

The assessment of total need is based on relative needs formulae (RNF).

There are seven needs blocks:

- children's services
- personal social services for adults
- police
- fire
- highway maintenance
- environmental, protective and cultural services
- capital financing – debt charges.

Some of these are further split into sub-blocks.

The determination of need is quite complex, with each block based on mathematical formulae that include information on the demographic and socioeconomic characteristics of each authority. Generally, the formulae follow a similar pattern and include:

- the number of clients, such as the population, number of children, number of older people, etc
- a flat rate amount per client
- top-ups to reflect socioeconomic factors
- an area cost adjustment to take account of differences in labour and property costs between different areas.

Relative needs formulae are designed to reflect the relative needs of individual authorities in providing services. They are not intended to measure the actual amount needed by any authority to provide local services, but to simply recognise the various factors that affect council costs locally.

They do not relate to the actual monetary amount of grant that a council needs for providing services for its residents.

The amount of grant a council will receive from government depends not only on its needs assessment but also on the results of the other blocks described below.

Because the RNFs are only intended to reflect the relative differences in the cost of providing services in different areas, they are expressed as a proportion – or ratio – of the total relative needs.

RELATIVE RESOURCE AMOUNT

In the same way that the relative needs amount takes account of differences in need, the relative resource amount takes account of differences in resources between areas, ie differences in tax base per head of population. The greater an authority's taxbase, the more income it can raise from a standard increase in band D council tax.

The relative resource amount is a negative figure. In calculating grant, it is balanced against the positive relative needs amount determined for each authority.

CENTRAL ALLOCATION

The central allocation is allocated to authorities on the basis of a standard amount per head of population. The amount per head is dependent on the services that the authority provides.

FLOOR DAMPING BLOCK

The floor damping block ensures that a lower limit is set for any individual local authority's change in grant year on year.

Previously this has acted to provide a minimum grant increase for each authority. However, in future, with the tight squeeze on spending, it may literally act to limit the decrease in grant suffered by an authority.

It is important to note that floors are self-financing. To achieve this, grant changes above the floor are scaled back. The amount of grant scaled back is then used to pay for the floor guarantee.

Separate floor levels are set for four groups of authorities:

- authorities with education and social services responsibilities
- separate police authorities
- separate fire authorities
- shire districts.

These groups are treated separately because each group receives a different overall change in grant, and the government believes it would be wrong for groups of authorities with radically different responsibilities to cross-subsidise each other.

From 2011-12, for social services authorities and shire districts rather than a single damping floor there are four bands, with authorities grouped according to how dependent they are on formula grant.

OTHER CENTRAL GOVERNMENT GRANTS

As commented above, specific grants are distributed outside the main settlement. The new coalition government moved to reduce the allocation by £1.165bn in June 2010 and make this money available to formula grant.

Some specific grants, known as **ringfenced grants,** control council spending. These usually fund particular services or initiatives that are a national priority. For example, funding for schools is paid through the Dedicated Schools Grant, reflecting the priority the previous government placed on education.

Other specific grants are **unringfenced** and are sometimes called **targeted grants**. There are no restrictions on what councils can spend the money on. They are distributed outside of the annual settlement, because the general formulae are not appropriate.

BUSINESS RATES

Business rates – also called national non-domestic rates (NNDR) – were nationalised in 1990. Since then they have been centrally determined, although councils collect them on behalf of central government.

Councils pay them into a central account. They are then redistributed back to councils as part of formula grant. Prior to 2006-07, the redistribution was done on a per-head basis. However, since the transfer of schools funding to specific grant, business rates have been required for equalisation. They are, therefore, distributed with, and on the same basis as, Revenue Support Grant.

Consequently there is no link between the business rates collected in a local area and those actually received by the local authority.

Under new proposals announced by the government, business rates will be retained by local government with a top-up and tariff mechanism to redistribute rates between individual authorities. The details of how this will operate have not yet been announced.

COUNCIL TAX

Council tax makes up the difference between a council's planned budget and its central funding.

The government has powers to cap increases it deems excessive. While authorities have been subject to capping in previous years, no authority was capped in 2011-12. In 2011-12, the government introduced a grant for those authorities that froze their council tax. The grant provided funding equivalent to a council tax rise of 2.5%. All local authorities took advantage of the grant.

In future years capping will be replaced by the need to hold a referendum if an authority wants to set a council tax above a certain pre-announced level. The referendum will be held after council tax bills have been sent out, leaving an authority liable for re-billing costs should it be unsuccessful in the referendum.

Council tax is currently the only local tax left to authorities. Therefore, any increase in spending not wholly funded by central grant has a disproportionate effect on council tax – known as gearing. This is because all additional expenditure above that assumed in the grant calculations falls wholly on council tax.

Prior to the transfer of schools funding to specific grant, council tax accounted for only one-quarter of total income from Revenue Support Grant, business rates and council tax. So, a 4% increase in council tax was needed to achieve a 1% increase in total local spending.

Since the transfer of schools funding, the gearing effect has been reduced and council tax is closer to half of total income – so a 2% increase in council tax is needed to achieve a 1% increase in total local spending.

Council tax is set by billing authorities: London boroughs, metropolitan districts, unitary authorities, non-metropolitan districts and the City of London Corporation.

Each billing authority adds its own tax requirement to the amounts required by major precepting authorities, ie county councils, police authorities and joint authorities. Precepting authorities must issue precepts before 1 March and billing authorities must set the council tax by 11 March for the financial year starting on 1 April.

The billing authority translates the required tax yield into the tax rate for a band D property, as the convention is to quote the rate for band D.

Other bands are calculated on the weightings shown in **TABLE 3.1**. For example, properties in band A pay two-thirds of the tax levied on band D properties, and those in band H pay twice the tax levied on band D.

Table 3.1: Council Tax Bands for England to Date and Wales to 1 April 2005

Band	Value England	Value Wales	Relative weighting of bands
	£	£	
A	up to 40,000	up to 30,000	6
B	40,001 – 52,000	30,001 – 39,000	7
C	52,001 – 68,000	39,001 – 51,000	8
D	68,001 – 88,000	51,001 – 66,000	9
E	88,001 – 120,000	66,001 – 90,000	11
F	120,001 – 160,000	90,001 – 120,000	13
G	160,001 – 320,000	120,001 – 240,000	15
H	over 320,000	over 240,000	18

Properties have not been revalued in England since the council tax system came into operation in 1993 – so they are based on property values two years earlier, in 1991.

The revaluation of domestic properties in Wales did go ahead and came into effect on 1 April 2005. Wales added one new band. The new bands are shown in TABLE 3.2.

The next revaluation and rebanding exercise in Wales is scheduled to start in 2013.

Table 3.2: Council Tax Bands – Wales 1993 and 2005

Band	Property values 1993 valuation list	Property values 2005 valuation list
A	Up to £30,000	Up to £44,000
B	£30,001 to £39,000	£44,001 to £65,000
C	£39,001 to £51,000	£65,001 to £91,000
D	£51,001 to £66,000	£91,001 to £123,000
E	£66,001 to £90,000	£123,001 to £162,000
F	£90,001 to £120,000	£162,001 to £223,000
G	£120,001 to £240,000	£223,001 to £324,000
H	£240,001 and above	£324,001 to £424,000
I	N/A	£424,001 and above

FEES AND CHARGES

The Audit Commission carried out research in 2007 investigating the approaches councils take to charging for local services. The study resulted in the publication in January 2008 of a national report, *Positively Charged: Maximising the Benefits of Local Public Service Charges.*

The report concluded that although charging provided £11bn a year to local government funds, it received far less attention than it deserved.

Most councils believed that they did not use charging to its full potential. The report discussed how councils could improve their approach and communicate better with councillors and the public about the purposes of charging.

The £11bn received from charging was equal to 8% of total local authority income or £210 per head of population – a not inconsiderable sum. It was also half as much as authorities had raised in council tax.

Other key findings included the following.

- County councils collected the most charging income.
- For district councils, charges equalled nearly one-fifth of total service expenditure.

- Over a quarter of councils generated more income through charging than they did through council tax.
- Half of all income raised through charges came from:
  - education services, such as school meals and transport
  - social services, such as homecare
  - highways and transport services, such as parking.

The report listed the following questions, which could be used by councillors to examine their own council's approach to charging and to identify opportunities to maximise the benefits of local public service charges.

- What do we want to achieve?
- What objectives are we supporting with charges?
- How much income are we trying to generate, and why?
- Whose use of services do we want to subsidise and by how much?
- Whose behaviour are we hoping to influence and in what ways?
- How will charges help improve value for money, equity and access to services?
- How do these objectives relate to other council objectives?
- What principles should underpin our approach to charging?
- What's the current picture?
- What targets have been set for charges and what assumptions are these based on?
- How do charges compare to those of:
  - neighbouring councils?
  - other service providers?
- How are charges structured, and why?

IMPACT OF RECENT ECONOMIC DOWNTURN

The economic downturn resulted in a number of reports of local authorities anticipating lower than expected levels of income.

In December 2008, the LGA undertook a survey of finance directors to establish the impact; 52 authorities provided replies, of which 38 were district councils. The LGA published its findings in January 2009.

In general, smaller authorities, particularly districts, were more dependent on fees, charges and interest income. The 38 district councils budgeted to raise £245m from fees and charges in 2008-09, 90% of the £272m they anticipated generating from council tax.

The slowdown had not affected all income budgets:

- Adult social care income had remained steady and income from other social services budgets had risen.
- Income from recycling charges had also largely remained stable in the year and was projected to rise gently into 2009-10.
- Property-based activities had been badly affected. Councils estimated income from property searches, planning applications and building control applications had fallen by 45%, 17% and 13% respectively.
- Leisure income had also been affected, with authorities projecting an average 5.5% fall in receipts.
- Car park income was projected to fall by 4.9%.

One of the most substantial budget impacts was on councils' ability to generate resources from land sales. The originally anticipated £211m of capital receipts had been reduced to £93m for 2008-09 and £70m for 2009-10.

In October 2009, the LGA published the findings from its 2009 update. Seventy-four percent of respondents reported that due to the downturn their authority had revised its overall budget position over the previous six months.

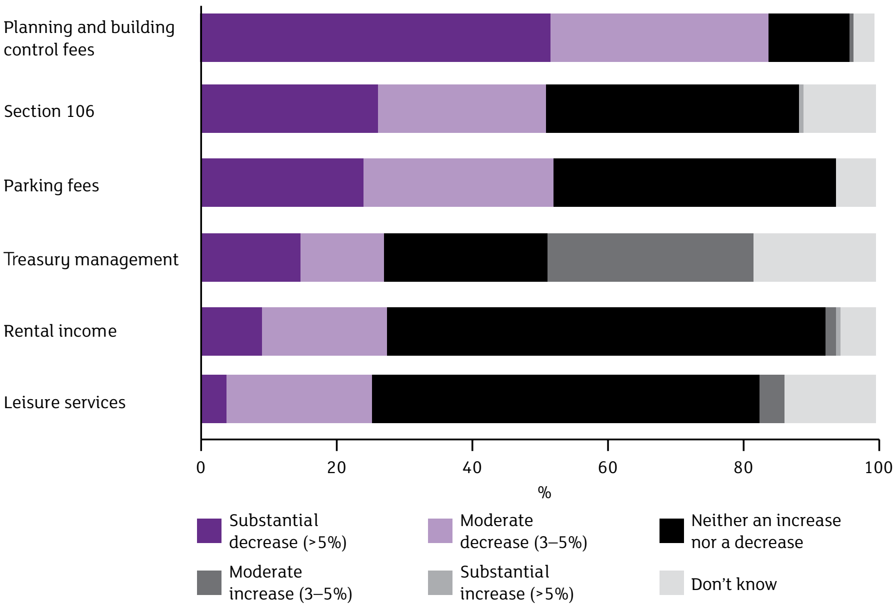
The main reasons for this were the loss of expected income from fees and charges, a reduction in interest receipts and increased demand for services.

In December 2008, the Audit Commission published *Crunch Time? The Impact of the Economic Downturn on Local Government Finances*. This was a wide-ranging report, one section of which looked at the impact on income from fees and charges.

Chief finance officers were asked to identify how income from a number of sources was affected as a consequence of economic change. The largest concern reported by councils was the reduced income from planning fees, with almost half reporting substantial falls.

GRAPH 3.3 is reproduced from the Audit Commission's report and shows the proportion of councils reporting changes in income for 2008-09.

Graph 3.3: Proportion of Councils Reporting Changes in Income 2008-09



Other findings in the report included the following.

- The slump in the property market had both depressed the value of land and property and reduced the level of activity – over 80% of authorities reported falls in development activity in 2008-09.
- Average income from planning fees in the first six months of 2008-09 fell by £12,000 (4%) per authority.
- Income from land charges, usually paid as part of a house purchase, had also been falling due to the downturn in housing market activity.

- 52% of authorities had measured a reduction in income from car parking fees of 3% or more, with 24% stating that they had seen a decrease of 5% or more. One authority reported that income from parking fees was down by 15%, and another had seen a fall of 5% with a loss in income of £200,000.

In March 2010, the Audit Commission published *Surviving the Crunch: Local Finances in the Recession and Beyond*, which updated its 2008 report on how authorities were affected by the recession.

It reported that some councils – often districts – had been hit hard by falling local income.

- Development-related income had reduced; planning applications were down by 22%.
- Investment income fell by £544m (43%) in 2008-09, mainly due to lower interest rates and more cautious investment strategies following the Icelandic banks collapse. The fall would be greater in 2009-10 as medium-term investments at higher rates came to an end.
- Councils reported ongoing falls in car parking income and commercial rents.
- Capital receipts were down, from over £3.5bn in 2007 to just £800m in the first three quarters of 2009.
- Some districts that relied heavily on local income were struggling. Income from sales, fees and charges was £11bn, 11% of total income in 2008-09.

Some income, including planning fees, car parking and commercial rents, fell below budget during 2008-09. Lower budgets were set for 2009-10, which would see a full-year effect of the reductions. Few councils expected improvements in 2010-11.

LOCAL GOVERNMENT FINANCE REVIEWS

It cannot be denied that there has been a sea change in local government's capacity to raise its own resources. There was a time when local service provision was almost entirely financed from the rates, with small central grants to cover part of the costs of some major services. Over 90% of council income was locally determined.

This enviable position reversed significantly in the 20th century. There has been a major shift in the balance of funding raised from local as compared with national sources. Furthermore, provisions were introduced to cap rates and council tax, leaving councils with little or no room for manoeuvre.

Not surprisingly, there were increasing calls from local government to address the *balance of funding* issue, which it was argued undermined local authority accountability and gave rise to the gearing problem – the percentage rise in an authority's council tax required to fund a 1% increase in spending.

However, governments have been wary of interfering. The Labour government carried on the tradition of caution with one review after another.

The Labour Party's manifesto for the 1997 general election committed it to:

- review the operation of the grant system
- consider returning the business rate to local control – subject to the views of the business community
- abolish crude and universal capping – but retain reserve capping powers.

Shortly after the May 1997 general election, the government announced that it would review the entire system of local government finance in England. In the event, this generated three major reviews:

- the 1998–2002 review, closely followed by
- the 2003–2004 Balance of Funding Review, even more closely followed by
- the 2004–2007 Lyons Inquiry.

Despite moves to change the capping regime, capital finance and formula grant distribution, the Labour government did nothing to reduce central government's power in local finance, spending or local taxation.

The Lyons Inquiry was due to report by the end of 2005, but had its remit and deadline extended twice before it finally reported in March 2007. Many saw this as a reluctance on the part of the government to face the potential controversy that changes to council tax and business rates might evoke. This would not have been surprising as memories of the catastrophic poll tax reform and the 1974-75 crisis in local authority finance were still very much alive.

Overall, there were some positive messages in the Lyons report, albeit they did not address the central issue of the balance of funding. The report did acknowledge the importance of the democratic legitimacy of local authorities and again emphasised their place-shaping role. In particular, it accepted that local authorities were the obvious choice to assume a leadership role across sectors at a local level.

However, there was still a lack of firm proposals to address the balance of funding.

The Lyons Inquiry's final report was published in May 2007. It advocated a developmental approach to reform, with short-term reforms paving the way for more radical change.

- In the short term, there would be no return of business rates to local control and no local income tax, although it was recommended that authorities should have the power to levy a local supplementary rate. Many commentators saw this as offering the most potential of all the financial proposals.
- It was further recommended that specific grants and soft controls should be reduced, to give authorities more flexibility over existing funding. This was interesting, given that the most significant specific grant, the Dedicated Schools Grant, had only been introduced in 2006-07.
- There was a call to end capping, but Phil Woolas, the Local Government Minister, moved to reject this proposal within 24 hours of the report being published. He also rejected the call for additional council tax bands, regular revaluations of domestic properties, and giving local authorities the power to levy a tourist tax.
- The government did accept most of the proposals for reforming council tax benefit and empty property relief.

A recommendation that disappointingly seemed to receive little media coverage was the challenge posed in the report to concerns over *postcode* *lotteries* and the concept of moving to a position where *managed difference* at local authority level was openly accepted.

Upon entering government the coalition commenced a further Local Government Resource Review which was to be a desk-based exercise, taking the findings of the previous extensive reviews, and looking at what it would be practical to implement. This has led to the 2011 proposals for the relocalisation of business rates. The detailed technical workings of these proposals were still awaited at the time of writing. What is clear, however, is that the proposals only represent a partial relocalisation with rates and most discounts set nationally and a redistribution mechanism that still provides the government with the levers to alter distribution across the country.

CHAPTER FOUR

Capital Expenditure and Funding

INTRODUCTION

Capital expenditure is defined in International Accounting Standard 16 *Property, Plant and Equipment* which states that costs associated with property, plant and equipment shall only be capitalised if it is probable that there are future economic benefits or service potential associated with them and that the costs can be reliably measured. Typically capital expenditure is expenditure on the acquisition, creation or enhancement of assets which will last longer than one year.

Capital spending by local authorities is mainly for buying, constructing or improving physical assets such as:

- buildings – schools, houses, libraries, museums, police and fire stations, etc
- land – for development, roads, playing fields, etc
- vehicles, plant and machinery – including street lighting, road signs, etc.

It also includes grants and advances made to the private sector or the rest of the public sector for capital purposes, such as advances to housing associations.

The secretary of state at his discretion can also allow certain revenue costs to be treated as capital costs. This process, known as a capitalisation direction, is subject to an annual application process and is typically used for items such as redundancy costs and single status costs.

SPENDING LEVELS

Gross capital expenditure for England and Wales was over £22bn in 2009-10, 47% higher in cash terms than for 2004-05.

TABLE 4.1 shows the increase in gross capital expenditure, by service, for England for the period 2004-05 to 2009-10 and TABLE 4.2 shows the increase for Wales.

The figures for England show an overall increase across the period 2004-05 to 2009-10 of 50%, considerably higher than the increase of 8% in Wales.

The figures also show that in England:

- all service areas saw increases in capital expenditure
- the largest increases in money terms were for education and highways and transport.

Table 4.1: Local Authority Gross Capital Expenditure England 2004-05 and 2009-10

England	2004-05	2009-10	Increase
	£m	£m	%
Education	3,087	5,392	75%
Highways and transport	2,905	5,851	101%
Housing	3,987	4,514	13%
Social services	284	288	1%
Other	4,013	5,317	32%
Total England	**14,276**	**21,362**	**50%**

In Wales:

- apart from housing which saw a reduction, all areas saw an increase comparing 2009-10 to 2004-05
- the largest increase in money terms was in education
- the largest increases in percentage terms were in education and social services.

Table 4.2: Local Authority Gross Capital Expenditure Wales 2004-05 and 2009-10

Wales	2004-05	2009-10	Increase
	£m	£m	%
Education	144	214	49%
Highways and transport	141	146	3%
Housing	242	217	-10%
Social services	17	25	51%
Other	316	325	3%
Total Wales	**860**	**928**	**8%**

FUTURE SPENDING PLANS

The spending review in October 2010 had some key elements in relation to capital expenditure.

- Local capital expenditure will be reduced by 29% by 2014-15, made up of 40-45% reductions in capital departmental expenditure limits and 17% reductions in self-financed funding.
- Some key local transport schemes were protected, in line with the government's commitment to support economic growth and tackle climate change.
- £200m of capitalisation was made available in 2011-12 to support service rationalisation and restructuring (this was subsequently increased to £300m).
- No cap was placed on local prudential borrowing; however, Public Works Loan Board (PWLB) rates were increased to 1% above gilts for new loans to better reflect the availability of capital funding.

PRUDENTIAL FRAMEWORK

The prudential system, as set out in the *Prudential Code for Capital Finance in Local Authorities* (second edition, CIPFA, 2009), which was effective from April 2004, provides the framework for local authority capital investment.

In setting its capital plans, each local authority must have regard to:

- the local authority's service objectives – the capital spending plans should be consistent with the local authority's strategic plan
- the stewardship of the local authority's assets – as demonstrated by the local authority's asset management planning
- the value for money offered by the plans – as demonstrated by the appraisal of the options considered by the local authority
- the prudence and sustainability of its plans – eg their implications for external borrowing
- the affordability of its plans – eg the implications for the council tax
- the practicality of the capital expenditure plan – eg whether the forward plan is achievable.

A series of prudential indicators, which are set locally, are used for local authorities to demonstrate compliance with the *Prudential Code*. They include the following.

In assessing the **affordability** of their capital expenditure plans, local authorities need to consider:

- for the three-year period:
  - the estimates of the ratio of the capital financing costs to the authority's net revenue stream
  - the estimates of the incremental impact of the capital investment decisions on the council tax for three years, or longer if required, to capture the full-year effect of capital investment decisions
- after the year-end:
  - the actual ratio of the capital financing costs to the authority's net revenue stream.

Local authorities should also consider:

- the estimates of capital expenditure
- the estimates of the capital financing requirement
- the limit for external debt authorised by the authority
- the operational boundary for external debt.

In assessing the **prudence** of its plans, each local authority should:

- consider the affordability of its plans
- ensure that over the medium term the council's net borrowing is only for a capital purpose
- ensure that its treasury management:
  - complies with the CIPFA *Treasury Management in the Public Services: Code of Practice*
  - sets upper limits for fixed interest rate and variable interest rate exposures
  - sets upper and lower limits for maturity structure of borrowings
  - sets an upper limit on the level of investments for longer than 364 days.

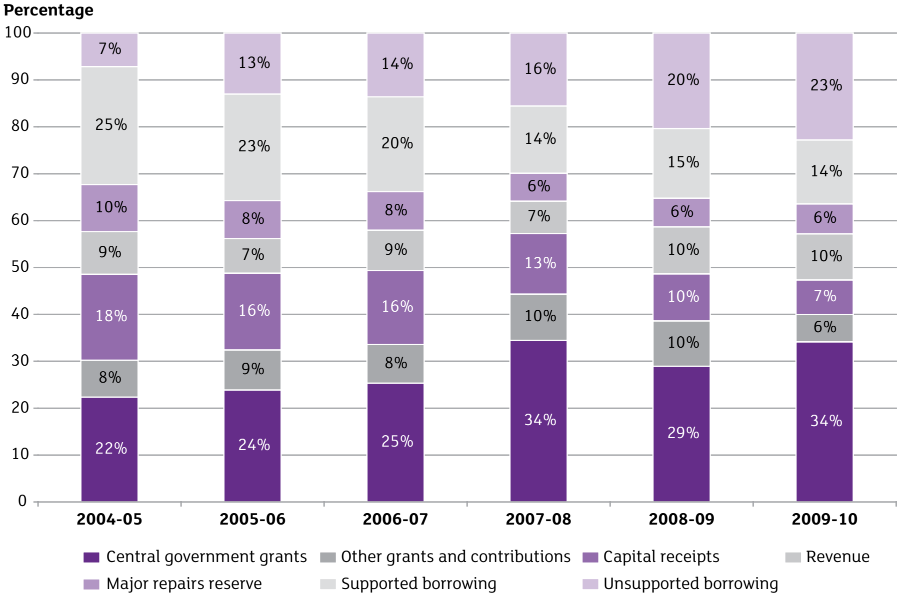
FINANCING OF CAPITAL EXPENDITURE

Authorities finance capital spending in a number of ways including the use of their own revenue funds, capital receipts, borrowing, grants and contributions.

Borrowing was traditionally the most important source of financing for local authority capital expenditure and, in percentage terms, credit in various forms including borrowing is still the biggest single source of finance.

GRAPH 4.1 shows the proportion of capital expenditure financed by borrowing and other sources of finance in England and Wales over the period 2004-05 to 2009-10.

Graph 4.1: Financing Local Authority Capital Expenditure in England 2004-05 to 2009-10



Sources: Local Government Finance Statistics 2010, Welsh Local Government Finance Statistics 2010.

The graph shows that the proportion of capital expenditure financed by:

- central government grants has risen since 2004-05 from 22% to 34%
- capital receipts has fallen from 18% in 2004-05 to 7% in 2009-10
- revenue contributions plus the major repairs allowance accounted for almost 16% of the total for 2009-10
- unsupported borrowing has increased gradually from 7% in 2004-05 to 23% in 2009-10
- supported borrowing has reduced from 25% in 2004-05 to 14% in 2009-10.

PRIVATE FINANCE INITIATIVE

Private finance initiative (PFI) schemes were popular in the late 1990s and up to 2010. Their appeal was that the assets and associated liabilities did not appear on local authority balance sheets and hence did not form part of the overall government borrowing.

Under PFI, authorities enter into a contract with a private sector partner or partners to design, build, finance and operate an asset. It involves the provision of land or other assets and services relating to the authority's use of the asset.

- Contracts are typically around 25 years or more in duration.
- Payments are based on performance.
- Government support is provided through ongoing revenue support to finance PFI credits, ie the capital value for which the government will provide support, in the same way that it supports other local government borrowing to fund capital spending.

The fundamental principle is that the risk is transferred from the public sector to the private sector.

The move to financial reporting based on International Financial Reporting Standards (IFRS) meant that PFI and similar schemes were brought onto local authority balance sheets, which has made them less attractive.

CHAPTER FIVE

Audit and Value for Money

EXTERNAL AUDIT – CURRENT ARRANGEMENTS

The Audit Commission is responsible for appointing local authority auditors, from either its own operations directorate or private firms of accountants.

Because of the special accountabilities attached to public money and the conduct of public business, external audit in local government is characterised by three distinct features.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements, but also the financial aspects of corporate governance and aspects of performance management.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The external auditor must satisfy him/herself that:

- the accounts are prepared in accordance with regulations and comply with the requirements of all statutory provisions applicable to the accounts
- proper practices have been observed in the compilation of the accounts
- the body whose accounts are being audited has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

In performing these functions, the auditor has to comply with the *Code of Audit Practice* published and maintained by the Audit Commission. The code specifies in further detail the external auditor's objectives when conducting an independent assessment of an authority.

The *Code of Audit Practice* has to be approved by both Houses of Parliament at five-yearly intervals and auditors have a statutory duty to comply with it. As such, it constitutes secondary legislation, and the way it is drafted and the process for reviewing and revising it reflects this.

Parliament approved the current code on 9 March 2010. In light of the squeeze on public spending and council concerns over the amount and cost of inspection, the Audit Commission's principal aims in developing the current code were:

- to bring about a more streamlined, risk-based approach to audit
- to target areas where auditors had the most to contribute to improvement
- to have a stronger emphasis on value for money and clearer reporting of audit results.

Specifically, the new code requires auditors for the first time to give a positive conclusion on audited bodies' arrangements to secure value for money, by reference to criteria specified by the Audit Commission. This work focuses on the audited body's corporate performance and financial management arrangements.

The *Code of Audit Practice* for local government bodies also outlines how auditors should fulfil statutory functions outlined in the *Audit Commission Act 1998*. These functions are:

- to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts
- to apply to the court for a declaration that an item of account is contrary to law
- to consider whether to issue an advisory notice or to make an application for judicial review.

The results of audit work are communicated in the following reports:

- the audit planning document – this sets out how auditors intend to carry out their responsibilities, in the light of their assessment of risks
- oral/written reports to officers and, where appropriate, members, on specific aspects of auditors' work
- a report to those charged with governance summarising the conclusions of the auditor

- an audit report, including the auditor's opinion on the financial statements and a conclusion about whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources
- a certificate that the audit of the accounts has been completed in accordance with statutory requirements
- an annual audit letter about the key issues that the auditor considers should be brought to the attention of the audited body.

Other reports may be issued at any point during the audit process, where appropriate:

- to consider whether, in the public interest, the auditor should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public
- to make written recommendations that need to be considered and responded to publicly.

The local government code outlines how auditors should fulfil their statutory functions:

- to give electors the opportunity to raise questions about the accounts
- to consider and decide upon objections received in relation to the accounts
- to apply to the court for a declaration that an item of account is contrary to law
- to consider whether to issue an advisory notice and, if appropriate, to issue or to make an application for judicial review.

The external auditor has particular duties in relation to questions of legality, losses due to misconduct and rights of challenge to the accounts. To fulfil these duties, the auditor has access to all documents as appear necessary for the purposes of the audit.

With regard to questions of legality, auditors may decide:

- that the audited body should consider formally, and respond to in public, recommendations made in an audit report

- to issue an advisory notice or to apply to the court for a declaration that an item of account is unlawful, if they have reason to believe that unlawful expenditure has been or is about to be incurred by an audited body
- to apply for judicial review with respect to a decision of an audited body or a failure of an audited body to act, which it is reasonable to believe would have an effect on the accounts of that body.

The issue of the advisory notice gives the external auditor time to seek the courts' opinion on the legality of the proposed decision or course of action.

An authority that receives an advisory notice must consider that notice. If the authority nevertheless wishes to proceed with the decision or course of action, it may **not** do so within the notice period. The authority may only proceed with the decision or course of action if:

- the court decides that the decision/action would be lawful; or
- the auditor does not seek the court's opinion on the legality of the proposed decision or action within the notice period.

The auditor must also consider whether, in the public interest, to make a report on any matter arising in the course of the audit, in order that it may be considered by the body concerned or brought to the attention of the public.

Typical matters which, if of substance, would merit a report in the public interest might include:

- failure to comply with statutory requirements
- deficiencies in general or county funds or in the housing revenue account
- the fact that the auditor's opinion on the statement of accounts has been qualified
- lack of, or weakness in, the arrangements for securing economy, efficiency and effectiveness in the use of resources
- failure to exercise adequate control over the specification or performance of services contracted out

- unnecessary expenditure, or loss of income due to waste, extravagance, inefficient financial administration, poor value for money, mistake or other cause
- failure to properly discharge trustee responsibilities.

Before each audit, the accounts and documents must be available for public inspection for 20 full working days. Any person interested may inspect those accounts and '*all books, deeds, contracts, bills, vouchers and receipts relating to them*' and may make copies.

Any local government elector for any area to which those accounts relate, or any representative of such an elector, may attend before the external auditor and question the auditor about the accounts.

Any local government elector may, on giving prior written notice to the auditor and the authority, also make objections before the auditor as to any alleged illegality, loss due to misconduct, failure to bring into account, or any other matter on which the auditor might report in the public interest.

FUTURE OF LOCAL PUBLIC AUDIT

On 13 August 2010 the secretary of state for communities and local government announced plans to disband the Audit Commission, and refocus audit of local public bodies on helping local people hold those bodies to account for local spending decisions. The aim is to replace the current, centralised audit systems managed by the Audit Commission with a new decentralised regime, while ensuring that there continues to be robust local public audit.

The government published a consultation paper on 30 March 2011, *Future of Local Public Audit*, which set out proposals for a new audit framework where:

- audit quality is regulated within a statutory framework, overseen by the National Audit Office and the accountancy profession
- local public bodies will be free to appoint their own external auditors with stringent safeguards for independence.

The consultation ended on 30 June 2011.

On 2 June 2011, the communities and local government permanent secretary wrote to all local authority chief executives to inform them that the Audit Commission had been requested to start preparatory work to outsource the 70% of local authority work currently provided directly by the Audit Commission for the 2012-13 audits.

INTERNAL AUDIT

A local authority is required to make arrangements for the proper administration of its financial affairs and maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

The CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* defines internal audit as follows:

Internal audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

In the commentary on the definition, the CIPFA code states:

The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the organisation that these arrangements are in place and operating properly.

The purpose, authority and responsibility of internal audit must be formally defined and should establish:

- the responsibilities and objectives of internal audit
- the organisational independence of internal audit
- the accountability, reporting lines and relationships
- specific recognition that internal audit's remit extends to the organisation's entire control environment.

It should also:

- identify internal audit's contribution to the review of the effectiveness of the control environment and its role in any fraud-related or consultancy work
- establish internal audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

CIPFA considers that authorities should have an independent audit committee, the purpose of which is to:

- provide independent assurance of the adequacy of the risk management framework and the associated control environment
- provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment
- oversee the financial reporting process.

The role is different to that of the scrutiny function, whose purpose is to review policy and to challenge whether the executive has made the right decisions to deliver policy goals.

The audit committee will also review the statement on internal control, prior to approval by the organisation, which will include the results of the review of the effectiveness of the system of internal audit.

The head of internal audit should have a right of direct access to the audit committee.

CHAPTER SIX

Scrutiny and Reporting

CONTEXT

Information is more readily available now than ever before and the ways in which we access it have also changed significantly, given developments in such areas as real-time news reporting, the internet, mobile phones, mobile broadband and instant messaging. As a result, local authorities face increased expectations from residents and taxpayers.

THE SCRUTINY ROLE

New political management structures were introduced in the *Local Government Act 2000*. These provided for a separate executive and envisaged that backbench councillors would scrutinise the executive's policies and performance.

Close and detailed scrutiny of the executive's activities would be vital to ensure the proper running of the authority under the new political structures.

The 2000 Act requires local authorities to set up overview and scrutiny committees to hold the executive to account – and makes it clear that members of the executive would not be allowed to sit on an overview and scrutiny committee.

The Act enables overview and scrutiny committees to:

- require council officers and members of the executive to appear before them
- invite others to appear before them
- produce reports and recommendations for the executive or the authority on any aspect of council business or on other matters which affect the authority's area or its inhabitants.

The Act makes it clear that executives and executive committees need not reflect the political balance of the authority.

ANNUAL REPORTS

Local authority annual reports combine narrative, financial and statistical information, to integrate the total management and financial reporting of the authority.

Their purpose is to account for the resource costs of implementing the policies of the authority and to measure, as far as is practicable, its performance and efficiency.

A comparison should be made between what was achieved during the year, the original plans for the year and what was achieved in the previous year.

The form in which the annual report is published is left to the discretion of the authority. In practice annual reports range from large glossy books to relatively simple statements. Some authorities supplement their reports with newspaper-style publications for wide distribution, sometimes to every household in their area.

NARRATIVE REPORTING

Financial statements in all sectors are difficult to interpret, and becoming more so. Narrative explanations and commentary are increasingly needed to make sense of financial statements and, particularly for non-profit organisations, to help demonstrate the extent to which the objectives of the reporting entity have been achieved. Public sector and non-profit bodies have increasingly been required to provide additional explanations to enhance accountability.

In 2009, CIPFA published *Narrative Reporting: A Public Services Perspective.* The report provides a guide to narrative reporting in theory and in practice, applied to public services in England, Wales, Scotland and Northern Ireland. The report covers national and international concerns of large government departments as well as the more personal and local focus of social housing providers.

The report follows up previous CIPFA work on the applicability of the operating and financial review guidance to the public benefit sector.

It acknowledges that there is a great deal of interest in improving reporting, in both the public and the private sector, in part reflecting the financial crisis and concerns over the integrity of political appointees.

An increased premium is being placed on reporting that is open and honest, clear and understandable, and sufficiently relevant to stakeholders to be interesting and worth reading.

REMUNERATION OF SENIOR OFFICIALS

In March 2009, the previous government published a consultation to seek views on improving transparency in reporting the remuneration of senior officers in some public bodies.

A majority of respondents felt that the move to make disclosure on the remuneration for senior officers, comparable to what is already required of the civil service and private listed companies, was reasonable and in line with the broader move towards improved transparency.

Since 31 March 2010, authorities have been required to include in their annual statement of accounts detailed remuneration information for their senior employees.

THE TRANSPARENCY AGENDA AND OPEN PUBLIC SERVICES WHITE PAPER

The coalition on coming into government announced a requirement for all local authorities to publish details of all expenditure above £500, to encourage 'armchair auditors'. It has followed up on this requirement with an *Open Public Services White Paper* published in July 2011.

The *Open Public Services White Paper* outlines how the government expects public services to be accountable to people and communities. It suggests this will be done in two ways: firstly, through democratic structures and involvement and, secondly, through consumer 'power' (people voting with their feet). Specifically it proposes:

- aggregating consumer feedback – using new technology to introduce feedback mechanisms
- strengthening local councillors' powers of scrutiny and overview, and giving them new powers to scrutinise providers in the NHS

- developing local TV which is intended to boost democratic engagement and accountability
- new democratic structures such as health and well-being boards, directly elected police and crime commissioners (this is included in the *Police Reform and Social Responsibility Bill*), elected mayors in more large cities, and local referenda on local issues (included in the *Localism Bill*)
- publishing more data on service outcomes, performance and user feedback.

The government suggests in the *Open Public Services White Paper* that its agenda around open government and open data will both help citizens hold service providers and government to account, and stimulate competition among providers.

The White Paper proposes that data on public service user satisfaction and performance should be published, that GPs should publish more data about clinical practice, and that parents should be informed about how the school their children attend spends money.

It also announced that new data on schools, apprenticeships, health outcomes and health practices will be published.

The White Paper does not specify how far private companies and voluntary and community sector (VCS) organisations should be required to publish data on performance and spending, but says that the government is looking further into this.

CHAPTER SEVEN
Partnership Working

TOTAL PLACE

Total Place: A Whole Area Approach to Public Services, published by HM Treasury and CLG in March 2010, set out a new direction for local public services, including significant new freedoms from central control.

It was based on extensive work over 2009 by 63 local authorities, 34 primary care trusts, 13 police authorities and other partners, with more than 70 other local areas engaged in similar work. Together the pilots had a population of more than 11 million people. They mapped more than £82bn of public spending in their areas.

Budget 2010 announced that high performing local authorities with a strong track record would be encouraged to negotiate with central government for more far-reaching freedoms under a *single offer* that would redesign their relationship with Whitehall.

Single offer areas would be expected to agree significant savings targets each year over and above those required for all local authorities and other public sector organisations. They would be able to retain a share of these savings.

Other areas, strong in delivery of a particular policy area, would be able to reach agreement for freedoms through thematic devolved responsibility under an *innovative policy offer* on particular services such as health or children's services. These offers could apply to city regions or sub-regions, as well as single council areas.

COMMUNITY BUDGETS

From April 2011 a first phase of 16 areas covering 28 councils and their partners have been put in charge of 'community budgets' that pool various strands of Whitehall funding into a single 'local bank account' for tackling social problems around families with complex needs.

Around £8bn a year is spent on around 120,000 families that have multiple problems, with funding only getting to local areas via hundreds of separate schemes and agencies. Despite this investment, these families' problems continue. Community budgets aim to join services up and intervene earlier. It is hoped that this integrated, early intervention approach will also drive down costs.

The government intends to roll out community budgets nationally by 2013-14 for tackling families with higher needs.

LOOKING AHEAD

The government published its *Open Public Services White Paper* in July 2011. The White Paper introduces five principles for modernising public services:

- Choice should be increased wherever possible.
- Public services should be decentralised to the lowest appropriate level.
- Public services should be open to a range of providers.
- Fair access to public services should be ensured.
- Public services should be accountable to users and to taxpayers.

The underlying theme is to give people direct control wherever possible, decentralising to the lowest level. Competition should figure wherever possible. Decentralisation is to be systematically introduced. Central government's role will be to oversee core standards and entitlements, fair funding and equality of access.

What is lacking from the White Paper is the detail of what this will mean in practice. For instance the White Paper fails to address the tensions between increasing competition, personalisation and the aim of encouraging the third sector to participate.

CHAPTER EIGHT

Children's Services

EDUCATION SPENDING PLANS

Education is by far the biggest local government service. In 2010-11 it accounted for around 38% of total spending on all local government services and exceeded the combined spending on personal social services, police and fire.

Public expenditure on education grew continuously in real terms from the end of the 1990s to 2010-11, but the need to reduce the public deficit has meant the beginning of a new phase. However education remains a key priority and the government's spending review in 2010 included real terms increases of 0.1% in each year of the spending review period for the five to 16s school budget. There was also a statement that underlying per pupil funding would be maintained in cash terms.

Although the following figures are not wholly comparable – because there have been numerous changes to functions over the years – they give some feel for the orders of magnitude involved.

- Local authority education revenue expenditure in England in 2010-11 was some £46bn – up from £16.7bn in 1997-98.
- In Wales the increase was from £1.1bn in 1997-98 to £2.6bn in 2010-11.

For England, the breakdown of estimated spending between tiers of schools in 2010-11 is shown in TABLE 8.1.

Table 8.1: Estimated Education Spending, England, 2010-11

	Expenditure £000s
Nursery schools	847,087
Primary schools	18,048,813
Secondary schools	18,087,861
Special schools	2,809,070
Non-school funding	6,171,930
Total	**45,964,760**

Source: CIPFA Finance and General Statistics 2010-11.

Looking forward, the headline figures from the 2010 spending review (ie covering all public spending on education) are shown in TABLE 8.2.

Table 8.2: Headline Figures from 2010 Spending Review

	Baseline 2010-11	Plans 2011-12	Plans 2012-13	Plans 2013-14	Plans 2014-15	Cumulative growth in real terms
	£bn	£bn	£bn	£bn	£bn	%
Department for Education	50.8	51.2	52.1	52.9	53.9	-3.4%
Year-on-year change		**0.8%**	**1.8%**	**1.5%**	**1.9%**	

SCHOOLS FUNDING FORMULA

Government proposals for a new – fairer and more transparent – funding regime for education are currently under consideration. Meanwhile, the current system will remain in place until at least 2012-13.

The current funding system dates from 2006-07 when all local authorities moved to a ringfenced grant, the Dedicated Schools Grant (DSG), for their schools provision. This grant has to be passed to schools in its entirety – authorities can add to it but cannot reduce the level of funding.

The way the current school funding system in England works is that most funds are allocated on a per-pupil basis. The more pupils a school has, the more funding it receives. However, the money a school receives for each pupil is weighted to take into account pupils' characteristics, such as their age, whether they have special educational needs and whether they come from a deprived background.

Under DSG, each school is guaranteed a minimum per-pupil increase each year. There is also a cash 'floor' so that authorities with rapidly falling rolls are still guaranteed a minimum cash increase.

The proposals under discussion for a new national funding system will include:

- a basic amount per pupil
- additional per pupil funding for deprivation
- additional funding to protect small schools
- an adjustment for areas with higher labour costs.

In addition, there may be additional funding for pupils who have English as an additional language (EAL) and sometimes need additional support to help them to achieve.

In addition to DSG, local authorities create their own fair funding formulae, deciding how much extra money the schools under their control receive for different sorts of pupils.

ACADEMIES AND FREE SCHOOLS

The most significant changes introduced by the coalition government are around the move to increase significantly the number of academy schools and the encouragement of free schools. By 1 June 2011:

- 1,244 schools had applied to be an academy since June 2010
- 831 of these applications had been approved
- 430 schools had converted and were open, an increase of 46 since 1 May 2011

- the total number of open academies, including those opened under the previous government, stood at 704.

There is a considerable amount of information and advice for those schools that are converting or considering conversion to academy status on the DfE website at:
www.education.gov.uk/schools/leadership/typesofschools/academies

The main issues for local authorities around schools converting to academy status are likely to be managing the transitions and minimising any turbulence for local authority finances where the volume of central services provided to schools – and consequently the economies of scale – changes in response to academy schools exercising their new found choices in the procurement of these services.

Free schools are defined by the DfE as *'all-ability state-funded schools set up in response to what local people say they want and need in order to improve education for children in their community'*. They are essentially academies in terms of structure.

Information on how to set up a free school, an example of a model funding agreement and advice on free schools funding and how revenue funding is calculated can be downloaded from the DfE website at:
www.education.gov.uk/schools/leadership/typesofschools/freeschools

It should be noted that converting academies lose the benefit of the local authority's VAT status. Instead, they can be subsequently recompensed for the VAT paid on goods and services by direct reimbursement by the government.

PUPIL PREMIUM

Another significant change made by the then new government in 2010 was the introduction in April 2011 of a pupil premium – additional funding to the main school funding. The pupil premium aims to provide significant funding for disadvantaged children to help close the attainment gap. The pupil premium will be allocated to schools for most pupils and will be clearly and separately identifiable. Schools can decide how the pupil premium is spent but they are accountable for how they have used the additional funding to support deprived pupils.

Total funding for the pupil premium will be £625m in 2011-12, rising to £2.5bn a year by 2014-15. It is allocated based on the number of children who are known to be eligible for free school meals (as a proxy deprivation measure) and children who have been looked after (by the local authority) for more than six months. The level of this premium in 2011-12 will be £430 per pupil. There is also a pupil premium of £200 for service children (children of members of the British armed forces).

SIXTH FORM AND FURTHER EDUCATION

From 2010, local authorities have also been responsible for commissioning 16–19 education, following the dissolution of the Learning and Skills Council.

Under the previous Labour government, although all areas of education benefited from increases in funding, particularly in the early years of the administration, spending on higher education grew much more slowly.

The coalition government has stated that it is committed to supporting all 16 and 17 year olds to participate in education or training and to raising the participation age to 18 by 2015.

CHILDREN'S SOCIAL CARE

Some of the spending described earlier in this chapter is wider than education alone, for example that on ending child poverty and the development of Sure Start services, because the DfE is the lead government department for children's services as a whole.

Under the previous government, there was a move for local authorities to merge the children's element of social care with education into one department for 'children's services'. Since the 2010 election, though, some local authorities have been reversing this merger to rejoin children's social care with adults' social care.

It is also difficult to draw a clear education/social care boundary between the grants provided by the DfE.

For local authorities, the financing of children's services is complicated (many would argue unnecessarily so). Central government provides revenue funds for these services through two main routes:

- general grant (formula grant)
- earmarked or specific grants (recently many of these have been mainstreamed, although the Early Intervention Grant remains).

With general grant, the main part of the formula has three sub-blocks within the children's services block. The relative needs formula elements for each of these reflect their different client groups and associated unit costs. The sub-blocks are youth and community, local authority central education functions, and children's social care.

The 2010 spending review included overall resource savings in the DfE's non-schools budget of 12% in real terms by 2014-15. The intention is that this will be achieved by *'cutting administration and back office costs, reducing 16 to 19s unit costs, focusing the support provided [at that time] by education maintenance allowances (EMAs) on the most disadvantaged children in the context of raising the participation age to 18, and rationalising and ending centrally directed programmes for children, young people and families'*.

With a political impetus to protect schools, so far as possible, while at the same time reducing the public deficit, children's social care has until recently received less attention. However, the government has now responded to the Munro Review of Child Protection and declared it as the *'first step on the journey to create the conditions for sustained long term reform of the child protection system to deliver improved outcomes for our most vulnerable children and young people'* and has indicated that there will be *'a radical reduction in the amount of regulation through the revision of the statutory framework to place greater emphasis on direct work with children, young people and families'*.

Estimated spending in 2010-11 by local authorities in England on children's social care is shown in **TABLE 8.3**.

Table 8.3: Estimated Children's Social Care Spending, England, 2010-11

	£000s
Social care strategy – children	120,783
Children's and families' services – asylum seekers	145,803
Children's and families' services – other	6,150,846

Source: CIPFA Finance and General Statistics 2010-11.

LOOKING AHEAD IN CHILDREN'S SERVICES

What will happen in the future, particularly in light of the public spending cutbacks, remains open to conjecture, although there is some information on the government's plans for education and children. Overall, there will clearly be lower growth in revenue spending than in recent years, and on the capital side, since the cancellation of Building Schools for the Future, funding will be tight for many schools. The government's invitation to all schools to opt out of local authority control and apply to become academies is likely to result in many more schools becoming academies. The government has indicated that it is committed to:

- simplifying the regulation of standards in education and targeting inspection on areas of failure
- maintaining the goal of ending child poverty in the UK by 2020
- supporting the provision of free nursery care for pre-school children
- taking Sure Start back to its original purpose of early intervention and increasing its focus on the neediest families
- refocusing funding from Sure Start peripatetic outreach services, and from the Department of Health budget, to pay for 4,200 extra Sure Start health visitors.

At the time of writing, two major sets of government proposals are out for consultation: *A Consultation on School Funding Reform: Proposals for a Fairer System* (DfE, July 2011) and *Implementation of the 2010-11 Review of Education Capital* (DfE, July 2011). The outcomes of these will have a significant impact on the funding of much of children's services and the impact on individual schools will vary. With revenue costs arising predominantly from salaries, pressures to reduce spending will continue to be challenging.

WALES

The Welsh Government provides funding to local authorities for pre-16 provision in schools in Wales – whether they are maintained by the local authority or are voluntary-aided schools – mainly through the local government revenue settlement (Revenue Support Grant). The other main sources of funding for local authority education budgets are council tax income and non-domestic rates income.

Funding for post-16 provision in schools is by specific grant from the Welsh Government.

The Welsh Government also provides capital funding for schools (apart from voluntary-aided schools) including School Building Improvement Grant (SBIG) and funding for disabled access to schools, school premises issues and school playing fields.

Estimated spending in 2010-11 by local authorities in Wales on children's social care is shown in **TABLE 8.4**, while estimated spending on education is shown in **TABLE 8.5**.

Table 8.4: Estimated Children's Social Care Spending, Wales, 2010-11

	£000s
Children's social care strategy	5,937
Commissioning and social work	114,268
Children looked after	161,637
Family support services	45,780
Youth justice	24,728
Asylum seekers	2,143
Other	50,167

Source: CIPFA Finance and General Statistics 2010-11.

Table 8.5: Estimated Education Spending, Wales, 2010-11

	£000s
Nursery schools	23,117
Primary schools	1,082,101
Secondary schools	960,284
Special schools	102,326
Non-school funding	405,980
Total education services	**2,573,808**

Source: CIPFA Finance and General Statistics 2010-11.

Detailed information about the arrangements for funding schools in Wales, including the respective roles of the Welsh Government and local authorities, the legal framework and statistical information, can be downloaded from the Welsh Government website at: wales.gov.uk/topics/educationandskills/schoolshome/fundingschools/schoolfunding/?lang=en

CHAPTER NINE

Adult Social Care

SOCIAL CARE BUDGET

Adult social care is the second largest local authority service, with net budgeted expenditure for 2010-11 of £14.4bn for England and almost £1bn for Wales.

Adult social care includes services for elderly people and a wide range of services for those in the 18–64 years age group.

TABLE 9.1 gives an analysis of budgeted net current expenditure for social care for England and Wales for 2010-11. The figures show how the mix of the personal social services (PSS) provision in the two countries compares.

- Services for older people consume over half of the money allocated for PSS in both countries – 51.3% in England and 50.4% in Wales.
- Local authorities in Wales allocate a slightly larger proportion of their PSS budgets to services for people with learning disabilities than do English authorities – 30.0% compared with 26.8%.

Table 9.1: Adult Social Care Net Current Expenditure, England and Wales, 2010-11

	Actual net current expenditure	
	England	Wales
	£m	£m
Older people aged 65 and over including older mentally ill	7,407.1	516.9
Other PSS:		
Adults with physical or sensory impairment	1,531.0	95.3
Adults with learning disabilities	3,874.1	308.4
Adults with mental health needs	1,140.9	71.2
Asylum seekers	45.2	–
Other services for adults	368.0	29.9
Adults' social services strategy	72.8	4.7
Total adult social care net current expenditure	**14,439.1**	**1,026.4**
	Share of total	Share of total
	%	%
Older people aged 65 and over including older mentally ill	51.3%	50.4%
Other PSS:		
People with physical or sensory impairment	10.6%	9.3%
People with learning disabilities	26.8%	30.0%
People with mental health needs	7.9%	6.9%
Asylum seekers	0.3%	-
Other services for adults	2.6%	2.9%
Adults' social services strategy	0.5%	0.5%
Total PSS net current expenditure	**100%**	**100%**

Source: CIPFA Finance and General Statistics 2010-11.

DEMAND LED PRESSURES

Adult social care is a demand led service. This means that if a person is assessed as needing care and that care is within the eligibility range set by the local authority, then the person must receive that care. Historically this has made social care one of the most difficult budgets to manage. Services are provided to intervene early in a client's care in order to prevent long-term admission to residential care which is an ongoing expensive commitment.

The Audit Commission published the first of a series of briefings in June 2011, entitled *Improving Value for Money in Adult Social Care*. The briefing found that, as demographic change and financial pressures combine to create tough times for adult social care, councils have looked at many aspects of the service in order to provide better, more efficient services.

Better procurement, improved back office arrangements, and a preference for community-based rather than residential care where possible, are just some of the changes that local authorities have implemented to help them meet the challenges they face. The briefing also found that the pace and scale of change need to increase if councils want to release material savings, as well as improve care for people.

The large growth in the population aged over 60 has increasingly focused the attention of both local and national government on the demands on adult social care, particularly long-term care.

The Audit Commission reported in 2010 on how councils could tackle the financial challenge of an ageing population in *Under Pressure: Tackling the Financial Challenge for Councils of an Ageing Population*.

The report points out that:

- social care spending increased by 46% between 2000-01 and 2007-08
- if care service costs simply increase with the population they could nearly double by 2026
- there are big differences in care costs – some authorities spend three times more than the average per person on some services.

The report notes that:

- small investments in services such as housing and leisure can reduce or delay care costs and improve well-being
- early intervention can improve well-being and save money – one county saves £1m a year on residential care costs by providing telecare services
- cheaper alternatives are often the services most valued by older people, their families and communities.

The report recommends that authorities use unit cost data and benchmarks to identify priorities for short-term change, and aim to reduce residential care costs below the Department of Health's suggested target of 40% of the budget for older people's care services.

Recognising that this is a significant issue, the government set up the Commission on Funding of Care and Support. The Commission was asked to recommend a fair and sustainable funding system for adult social care in England. Launched in July 2010, the Commission is chaired by Andrew Dilnot and reported to government in July 2011 in *Fairer Care Funding: The Report of the Commission on Funding of Care and Support*.

The key recommendations included the following.

- Individuals' lifetime contributions towards their social care costs – which are currently potentially unlimited – should be capped. After the cap is reached, individuals would be eligible for full state support. This cap should be between £25,000 and £50,000. The Commission considers that £35,000 is the most appropriate and fair figure.
- The means-tested threshold above which people are liable for their full care costs should be increased from £23,250 to £100,000.
- National eligibility criteria and portable assessments should be introduced to ensure greater consistency.
- All those who enter adulthood with a care and support need should be eligible for free state support immediately rather than being subjected to a means test.

The Commission estimates that its proposals – based on a cap of £35,000 – would cost the state around £1.7bn.

It is anticipated that the government response will be in the form of a White Paper in spring 2012.

PAYING FOR CARE

The charging systems in England and Wales are based upon similar principles.

Residential care is means tested and based on a national system in each area. Capital such as property is taken into account after 12 weeks when the residential stay is permanent. If a service user has sufficient resources they will pay for the full cost of the service until their resources fall below a certain limit.

Charging for non-residential services is discretionary and the policy is determined locally within certain boundaries. Generally capital such as property is not taken into account and nor are earnings.

CHAPTER TEN

Housing

HOUSING REVENUE ACCOUNT

The housing revenue account (HRA) is a separate landlord account that any local authority with more than 50 council dwellings must keep. It covers the income and expenditure necessary to manage and maintain the housing stock, including major repairs, and associated debt charges.

The HRA is ringfenced, meaning that funds must be kept separate from other local authority income and expenditure streams, to make sure that council housing rents are not used to subsidise general council expenditure and to prevent the general council tax payer subsidising council housing. Councils must balance their HRA each year.

HOUSING POWERS AND DUTIES

Local housing authorities have a wide range of powers and duties. These are set out in the sections that follow. Most housing functions are overseen by the Department for Communities and Local Government (CLG), but housing benefit is overseen by the Department for Work and Pensions (DWP). About half of local housing authorities retain housing stock and operate a housing revenue account.

HRA SUBSIDY SYSTEM

The HRA subsidy system will be replaced in 2012-13 by a new system of self-financing, but remains in operation for 2011-12. The HRA subsidy system does two things. It:

- **collects housing surpluses** from those authorities that have *assumed* revenues from their council housing that exceed their *assumed* costs – surplus authorities

- **provides housing subsidy** to those authorities that are unable to raise the income necessary to meet their *assumed* need to spend – deficit authorities.

The surpluses are used to fund the subsidies, with any shortfall made up by the government.

This system was aimed at ensuring that local authorities that were able to generate surplus rental income, even though incurring management and maintenance and other expenditure comparable with other authorities, made a contribution towards meeting the costs of authorities that could not generate sufficient rental income to meet such costs.

SELF-FINANCING REFORM

From 2012-13 each stock holding housing authority will be reliant on its own rent income to provide council housing. The previous system of HRA subsidy whereby authorities pay into or receive from a national pool will cease.

To bring this change into operation housing authorities will complete a business plan for their long-term investment requirements as well as the day-to-day cost of running their homes. Depending on the business plan and their current long-term borrowing, authorities will either receive an additional share of the national housing debt or have some of their housing debt repaid. This will put the new system in operation with parity between different housing authorities.

Local housing authorities will still be expected to follow the rent restructuring programme. There will be some scope in the new system for building new property. However 75% of right to buy receipts from existing properties must still be paid to HM Treasury.

INCOME AND EXPENDITURE

In 2009-10, HRA expenditure and income was £7.8bn in England and £412m in Wales.

- Spending on interest and debt repayment is the biggest single item of HRA expenditure in England, whereas spending on repairs and maintenance is the biggest item of HRA expenditure in Wales.

- Rent makes a bigger percentage contribution to HRA income in Wales than in England – 95% compared with 81%.
- Local authorities in England planned to transfer £72.6m to balances in 2009-10. Local authorities in Wales added £0.2m to balances, ie 0.1% compared with 0.9% in England.

RENTS, SERVICE CHARGES AND OTHER INCOME

The rent restructuring programme began in 2002-03. The aim is to move local authority rents to a comparable level with housing associations, by moving them towards targets known as formula rents. Formula rents are based on local earnings levels and property values in 2000. They are updated annually for inflation and to effect the real terms increase needed to catch up with housing associations. The scheme is made more complicated by rules on the amount any individual tenant's rent can increase and rent caps based on the number of bedrooms in a property. It is now expected restructuring will not be achieved until at least 2015.

Local housing authorities may also make separate service charges to tenants for items such as a concierge service or community aerials.

In some accommodation there are communal heating systems and authorities recover the cost from individual tenants.

Other income sources are individual garages or parking spaces.

The government plans to introduce a new system of affordable rents that are closer to market rents for new housing association developments funded by the Homes and Communities Agency (HCA). Councils will also be able to offer flexible two-year tenancies in addition to traditional secure tenancies.

HOUSING ALLOCATIONS

Local housing authorities often work with local housing association partners, operating joint waiting lists and allocation policies. Under current legislation an allocations policy must give reasonable preference to unintentionally homeless applicants who are in priority housing need. Under provisions included in the *Localism Bill* which is currently before parliament, local housing authorities will have much more freedom to decide who is eligible to go on to their waiting lists. However certain categories of applicants (such as returning armed forces members) will be eligible for inclusion under legislation.

HOMELESSNESS

Housing authorities have a duty to provide accommodation to those who present themselves as homeless or threatened with homelessness and are in priority need. This duty is discharged by providing temporary and eventually settled accommodation. Nearly always the settled accommodation proves to be a social housing tenancy. The government is legislating in the *Localism Bill* so that the offer of a year's private sector tenancy will discharge the homelessness duty.

Housing authorities must maintain a homelessness strategy. Significant revenue grant is paid by CLG to help housing authorities meet their homelessness duties.

HOUSING BENEFIT

In total the housing benefit programme costs over £20bn and it has been identified as one of the prime areas for spending reductions. The programme covers the administration and payment of both housing benefit and council tax benefit.

The government plans to begin to introduce a new system of universal credit from 2013 with full implementation by 2017. This will replace most housing benefit, although local authorities will remain responsible for council tax benefit and housing benefit for vulnerable people and those in temporary accommodation.

More immediately, the government has cut housing benefit subsidy support for rent rebates to claimants in temporary accommodation. Local housing allowance rates have also been reduced with national caps based on the number of bedrooms, and they are now based on the thirtieth percentile of market rents in an area rather than the average. Single claimants up to 35 years of age are paid a lower shared room rate.

SUPPORTING PEOPLE

Supporting People provides housing related support to vulnerable people. Since 2010-11 the funding of around £1.5bn a year is no longer ringfenced. Supporting People is used by housing authorities and social services authorities to avoid more costly interventions and enable vulnerable people to live independently in their own homes.

REPAIRS AND MAINTENANCE

Stock holding authorities need to strike a balance between planned maintenance and reacting to responsive repairs. Certain repairs are subject to a right to repair. If the council does not complete the repair within the regulatory timetable, compensation must be paid to the tenant at a stipulated daily amount. There is also a statutory duty to keep property in good repair under wider landlord and tenant legislation; failure to do so can involve authorities in expensive litigation. A new tenant cash back scheme is being launched to enable tenants to be remunerated for carrying out or commissioning their own repairs.

HOUSING STOCK

The size of the local authority housing stock has been falling, quite dramatically, in the last 13 years, largely as a result of the transfer of local authority stock to housing associations (formerly known as registered social landlords). In April 2010 there were nearly 1.8 million local authority managed dwellings – but out of a total housing stock of 22.7 million.

RIGHT TO BUY

Since the 1980s over 2 million council properties have been sold under the ‘right to buy’ scheme, nearly 50% of the (then) total. The recession and tighter rules on discounts have caused the volume of right to buy sales to fall away considerably in recent financial years. In 2009-10 just 2,290 sales were completed, generating capital receipts after discount of £171m.

The maximum discount for a house is now 60%. This would take 30 years to accrue. Discounts are also subject to a cash ceiling depending on the area (for example, £16,000 in most London boroughs). Specialised properties such as sheltered accommodation are not eligible for the right to buy. There are restrictions on resale for properties bought in designated rural areas.

LEASEHOLDERS

Because of the right to buy, many council estates are now a mix of tenanted property and owner occupation (leaseholders). Local housing authorities try to ensure that leaseholders pay their fair share of estate costs (for services such as maintaining lifts) in order to avoid unnecessary expense to the housing revenue account. However the rules on recovery are complex, especially where major works are concerned such as reroofing a block of flats.

For five years after a right to buy is completed only works indentified in the sale documentation can be recharged to leaseholders. Leaseholders have statutory rights to loans if works exceed a certain value, and authorities can operate more generous local loan schemes.

COMMUNAL AREAS AND SHARED FACILITIES

In many authorities the HRA pays for facilities – such as a recreational area – that are also used substantially by the wider public. In these circumstances it is legitimate for an appropriate proportion of the cost to be recharged to the general fund.

GYPSIES AND TRAVELLERS

Both local housing authorities and county councils provide and operate sites for Gypsies and Travellers. There is now no government grant funding for the sites.

EMPTY HOMES

A proactive approach to minimising the number of empty homes in their areas will assist local housing authorities in addressing housing demand. Authorities do have powers to take empty homes into their own management, but these are being modified to restrict the powers to properties where there is a nuisance (often caused by squatters). The orders require an adjudication by the Residential Property Tribunal Service and are very seldom used. Much can be achieved by negotiating with owners or signposting them to housing associations that are prepared to manage the properties for them.

PRIVATE SECTOR LICENSING AND HOUSES IN MULTIPLE OCCUPATION

Authorities must keep the housing conditions in their area under review. Under the *Housing Act 2004* a housing health and safety rating system is used to determine whether the authority needs to intervene. Local authorities may decide to introduce a licensing system for specific categories of rented property. A particular problem area is usually houses in multiple accommodation (HMOs).

SHELTERED HOUSING

Local housing authorities provide around 400,000 sheltered or extra care properties. Some of this accommodation is hard to let, and authorities find it difficult to identify funding for modernisation.

CAPITAL PROGRAMME

Local housing authorities invest in a whole range of investments and improvements. If they are stock owning authorities the greatest demand is usually for works to their own properties, but there are also many other demands on capital such as paying grants to private owners or working with housing associations. The main sources of funding are:

- capital receipts – these are only 25% usable if they arise from right to buy sales. Other capital receipts are fully usable if applied to affordable housing or regeneration
- meeting capital expenditure directly from an HRA revenue charge
- borrowing, with or without government subsidy support
- grants from CLG or the HCA.

In the last few years very large capital resources were committed by the government to stock options such as stock transfer, PFI and arm's length management organisations (ALMOs) and the achievement of the Decent Homes standard (see below). There was also funding for housing market renewal. Following the 2010 spending review local housing authorities will be much more reliant on generating their own capital resources locally.

NEW HOMES BONUS

The bonus is paid for the increase in properties from one year to another on billing authorities' valuation lists. The increase is analysed by council tax banding. Each year's bonus is paid for six financial years at the national average council tax for each band's increase. In two-tier areas some of the bonus is paid to the first tier authority.

DECENT HOMES STANDARD

The Decent Homes standard is that all homes should be warm, weatherproof and have reasonably modern facilities. It applies to social rented housing (predominantly council or housing association housing). The previous government also wanted to see it applied where vulnerable households are in private rented accommodation.

The broad principle is that a home must have reasonably modern facilities. The specified requirements are set out below.

- The home must meet the statutory minimum standard for housing (under the housing health and safety rating system). It will therefore not have any safety hazards (such as a sub-standard gas heating boiler).
- It must be in a reasonable state of repair. No key building component is too old and needs replacing. (Key building components are items such as walls, roof, windows and the heating system.) Not more than one other building component needs replacing.
- It must have reasonably modern facilities and services. In particular the kitchen should be less than 20 years old and the bathroom less than 30 years old. Not more than two of the main facilities may be too old.

- It must provide a reasonable degree of thermal comfort. This means an efficient heating system, and good insulation.

The Decent Homes standard applies to social housing and has begun to be extended towards vulnerable people renting in the private sector.

INSPECTION AND REGULATION

The recently formed Tenant Services Authority is due to be abolished in 2012. The regulation of social housing will then be transferred to the Homes and Community Agency.

HOUSING BRIEFING FOR COUNCILLORS

A publication on housing aimed specifically at councillors is the separate briefing for councillors issued with the Audit Commission's 2009 report *Building Better Lives: Getting the Best from Strategic Housing.*

The work by the Audit Commission contained a list of questions that councillors should ask.

- How can a strategic approach to housing help you achieve the wider objectives for your area?
- How is information on the housing market and housing need in your area gathered to enable informed policy decisions?
- How do you keep your council's housing market assessment up to date? Have you thought about commissioning one jointly with an adjoining authority?
- How do you use your section 106 powers to pursue your wider housing objectives for your area?
- How do you balance the interests of the area as a whole with those of individual or small groups of residents in preparing and implementing your housing strategy?
- How are you working with partners at a local, sub-regional and regional level on housing issues?
- Does your council use the full range of local regulatory powers to help it achieve its strategic housing ambitions?

- Have you as a council reviewed your land and property holdings to identify what might be released for new market or affordable housing?
- How do you use your scrutiny powers to look at the strategic housing function?
- What have you done in response to the impact of the recession on housing issues locally?

CONCLUSION

Local authority housing powers are extensive. Excellent financial management of the function is at a premium as the government takes forward a wide range of strategic changes.

CHAPTER ELEVEN

Police

STRUCTURE

There are 43 police forces in England and Wales. They receive their own grant allocations as part of the local government finance settlement, as described further below and in chapter three of this guide.

INCOME AND EXPENDITURE

TABLE 11.1 shows budgeted police expenditure for 2010-11 using information from CIPFA's police service estimates statistics.

Statistics show that the police service is labour-intensive; for example, employee costs represented 81% of gross expenditure in 2010-11.

The fact that spending is dominated by manpower costs has implications for how forces will be able to deal with the cutbacks in public sector expenditure.

From 2006, each police authority had to pay an actuarially assessed contribution into its local pensions account. If the annual outgoings – net of employees' contributions – exceeded these contributions, the Home Office would meet any deficits. The government expected that the net effect of the change in the pensions arrangements would be that police authorities made payments to the Home Office.

The change to police pensions arrangements meant that the grant distribution no longer needed to make provision for police pensions.

Table 11.1: Police Expenditure 2010-11, UK

Expenditure	2010-11
	£000s
Police officer salaries	8,852,935
Other staff salaries	3,824,341
Non-staff costs	2,825,157
Total gross revenue expenditure	**15,561,804**
Total revenue income	**(2,382,533)**
Total net requirement	**13,117,097**

Source: CIPFA Police Statistics 2010-11 Estimates.

Police funding is through the Revenue Support Grant (RSG) system. All police authorities receive Revenue Support Grant, together with a separate Police Grant and a share of the national non-domestic rate (NNDR).

Grant allocations are based on a quite complicated formula, which uses a workload weighting for different types of crime based on seven crime categories.

The police service is still heavily dependent on central government support, including business rates, although the pattern of funding has changed over the years.

In 2010-11, central funding in the form of government grants and redistributed business rates accounted for 62% of all police funding, with council tax accounting for 22% of funding.

Table 11.2: Police Expenditure Met by Tax and Grants, 2010-11, UK

	£000s
Council tax	3,433,366
NNDR	3,064,819
RSG	604,810
Police Grant	6,014,102
Total financing provision	**13,117,097**

Source: CIPFA Police Statistics 2010-11 Estimates. Note: the Police Service of Northern Ireland is entirely funded by Home Office grant of £675m.

COLLABORATION VERSUS MERGERS

Collaboration and joint working have been the focus for improving the efficiency and effectiveness of the police since the abortive reorganisation proposed in 2005.

An important emphasis on collaboration was reinforced with the Home Office March 2010 publication *Statutory Guidance for Police Collaboration*.

Collaboration agreements that set out arrangements for the transfer of direction and control were an important development introduced by the *Policing and Crime Act 2009*.

The statutory guidance was aimed at assisting police authorities and forces that are considering and implementing collaborative working as a means of achieving more efficient and effective delivery of policing services.

The Act confers power on chief officers and police authorities in England and Wales to enter into collaboration arrangements, where prior approval has been given by their respective police authorities.

The coalition government foresees an even greater role ahead for collaboration between forces.

EFFICIENCY AND EFFECTIVENESS

Collaboration has not been the only aspect of policing to receive attention in recent years. Sir Ronnie Flanagan was appointed to undertake a review of policing in April 2007. The review examined four separate issues:

- making most efficient use of resources
- embedding neighbourhood policing
- reducing bureaucracy
- enhancing local accountability.

An interim report was produced in September 2007 and the final report in February 2008.

Many of the proposals were taken forward in the 2008 Green Paper *From the Neighbourhood to the National: Policing Our Communities Together*. This announced a review of the data collection burden placed on police forces in England and Wales by the Home Office with the aim of reducing the burden by up to 50%.

The report, *Reducing the Data Burden on Police Forces in England and Wales,* was published in February 2009 and contained proposals, most of which could be implemented immediately, for:

- cutting out altogether or significantly reducing 36 data streams
- an end to activity-based costing.

The Green Paper also committed the government to:

- giving people more input into policing in their neighbourhoods
- removing all but one central target imposed on police forces, ie to deliver improved levels of public confidence
- enhancing the role played by HM Inspectorate of Constabulary (HMIC) to scrutinise police performance.

The Green Paper called for regular information on crime, including crime maps, to be made available to residents. It also called for police to explain the actions they were taking to tackle crime.

Regular meetings were to be held between police and residents to discuss priorities.

A further report on reducing bureaucracy was published in December 2009, *Reducing Bureaucracy in Policing*. This report drew on the work of Sir Ronnie Flanagan and made recommendations aimed at removing even more unnecessary red tape and freeing up police time.

LOOKING AHEAD IN POLICING – PREPARING FOR ELECTED COMMISSIONERS

The police service is looking ahead to considerable reform of its governance system. At the time of writing (summer 2011) the government's *Police Reform and Social Responsibility Bill* was proceeding through Parliament, which will provide for directly elected police and crime commissioners to oversee local police forces, replacing the current police authorities (apart from in the City of London). For the Metropolitan Police area, the mayor of London will be the police and crime commissioner. In addition, police and crime panels will be established to provide scrutiny of the police and crime commissioner's work for their force area.

The government's aim is for the changes proposed in the Bill to begin in May 2012.

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