

LOCAL GOVERNMENT

The Government is committed to delivering a vibrant local democracy with effective and efficient local authorities that have the autonomy to provide responsive, high-quality public services. The 2004 Spending Review will strengthen the capacity of local authorities by:

- providing substantial additional resources for local government. As a result of this Spending Review, formula grant for councils will grow by an annual average of 2.6 per cent in real terms over the three years of the 2004 Spending Review. The already record levels of local authority investment through capital support and Private Finance Initiative (PFI) will increase by an annual average of 4.8 per cent in real terms over the same time period;
- introducing three-year settlements for local authorities to allow them to plan with greater certainty;
- securing efficiency gains of 2.5 per cent a year, releasing resources and productivity improvements for front-line services equivalent to £6.45 billion by 2007-08, with ongoing provision of £50 million a year in the Office of the Deputy Prime Minister's (ODPM) local government programme to build capacity and deliver efficiencies; and
- strengthening the conversation between central and local government on shared priorities by continuing to support the first and second generation of local PSAs, simplifying funding for safer and stronger communities, and testing ideas for Local Area Agreements to provide a common framework for departments to deliver additional funding with a focus on outcomes and devolving decision-making.

IMPROVING PUBLIC SERVICES THROUGH STRONGER LOCAL LEADERSHIP

11.1 The Government's central aim is to achieve prosperity and opportunity for all by enabling economic growth and delivering responsive public services in all areas of the country. Devolution and local decision-making are essential for improving public services by empowering public service staff and professionals to make a difference, thereby allowing services to be tailored to meet local needs and preferences and encouraging innovative approaches to delivery and increasing efficiency.

11.2 Within the framework of strong national standards and accountability that the Government has established since 1997, it is necessary to allow regional and local initiatives and decisions to promote and deliver better public services and stronger economic growth. This must be matched by greater local accountability through vibrant local democracy and increased transparency and participation.

11.3 This Spending Review provides a generous settlement and sets out further reform that supports the Government's aim of effective and efficient local authorities to deliver better public services and local economic growth. It supports the work that the Office of the Deputy Prime Minister is leading on the development of a long-term strategy for local government. The settlement locks in the 3.9 per cent real terms average annual increase in formula grant for local authorities agreed in the 2002 Spending Review and delivers real annual average increases of 2.7 per cent a year in formula grant to authorities over the three years of the 2004 Spending Review. Reforms, such as the introduction of three-year settlements for local authorities and the development of Local Area Agreements, increase efficiency and autonomy further.

Reform to enable local government to deliver **II.4** Since 1997, the Government has increased the capacity of local government, to enable it to respond better to local needs and preferences and deliver improved, personalised public services. Building on the 2001 local government White Paper, *Strong Local Leadership – Quality Public Services*, the Government has:

- introduced the Comprehensive Performance Assessment (CPA) providing the first measure of authorities' corporate capacity as well as service delivery;
- introduced local PSAs to encourage a dialogue between central and local government and deliver improved performance;
- introduced the prudential borrowing regime under which local authorities are now free to borrow for capital investment without having to seek permission from Government, subject to this being prudent and affordable;
- invested £675 million to support 100 per cent e-enablement of priority public services delivered through local government by 2005;
- reduced the administrative burden on high-performing authorities by reducing the number of plans required by departments from over 60 to just 2; and
- set up the Balance of Funding Review in January 2003 to look more widely at the future financing of local government. This is due to report in July 2004.

II.5 This Spending Review takes the reform agenda further to ensure local authorities have the capacity to deliver sustainable improvement in public services. **The 2004 Spending Review sets a new PSA that commits ODPM to improve the effectiveness and efficiency of local government in leading and delivering services in all communities**, measured through improving CPA scores.

Local PSAs **II.6** Local PSAs, voluntarily agreed between central and local government, encourage authorities and their partners to deliver better local outcomes on the priorities for improvement, above and beyond what would normally be expected, in return for financial rewards. The second-generation local PSAs are currently being negotiated and will start shortly. These will provide an increased focus on addressing local priorities and building more effective local partnerships. The Government will work to further strengthen local PSAs, collaborating with local authorities to identify and remove obstacles to effective delivery and devolved decision-making.

Rationalising funding **II.7** In line with the recommendations of the Devolving Decision Making Review and the conclusions of the Efficiency Review, departments are looking at ways to rationalise the funding streams they provide to local partners. For example, the Department for Education and Skills has begun work on rationalising children's services funding streams for local authorities and voluntary organisations, including looking at whether some funding can be mainstreamed.

II.8 The Spending Review extends this approach of rationalising funding, **amalgamating several existing separate funds from ODPM and the Home Office into a single Safer and Stronger Communities Fund**. Local areas will have the flexibility to decide on appropriate programmes and spending allocations from within the fund to deliver improvements in a focused group of nationally set outcomes.

Local Area Agreements **II.9** Over the Spending Review period, ODPM will build on this approach, working with government departments, local authorities and their local partners, including voluntary and community sector bodies, to develop a strengthened conversation between central and local government and a single framework for departments to provide additional funding to areas

through Local Area Agreements. These agreements offer the potential to update significantly the Government's relationship with local authorities and their partners through an ongoing dialogue on central and local priorities. They will focus on outcomes and enhanced performance information, bring together additional funding streams and merge them where appropriate. **Local Area Agreements will help achieve efficiencies in central and local government and devolve decision-making to the most appropriate level.** ODPM will consult on this as part of their work on a long-term strategy for local government and will **test this approach in one authority in each region in 2005-06.**

Improving capacity **II.10** The Government is working with local government to improve public services, with a particular focus on developing leadership and the corporate capacity of all local authorities to manage and improve their own performance and deliver greater efficiencies. The Spending Review provides ongoing funding of £50 million a year to support this work, and to develop the strategy further to embed capacity building firmly into the culture of local government in the future. The Government will continue to work with the Local Government Association and the Improvement and Development Agency to set up a local government leadership centre, develop the cross-cutting national programmes, spread best practice and develop the role of ODPM's Regional Directors of Practice. As part of this improvement strategy, ODPM will also take robust action to turn around the performance of failing authorities, joining up corporate and service intervention through coordination with other departmental interventions so that every citizen can enjoy high quality public services regardless of where they live.

Three-year settlements **II.11** The Government introduced three-year settlements for central government departments in the Comprehensive Spending Review in 1998. For the full benefits of three-year plans to feed through into improved public service delivery, it is important that they are cascaded from departments to executive agencies and other budget holders. Since 1998, three-year budgets have been extended to bodies below government departments, including the National Health Service, the Learning and Skills Council and Regional Development Agencies as well as many other organisations. Three-year budgets are also agreed for local authorities in Scotland, with significant positive effects.

II.12 Despite this progress, the distribution of formula grant to local authorities, which will amount to around £45 billion in 2005-06, continues to be done on an annual basis. Local authorities are further constrained from planning for the medium term by the fact that this distribution is carried out only around four to six weeks before they have to finalise their budgets for the year. **Therefore the Government will introduce three-year revenue and capital settlements for local authorities following a full consultation.** The move to three-year settlements will improve certainty and planning for councils and better support the prudential borrowing regime, which requires the production of three-year capital strategies. It will also allow local authorities to cascade three-year budgets down to other local organisations as appropriate, enable efficiency savings, support improved financial management at the local level and help to reduce the volatility in council tax rises by increasing certainty in future funding. The Government will consult on proposals for three-year revenue and capital settlements with local government and other stakeholders with a view to agreeing local authority finance settlements for 2006-07 and 2007-08 during 2005.

Efficiency **II.13** Achieving greater efficiency across the whole of the public sector is essential to support the Government's continuous drive for improved public service delivery. Local government has a key role to play in this ambitious agenda, and many local authorities are already securing efficiencies through investment in technology and rationalisation of back office and procurement functions. The Spending Review builds on existing best practice and proposes efficiency savings in local government of 2.5 per cent per annum to deliver £6.45 billion of efficiencies and productivity improvements by 2007-08, releasing additional resources to front-line services.

11.14 Recent research carried out by Deloitte on behalf of ODPM concluded that universal implementation of e-procurement alone by all local authorities would secure savings of £1.1 billion. There is scope for significant additional savings through aggregation of demand by local authorities through the Regional Centres of Excellence and moving towards increased rationalisation of back office and transactional services. There is also scope for efficiencies with improvements in staff productive time. ODPM will lead and coordinate with other government departments the collective local government package and work in partnership with local government to help authorities secure these savings. Box 11.1 provides further details.

Box 11.1: Efficiency and local government

Local government will be responsible for delivering over £6.45 billion of total efficiency gains by 2007-08, building on existing best practice. At least half of these savings will be cashable, releasing resources to front-line activities. ODPM and other government departments will work in partnership with the Local Government Association, local authorities and other stakeholders to help secure these efficiencies.

Efficiencies are anticipated in the following areas, with approximately:

- 40 per cent of the savings expected to be delivered through schools (see Box 7.3);
- 10 per cent through policing (see Box 12.2); and
- 35 per cent derived through procurement in other services (for example adult social care, social housing, children's services, highways maintenance and waste).

Further savings are also expected to be delivered through increased rationalisation of local authority back office functions and transactional services and improvements in productive time of staff.

Support for this agenda, alongside other departmental programmes, includes:

- resources within ODPM's Local Government Departmental Expenditure Limit (DEL) totalling £25 million over 2004-05 and 2005-06, and with continued support totalling £20 million available over 2006-07 and 2007-08 through the Capacity Building Fund. This will fund Regional Centres of Excellence that are led and managed by local authorities to drive forward efficiency and promote best practice in procurement, back office and transactional services in the regions. It will also support innovative programmes for authorities to share back office functions with other authorities and the wider public sector, as well as sharing council tax and business rate collection;
- increased freedoms and flexibilities for fair, good, and excellent local authorities through new trading powers from September 2004, allowing authorities to trade in their efficient services; and
- the introduction of three-year settlements in local government, so that authorities can plan and invest with greater certainty.

The Deputy Prime Minister has appointed Barry Quirk, Chief Executive of Lewisham, to work with local authorities, government departments and other partners, to share and promote best practice on the ground.

The Government will continue to explore opportunities for increased freedoms and flexibilities, through strengthening the conversation between central and local government, further deregulation, and devolving decision-making to authorities, for example through testing Local Area Agreements.

Local Government Spending Plans

Revenue and capital funding

11.15 New spending plans provide for annual average increases in formula grant to authorities of 2.6 per cent in real terms over the Spending Review period. In addition, an annual average real increase of 4.8 per cent is given for local authority investment in schools, social housing and other key services, through capital support and PFI over the same period. Further increases in local government funding will also be provided through specific grants from individual departments. As a result of these increases, by 2007-08 local authority funding will have increased by over 30 per cent in real terms compared with 1997. In addition, the prudential regime, which came into effect on 1 April 2004, offers authorities new freedoms to borrow over and above this to support local investment priorities.

11.16 The Government is also reforming the revenue support grant for PFI to meet its commitment to support a level playing field between support for conventional capital investment and PFI and to address key affordability constraints for local authorities. These changes will apply to new PFI projects started from 1 April 2005, and ODPM will consult local authorities over the summer on the details of these reforms including treatment of existing projects.

Table 11.1: Office of the Deputy Prime Minister - Local Government

	£ million			
	2004-05	2005-06	2006-07	2007-08
Local Government				
Resource Budget	43,348	45,825	48,331	50,767
Capital Budget ¹	324	349	249	249
Total Departmental Expenditure Limit²	43,672	46,174	48,579	51,016

¹ Capital reductions in 2006-07 and 2007-08 are due to the end of the Local Government Online (LGOL) programme.

² Full resource budgeting basis, net of depreciation. Due to rounding, totals may not equal the sum of components.

Table 11.2: Local Government Formula Spending Shares

FSS block	£ million			
	2004-05	2005-06	2006-07	2007-08
Education	26,402	27,963	29,863	31,663
Children's Social Services	3,737	4,016	4,316	4,516
Personal Social Services	8,690	9,553	9,933	10,373
Police	4,355	4,553	4,768	4,993
Fire	1,848	1,898	1,961	2,035
Highway Maintenance	2,004	2,054	2,054	2,054
Environmental, protective and cultural services ¹	11,152	11,217	11,606	12,040
Capital Financing	2,802	3,269	3,599	3,924
Total Formula Spending Shares²	60,990	64,522	68,099	71,597

¹ EPCS FSS funding in 2006-07 and 2007-08 includes recycled revenues from increases in Landfill Tax. Recycling of Landfill Tax revenues in 2005-06 will be carried out in the autumn, as part of the local government revenue settlement.

² All Formula Spending Shares are for local authorities' revenue spending. Due to rounding, totals may not equal the sum of individual blocks.

