Labour's Zero-Based Review

Interim Report Number 3:
A New Deal for Communities and Local Government

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A New Deal for Communities and Local Government

FOREWORD

This is the third in our series of publications as part of Labour's interim Zero-Based Review, setting out some of the ways in which a tighter approach to financial management under Labour could free up resources, in order to support the public services on which we all rely, and in which we all, as taxpayers, have invested.

A Labour Department for Communities and Local Government will offer a new deal to communities. We will build public services around people and places rather than service silos and institutions. Labour knows that local government has taken a hit under the Tories, and that the reality of Eric Pickles' localism has been disempowering and disengaging. For all their hard talk, this Government has ducked the tough decisions and passed the hardest choices down to those communities with the greatest needs by unfairly imposing on them the biggest cuts in funding.

In tough times Labour knows we will have to make tough decisions in a tough financial environment. We have pledged, and will legislate for, fiscal rules to deliver a surplus on the current budget and get the national debt falling as soon as possible in the next Parliament. We have been clear that there will be no additional borrowing for any manifesto commitment. But by acting in a fairer way we will secure a strong and balanced recovery that delivers more good jobs and rising living standards for the many, and not just the few at the top.

So Labour will be different from the current Government. We will maximise accountability, transparency and public participation, building on the experiences of those at the frontline as the best way to release savings. We will pass power, money and responsibility downwards, which is why Labour plans to devolve significant resources to communities, as their local authorities come together to form Combined Authorities, to make their own decisions about jobs, skills and training, housing and local transport. We will integrate health and social care, so that local communities can better care for people with long-term conditions and disabilities.

We will de-clutter local service delivery to improve local services and also deliver more efficient use of public funds and release savings. We will enable councils to shift money to early intervention and prevention to stop the need for expensive action later on to deal with

the costs of failure. And, building on the cost-saving innovations which are emerging from local areas, we believe that empowering local councils to plan ahead with longer-term budget settlements will reap greater value for money in our public services.

David Cameron and George Osborne have broken their promise to balance the books and it will fall to the next Labour Government to finish the job where the Conservatives have failed. Our Zero-Based Review project will help us to do this. In delving deep into every pound the Government spends in order to throw light on the current Government's waste and false economies, the next Labour Government will be aided in ruthlessly prioritising public spending and delivering service reform and improvements which maximise the value for money of our public services, rather than just salami-slicing budgets and watching services deteriorate, as has been the practice under the Conservatives and Liberal Democrats.

Chris Leslie MP, Shadow Chief Secretary to the Treasury

Hilary Benn MP, Shadow Secretary of State for Communities and Local Government

LABOUR'S ZERO-BASED REVIEW

The Zero-Based Review is a root and branch review of every pound the Government spends. It will help the next Labour Government to ruthlessly prioritise public spending and deliver service reform and improvements, rather than just salami-slicing budgets and watching services deteriorate, as has been the practice under the Conservatives and Liberal Democrats.

This process is intended not only to reveal the current Government's costly errors and skewed priorities but will also involve the Labour Party seizing the opportunities to deliver reformed public services which are valued and justifiable; which provide value for money and quality services that meet the needs and demands of the public who use them; and which can both make savings, and secure economic growth.

Fundamentally reviewing current Government spending is a necessary step in preparing for office. Last year Ed Balls MP, the Shadow Chancellor, announced that Labour would conduct a detailed review of every pound the Government spends, in order to help prepare ourselves for the challenges the next administration will face. We set out the principles of our Zero-Based Review in a Phase 1 discussion document in December.

Since the beginning of the year Chris Leslie MP, Shadow Chief Secretary to the Treasury, has been examining detailed departmental expenditure as part of our first round of the Zero-Based Review, analysing every budget and exploring public service reform and redesign in detail with each Shadow team. This process has been guided by the following five principles:

- We will use public money **more efficiently** – and seek efficiencies in every area of government spending
- We will use all departmental budgets to **strengthen the economy** – supporting growth, job creation, innovation and exports
- We will ensure **greater fairness** in the impact of spending – and will prioritise spending that prevents future problems
- At the same time as increasing efficiency, the **quality and experience of public service must improve** – offering the speed, simplicity and responsiveness that people now expect
- We will strengthen **accountability and transparency** across government – with clear efficiency incentives for all departments

No department has been exempt from this process, including any areas that we may choose to protect or ring-fence, because efficiency will be necessary across all areas of spending. Our work for Phase 1 of our Zero-Based Review has been informed by the wide range of

reports which have contributed to the Labour Party's Policy Review: the Armitt Review of long-term infrastructure planning; the Local Government Innovation Taskforce; the Stevens Review of policing and crime; and the Adonis Growth Review, to mention just a few.

Labour's Treasury team will continue to collaborate with Shadow Ministers to expose waste, mismanagement and poor decision making by David Cameron's Government, as well as increase the scrutiny of each departmental balance sheet over the months to come. We will complete our Zero-Based Review with our first Spending Review in Government, but this early work is crucial to inform the policy choices we will make. As Ed Miliband and Ed Balls have outlined, the next Labour Government will be about big reforms and not big spending.

FAILURES OF THE TORY-LED APPROACH

The current Government will fail to eradicate the deficit as they promised, leaving behind a £75 billion shortfall which will place an incredible burden on public services for the years ahead. George Osborne's approach to economic management has been wasteful and inefficient, indecisive and characterised by too many costly u-turns, and has undermined economic growth.

The Government has also done nothing significant to incentivise and support efficiency at the local level other than to cut budgets. All local authorities have responded by prioritising and cutting services. Many have gone further and redesigned services to streamline and improve their efficiency. A few have taken the next step and merged or integrated activities.

Major efficiencies in local service delivery lie in this direction: reducing layers of complexity so that fewer people are involved in decisions and the delivery of frontline activity; increasing responsiveness and so meeting needs more effectively first time; and sharing senior managers and resources. Yet the Tory approach has been to deny any responsibility for helping this happen at the local level – indeed, the current Government has actively stood in the way of authorities voluntarily wanting to restructure and undermined collaboration between different agencies locally.

Unfair funding

The Government have chosen to unfairly cut the budgets of local authorities in the most deprived areas of the country significantly more than those in the least deprived. Households living in the 10 most disadvantaged local authorities in Britain have suffered cuts in spending power 16 times greater than those in the 10 wealthiest areas.

While almost every local authority has faced cuts, a handful of some of the least deprived councils in the country have actually seen an increase in their spending power under this Government. This is deeply unfair as every part of the country must play their part in getting the deficit down.

Local authorities are left facing a huge funding gap that will dramatically increase by 2020 unless Labour redesigns the way we provide local services and provides a fairer funding formula for local government linked to need.

False economies, inefficiency and short-termism

Short-term, annualised budget cuts under this Government have undermined the ability of councils to plan ahead. This Government has failed to support investment in preventative activity that will reduce longer-term financial pressures. As early stage social welfare advice and support on welfare, housing and benefits has been cut – advice which can prevent acute levels of short-term crisis expenditure – costs have merely been shunted into other departments, and on to the frontline at local authority level.

The department has performed particularly badly in respect of the delivery of tangible action on the 'Enterprise Zone' programme. Despite George Osborne's claims in his 2014 Budget that the Enterprise Zone Programme is "flourishing", they are set to deliver only a fifth of the jobs anticipated. This lack of ambition from the Government on local economic empowerment has limited the country's economic recovery.

Further areas of waste and inefficiency include:

- A quarter of a billion pound of taxpayers' money wasted through Eric Pickles' dither and u-turning on weekly bin collections.
- The CLG 'Troubled Families Programme' has been beset with data sharing obstacles where advances in collaboration and resource efficiencies have been slow to materialise in part because of unnecessarily rigid data sharing restrictions between different branches of the public service organisations involved.
- The Department has lost millions in error as European Regional Development money has been spent on ineligible projects.

TORY FAILURE CASE STUDIES AND HOW LABOUR WOULD ACT DIFFERENTLY

On housing and investing in the future

Failure to prioritise getting homes built has meant that this Tory-led Government will have a record of the lowest peacetime level of house building of any Government since the 1920s. This has held the construction industry back, undermined tax revenues for the Treasury and pushed up Housing Benefit bills as constrained supply has forced people into higher-cost private rented accommodation.

The next Labour Government will build at least 200,000 homes a year by 2020, a policy which will provide particular benefit to the current generation of twenty and thirty-somethings – the so-called "Generation Rent" – and the generations of young people to come, seeking certainty with a place on the property ladder.

Labour will also end the complex, regressive and ineffective 'New Homes Bonus' with the funding reallocated more fairly within local government. The National Audit Office has found no persuasive evidence that the New Homes Bonus is having the effect of incentivising new house building and the Public Accounts Committee has questioned its effectiveness and fairness of its distribution, calling for an urgent review.

The Fire and Rescue Service

There are currently 46 Fire and Rescue Authorities (FRAs) across England. In Wales, there are 3 Fire and Rescue Services (FRSs) (Wales South; Wales Mid and West; and Wales North), and it has been estimated that the merger of 8 Services into 3 has saved in the region of 7.5% from total FRS resource costs. Following a national merger in 2013, there is now a single Scottish FRS which made a 10% saving in the resources budget. The estimated savings of moving to a single fire and rescue service will deliver cumulative efficiency savings of £293 million over fifteen years in Scotland.

By the end of the financial year 2014/15, FRAs in England will have seen a 22.5% reduction in central Government grant funding, equating to a cumulative cash cut of £236 million, since 2010. FRAs face a sustained challenge to identify and deliver extensive efficiency savings whilst continuing to maintain a safe, professional and sustainable service. Over the last four and a half years, FRAs have sought to implement a number of changes in operational models, 'back office' resources, and delivery in order to maintain safe response times, protect the frontline and meet a diverse array of risk profiles.

The Government commissioned the Knight Review, published in June 2013, to look at potential options for greater efficiency savings. While the report identified savings across the 46 English FRAs, which many are making, it also noted that 46 individual FRAs is not a sustainable delivery model, and encouraged Government to support local mergers. However, to date none have taken place under this Government.

Concern across the Service is understandably high, given that the financial situation and many feel that there will soon be no option but to further reduce the number of frontline personnel and appliances, which will inevitably result in increased emergency response times. Therefore, Labour is exploring more radical options for the Fire and Rescue Service and we are consulting on the scope to reduce the number of Fire and Rescue Authorities in order to protect the frontline. **If savings were achieved of between 7.5% and 10%, as in Wales and Scotland, this could mean a potential saving of between £62.7 million and £83.6 million a year in England.** It is also worth noting, as Ed Balls mentioned in his Reuters speech of June 2013, this Government has made no change to the number of departments, agencies, fire services and police forces, all with separate leadership and management structures. The case for collaboration is now surely overwhelming.

Economic devolution

Rather than the single, three year funding agreements which were committed to RDAs, LEPs have been required to bid into a myriad of small funding pots. These funding streams have been offered by different central government departments, with different deadlines, funding periods and of allocation. Under this Government there are substantial inefficiencies in the complicated, duplicative and competitive bureaucratic bidding processes to Whitehall by local areas to secure money for their own infrastructure and economic development.

Labour's plans for decentralisation as outlined in the Adonis Review will include creating a single funding pot and a much more efficient approach to ensure more money gets to the frontline, transferring £30 billion-worth of funding over five years to city and county regions with a single economic plan for the area. This will be underpinned by an English Devolution Act, pushing power out of Whitehall to Combined Authorities with coterminous LEPS, across areas including transport and housing, business support, skills and employment support.

THE LABOUR ALTERNATIVE

The Department for Communities and Local Government has total managed expenditure of over £30 billion. If we are to get the greatest value for money from this resource, to make savings, and begin to meet the fiscal challenge, we will have to think differently about how we fund and deliver our local public services. We will have to make sure that money is used to best effect in local places, by pooling budgets and ensuring collaboration locally to stop fragmentation.

The next Labour Government will change the way local authorities are funded and will implement a fairer funding system to ensure that those communities who need the most support are not unfairly targeted to bear the brunt of funding cuts. The framework will include specific agreements to ensure the financial sustainability of local government including the introduction of longer-term financial settlements.

Building on the recommendations of the Local Government Innovation Taskforce, the next Labour Government will make a pledge to communities to deliver the outcomes they want from their public services. We will give local people the freedoms and powers to redesign services to deliver with fewer resources. These changes will put communities in charge, which in turn will allow them to protect what is important to them when times are tough, as well as deliver innovative improvements when additional money is available. This reform agenda will centre on three core principles: power to people, better collaboration across services, and prevention.

The Local Government Innovation Taskforce made a series of important and valuable recommendations. Alongside a range of recommendations and best practice for local government the report argued that central government needed to do more to support councils and combined authorities to drive better services, innovation and efficiency. This included:

- Devolving budgets to local areas
- Encouraging pooled budgeting and cross service working
- Ensuring longer-term funding settlements which give local government the time to plan for real and lasting reform and efficiency
- Prioritising early intervention and prevention

This rich agenda for change in the way central and local government work together will be a vital part of how we as Labour Government get more for less – and improve services and the power of local government to drive growth and create jobs.

But this is not the whole story. Clearly if local government is to be given more power and freedom and more resources, taxpayers need to be reassured that this is being spent in the most effective way possible. So we will ensure that hand in hand with these additional powers, resources and freedoms, local authorities work together and with central

government to deliver a step-change in the structural and organisational efficiencies which the best councils are already delivering.

We will make it a statutory requirement to create local Public Accounts Committees to assess value for money and effectiveness of services in every place. Proper scrutiny of all public services is required in every community, regardless of which organisations are delivering them, to make sure that public money, whether from Whitehall or the town hall, is being well spent.

The Local Government Innovation Taskforce

The Local Government Innovation Taskforce found that evaluation of community budget pilots showed that if all places adopted the approaches on health and social care, troubled families and work and skills, there is the potential for service improvements and efficiencies to the value of between £9.4 billion and £20.6 billion over five years[1].

A) More power to local areas:

The Local Government Innovation Taskforce, the Lyons Housing review and the Adonis review of local and regional growth have set a direction of travel for Labour in Government.

As Ed Miliband has made clear, we need a culture of people-powered public services where resources as well as responsibilities for difficult choices and prioritisation are devolved. The concentration of decision-making in Whitehall is too distant from frontline realities – and greater trust in local management of programme finance is likely to create more efficient solutions better tailored to fit local need. To accompany a new local accountability of devolved decision-making, the case for new Local Public Accounts Committees at local authority level is now well made. And alongside greater accountability, devolution of power and responsibility must come commitments for further reform and greater efficiency.

B) Long-termism:

The Local Government Innovation Taskforce's recommended, as the Shadow Chief Secretary to the Treasury, Chris Leslie, said in his speech to the Chartered Institute of Accountants in May, developing a culture of longer term budgeting for local government. Annualised budgeting processes are the breeding ground for short-term decision-making. A Labour Treasury will therefore put an end to single year Spending Reviews recently introduced by George Osborne. Instead, the next Government will set out Spending Review plans on a multi-year basis and, crucially, will go further and expect departments in turn to provide public bodies and organisations under their stewardship with the same longer-term financial certainties. Such an approach to funding settlements will form part of the 'New English Deal' between central government and all local public services with a Labour Government.

[1] Whole Place Community Budgets: A Review of the Potential for Aggregation, Ernst & Young for LGA 2013

For instance, the Early Years New Delivery Model developed in Greater Manchester has calculated that a 10% improvement in school readiness could ultimately lead to a rise in earnings of 2.5% and a fall in youth unemployment of 1% across the combined authority area. The additional revenues from higher employment and reduced social security costs are an illustration of how an invest-to-save approach should save taxpayers' money in the medium term.

C) Early intervention – preventing cost escalation:

Whitehall's approach to short-term budgeting and siloed service provision fails to prevent complex and costly solutions being required down the line. A preventative approach, for example, promoting wellness and healthy lifestyles, could transform the resources available for public service development.

Oldham Council estimate that their 'troubled families' strategy will reduce the need for reactive services such as police call-outs, A&E attendance and school attendance reports potentially saving £1.1 million across the public sector in their borough.

D) Pooled budgeting and collaboration:

Efficiency savings can be released if we overcome existing structural boundaries and create cooperative arrangements with joint-working and partnership across service types and areas, including across current local authority boundaries.

The next Labour Government will drive forward an agenda to integrate health and social care, including faster progress on the integration of single budgeting for health and care expenditure building on the 'year of care funding' concept highlighted in the Commission on Whole Person Care chaired by Sir John Oldham. Greenwich Integrated Care, a partnership between the CCG and the London Borough of Greenwich, is showing how integrated whole systems response to care needs can improve independent living and make savings for the social care budget of £900,000.

Collaboration and organisational change

Whilst central government can do more as set out above to support the kinds of long-termism and pooling of budgets which is needed to drive real savings through reform, prevention and collaboration, some of the largest efficiency savings will depend on organisations – including local authorities themselves – sharing senior staff and management resources across more than one local area.

Labour local authorities are leading the way in collaboration and linking up with neighbouring councils to share services. Councils are sharing back office – and frontline – services more now than ever before, with joint procurement and pooled staffing. Most district councils are now hiring shared chief executives for dual authorities as a matter of course.

By pooling staff and resources, North East Derbyshire and Bolsover councils saved £1.5 million a year. A recent report found that Mid Suffolk have delivered £1.6 million in annually recurring savings while Cotswold and West Oxfordshire have delivered £2.06 million and Redditch and Bromsgrove have saved £2.45 million. Waltham Forest Council is bringing together employment, skills and business support provision into one department and co-locating Jobcentre Plus staff at the council.

Two tier areas should explore scope to become 'Virtual Unitaries', creating a much more tightly integrated and governed approach to collaboration, which preserves individual districts but integrates many of their services under a single joint-commissioning structure and saves money.

The previous Labour Government helped local government to make efficiency savings. Local authorities were given powers to merge and change their boundaries and in 2009 a series of local authority reorganisations brought together district and county councils and created new unitary bodies:

- Cornwall saved £25 million by moving to unitary status, saving £46 per person per year and halving the number of councillors
- Central Bedfordshire reduced administrative spending by £40 million in its first three years as a unitary council, saving £52 per person per year
- Shropshire moved from an arrangement with six separate councils to a single unitary authority, with a recent report suggesting £20 million has been saved on bureaucracy, reducing costs by £66 per person per year in that area
- And Northumberland saw seven councils merged into the new unitary authority, saving £85 million over three years, in other words, cutting costs by £91 per person per year

Other changes in Devon, Exeter and Norfolk were in the pipeline but the current Tory-led Government stopped those in their tracks and are continuing to resist local authorities' voluntary proposals to reorganise from the bottom-up.

The Government and Whitehall should be doing more to empower local councils, like Warwickshire or Leicestershire at county level, who see from the bottom up the benefits of collaboration and who are actively debating whether to reorganise. This should also include small district councils who are facing the greatest financial pressures of all.

Total net current expenditure excluding education services and public health services in English local government was £76.1 billion in 2014-15[2]. The typical efficiency saving from those authorities who have chosen to collaborate through voluntary streamlining and

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/365581/RA_Budget_2014-15_Statistical_Release.pdf

bottom-up reorganisation is similar in percentage terms and overall has been 2% of total expenditure in those areas.

This represents the equivalent of about £1.5 billion, but we know that **local government has already led the way in delivering these kinds of savings.** So given the important progress already made by many local authorities and the savings that have been achieved in some areas[3], the scope for savings has narrowed in recent years.

However, with a renewed focus on achieving savings in this area a reasonable goal is that a third of this saving can be achieved across England. This would ensure that through further sharing of services, collaboration and – where local areas want it – organisational change, over £500 million annually could potentially be released from 2016/17 onwards, which would reduce the pressure to find cuts from the frontline.

Labour's approach in Government will ensure that councils are supported and empowered to make this step up in the extent of collaboration. We will build this expectation into our local funding reforms using the experience of those authorities who have done the most in terms of collaboration and bottom-up reorganisation as the benchmark.

Multi-year budgets will enable councils to better overcome any up-front costs associated with this kind of reform in order to maximise savings to protect the frontline.

And we will not stand in the way, as this Government has done, of councils which want to make more fundamental organisational change.

£100 million can be saved from the aspects of the current department's £320 million 'Transformation Challenge Award' for 2014-16 which relate to private sector re-design of service provision in small district authorities. We do not believe that small authorities should be bidding for central approval to encourage outsourcing arrangements when successful collaborations between neighbouring local authorities should be the primary focus.

English local government is enduring significant reductions in revenue support grant which are threatening basic activities in social services, housing, environmental services, libraries and local voluntary bodies. Labour's Local Government Innovation Taskforce published important recommendations earlier this year to improve the organisation of services around users rather than sticking with the old – and expensive – bureaucratic way of working. Local government needs support from the centre as it shares services, pools budgets, collaborates and choses to integrate further.

As the Local Government Innovation Taskforce recommends, a Labour Government should require two-tier authorities to focus capacity on the frontline, ensuring effective

[3] 95 per cent of all English councils are now sharing some services with other councils http://www.local.gov.uk/productivity/-/journal_content/56/10180/3511353/ARTICLE#sthash.L5kGZvhg.dpuf

collaboration on the basis that no place is in a position to ‘go it alone’ in a time of scarce resources. As part of devolving and reforming local government to give real power to City and County regions we will also expect local authorities to collaborate and achieve significant savings through collaboration, becoming Combined Authorities and reorganising where they decide to.

Too often in the past reforms such as those set out in the Adonis review and the Local Government Innovation Taskforce have been stymied by Whitehall and Treasury inertia, as has been the case with the Heseltine review which the current Government blocked.

Labour understands that if we are to really deliver these long term efficiencies and reforms this has to stop. So a Labour Treasury will be at the forefront of working with the DCLG, other departments and local government to change this culture and give the power and freedom to local areas to make those savings.

As part of that partnership we will expect local government to demonstrate that the best practice of those areas who have driven these savings through shared services and collaboration are taken forward across all local authorities.

Longer term multi-year budget settlements, greater freedom over budgets and ring-fences, and powers over wider areas of public services will involve clear plans to drive efficiencies through shared services, collaboration and organisational change in partnership with central government.

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