

2: Scale back public sector austerity

Austerity has fettered economic recovery and failed to protect areas in greatest need. The austerity narrative is sterile, with an assumed trade off in which future prosperity is predicated on cuts. We don't accept this. We believe decent public services and fairness work with – and for – prosperity.

The challenge

The problem today is less about the structural deficit and more about the increase in current borrowing caused by a reduction in tax receipts, sluggish economic recovery and decline in real wages. In 2010 the Chancellor predicted the UK would be running a budget surplus on its current spending of £6bn by 2014/15. He now expects a deficit of £49bn.

Austerity has affected the vitality of local public services. Speedy and deep cuts to public expenditure have led to reductions in service, undermining quality of provision. The full effects of this are only now fully filtering through and will continue to do so in coming years.

We must recognise that public services play an integral part in economic productivity, local economic health and in sustaining communities.

The cuts could easily have been postponed until the recovery was assured. Instead, the cuts in 2010 sucked demand out of the economy and created a deeper and longer recession. The Office for Budget responsibility estimates austerity took 1% off economic growth in 2010/11 and 2011/12. The government itself realised this when in 2012, the Chancellor slowed down the deficit reduction programme.

This deep and prolonged period of austerity is damaging the nation's present and future. We must recognise that public services play an integral part in economic productivity, local economic health and in sustaining communities. Real per capita spending on public services will be cut by 23% between 2007/8 and 2018/19. This will reduce spending on public services and administration to its lowest share of GDP since at least 1948.

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Austerity measures are hitting local authorities particularly hard. Spending cuts are resulting in a significant funding gap, which for local government could reach over £12bn by 2019/20. This is not sustainable.

Cuts in spending power and budgeted spend are greater in deprived local authorities than in more affluent ones – a difference of around £100 per head in both England and Scotland. This is likely to exacerbate inequalities. These places are characterised by weak economic bases, high levels of social need and the worst health outcomes. The reductions in spending are only part of the story however, as authorities also have to cope with rising costs and demands.

On present trajectory much of local government will soon be unable to deliver more than just statutory services at a minimum standard. There is serious concern spreading throughout the sector and analysis shows a number of councils are heading towards financial crisis. Statutory services such as adult social care and children's services will increasingly soak up local government resource, at the expense of other discretionary services. But councils will eventually struggle to deliver in these areas too, leading to a crisis in care.

The outlook for the sector is bleak.

What needs to be done?

To address the challenge of rebalancing, CLES believes the following needs to happen.

Protect local government services

Debt should be reduced more gradually by investing in public services and thus providing a secure basis for sustainable growth and an increase in tax receipts. We should be protecting local government services alongside drivers of economic growth, including infrastructure and education. Government must now ensure real terms growth in resources to local government.

At present the Overall Settlement Funding Assessment (SFA: core funding) for England will fall by £3.3 billion from £24.1 billion in 2014-15 to £20.8 billion in 2015-16 – a fall of 13.9%¹.

We recommend that we restore funding to 2014/15 levels for each year of the next parliament, and that an additional 0.5% real terms growth (above inflation²) is implemented. This will cost

£1.45bn extra to 2019/20. This represents a total increase in resources to local Government of £4.88bn (£3.3bn + £1.48bn) for the life of next parliament.

This would halt the decline, protect services and give local government a chance to secure reform and innovations in service delivery.

Rethink balance between taxation and cuts

There are two key elements in a programme of austerity: tax increases and public spending cuts. An 80:20 rule currently exists within government: about 20% of the plan for rebuilding public finances rests on tax rises, while 80% comes from reductions in spending. Corporation and income tax have been lowered and so tax levers have not been a major instrument in implementing austerity.

There should be a fundamental rethink over the balance between progressive taxation and spending. If not we face a future of deepening inequality and increasingly limited services for the most vulnerable. Focusing on progressive tax as a lever in the implementation of austerity will allow public investment in local government services as well as education, health, jobs and welfare stability which, after all, are the foundations for prosperity and private sector wealth.

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*CLES' work with UNISON discusses alternative approaches to austerity and recommendations for a more balanced programme.*³

¹ Settlement Funding Assessment comprises £9.5 billion of Revenue Support Grant (RSG) and £11.3 billion of Baseline Funding (i.e. the amount assumed to be retained locally under the business rates retention scheme). These figures are sourced from the Department for Communities and Local Government, Final Local Government Finance Assessment, 2015-2016 (<https://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2015-to-2016>)

² The assumption is that inflation will average approximately 1% during this period (it is 0.5% now and may get lower still, but Bank of England forecasts project that it will be around 2% in the next 2 years or so)

³ Centre for Local Economic Strategies (2014) After austerity: an economic plan for the North West. <http://www.unisonnw.org/wp-content/uploads/2014/09/After-Austerity-Full-Report.pdf>

Redistribute resource according to social need

We need a fairer funding settlement for places with higher social and economic need. This is about abandoning a wholesale uniform approach to public spending cuts and future resource allocation in favour of one which differentiates needs.

There should be a robust needs-based approach to public service funding that appreciates some localities need more support. This must include a weighting within funding formulas applied across the public sector where the objective is to reduce the gap in outcomes between the most affluent and most deprived places.

CLES has undertaken a range of work highlighting inequality issues and the need for fairer funding arrangements for those hardest hit. This includes a focus on health inequalities with Public Health England.⁴

Assess economic and social impact to any funding change

There is a lack of appreciation around the overall impact of funding cuts on local services. Not enough work has been carried out on modelling how cuts may adversely affect other areas of the public sector, for example cuts in local authority adult social care could lead to bed blocking in hospitals. Government should assess the impact of all austerity related measures on inequalities. This evidence can be used to devise ways of ameliorating adverse consequences both nationally and locally, leading to a fairer and more equitable austerity programme. This should also relate to public service providers at the local level.

CLES has worked with the TUC to explore the impact of cuts and make recommendations as to how impact assessment can inform austerity.⁵

The full Manifesto for Local Economies can be viewed on the CLES website, [here](#).

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4 Centre for Local Economic Strategies (2014) Due North: the report of the inquiry of health equity for the North. Manchester: CLES <http://www.cles.org.uk/wp-content/uploads/2014/10/Due-North-Report-of-the-Inquiry-on-Health-Equity-in-the-North-final.pdf>

5 Centre for Local Economic Strategies (2015) Austerity Uncovered. Manchester: CLES <http://www.cles.org.uk/wp-content/uploads/2015/01/TUC-Final-Report-Dec14.pdf>