CIPFA BRIEFING

March 2017

investing in flexible public services

Following the Brexit vote in June 2016 and continuing austerity there has been increasing confusion over the financial stability of the public sector across England and the devolved nations. CIPFA thinks that the Government should undertake a detailed assessment of the impacts and costs of leaving the EU on the sector and for any outcomes to be taken into account in future strategic planning. Budgeting should be focussed on the medium to long-term, with investment to stimulate growth and build sustainability, particularly in health finances. Although welcome, the increase in council tax to cover social care is insufficient to tackle current problems and CIPFA calls for additional funding to be considered.

The move to 100% business rate retention is an important development, but there needs to be a balance between incentivising growth and providing support. CIPFA would like to see public sector organisations being allowed to use their resources flexibly in order to support service delivery. Authorities need greater flexibility to borrow to invest in order to manage delivery. CIPFA has recommended such flexible investment would help tackle the housing crisis along with sustainable rent policies and the retention of assets.

Public services must be aligned for the benefit of local populations but the Government needs to have a better understanding of the performance of public services before making future policy and resourcing decisions.

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Brexit

The Spring Budget must reflect the possible outcomes and cost of Brexit. The Treasury should factor in the potential impacts leaving the EU will have on all parts of the public sector.

Industrial support in any local areas, such as with the Nissan plant in Sunderland, must be replicated across the UK, in all administrations. This should also include clarity on EU funding alternatives.

As we move closer to formal negotiations, economic decisions must be UK-wide, so that they provide due weight to devolved nations and don't, for example, focus solely on financial services, which will primarily benefit London.

Central government

The UK faces a combination of failing public services and breached spending controls unless action is not taken by the Government to understand the impact of previous spending decisions on public services. CIPFA urges the Treasury take a more measured approach to its fiscal decision-making, as outlined in our recently published *Performance Tracker* report. It should proactively seek to gain a better understanding of the impact of spending reviews in key policy areas such as health and adult social care, in terms of efficiency, quality and scope.

As part of fiscal policy, the Government should be making more use of the balance sheet of the Whole of Government Accounts, to inform medium-term financial strategy and future policy decision-making.

Ring fencing spending for services can have a negative effect on other services. Ring fencing should be reconsidered and policy focus moved to constructively addressing the barriers between departments and service sectors that stand in the way of more effective deployment of scare resources. A more integrated approach for financing and delivery is needed.

Public services must be aligned for the benefit of local populations and improved economic, environmental and social outcomes more broadly. The continued support for fiscal devolution and locally determined priorities is a prerequisite for that outcome.

The Government should reassess the triple lock on state pensions in order to ease the burden of pension liabilities and address the issue of intergenerational inequality.

Devolved nations

Further devolved powers over borrowing and investment, alongside flexibilities over reserves would help promote investment in capital projects in the devolved nations.

The rebasing of England's budget for combined health and social care should be addressed, recognising the reality of the systematic demographic and other pressures affecting the NHS and councils. This would also provide the devolved administrations with choice, dependent on how the Barnett formula based block grant is used by each administration.

Health and social care

In the long term, the NHS and social care funding should be linked to a minimum share of GDP. This is increasingly relevant in the current climate of high service demand and deepening funding concerns.

In its absence, immediate adjustments are needed.

Parliament's own Select Committee has stated that the current budget plan 'does not in our view meet the commitment to fund the Five Year Forward View' because, taking 2015/16 as the base year, total health budgets will increase by only £4.5bn (rather than £8bn) in real terms by 2021. Moreover, CIPFA is concerned that pressures in the system are deflecting the additional funding from supporting transformation to sorting historic deficits. It is important that the £3.5bn gap to be covered, and dedicated to transformative and preventative action to help the longer term position.

The retiming of social care council tax increases is welcome but insufficient to deal with the problems faced by authorities. CIPFA calls for additional funding, such as bringing forward the full introduction of the planned £1.5bn funding for the Better Care Fund.

Local government

The structure of local government and the public sector more broadly needs to change to allow services to be provided more effectively and decisions on funding to be taken at the right level.

The move to 100% business rates retention is an important development for local government, but it is essential that there is a balance between incentivising growth and support for higher need councils.

Local authorities must be allowed to use their resources flexibly in order to support service delivery. This should include greater flexibility to borrow to invest. Local government has proved able to manage its borrowing within the prudential framework. To impose additional restrictions and barriers puts unnecessary burden on the sector and limits creativity and growth by stifling investment funding.

Housing

Housing is important for health and improves community wellbeing. Good housing is also a key driver in economic growth. Allowing local authorities more stability in their policy environment would give the country a greater chance of weathering economic change.

There should be a more comprehensive, less one-sided approach to English housing policy that allows local authorities the opportunity to build mixed tenure developments and use their resources with greater flexibility. This would benefit not just those in greatest need who are seeking social housing but the wider population.

Our recommendations to Government remain consistent with those we put forward in our document *Investing in Social Housing* (CIPFA, 2016) and these are focused on flexible investment, sustainable rent policies and retention of assets.

It is important that local authorities are able to produce a strong economic argument for investment funding and demonstrate the ability to repay that investment. Current policies such as right to buy and high value voids weaken rather than strengthen local authorities' ability to support the housing agenda. Our research shows that the combination of policy changes over the last four years has meant that the capacity to build new homes has dropped from an original expected level of 550,000 over thirty years to just 45,000 units over the same period.

Local authorities are still building and willing to build but the current policy framework does not support their ambitions. If the Government is to reach its one million homes target we need to ensure that it does.

Emergency services

The increasingly complex demands faced by police forces and the changing nature of crime make it imperative that any Government review of future police funding is cognisant of those forces which receive a more of their funding from Home Office grant than from their local police and crime commissioners' precept.

Alongside the Government's proposals for greater joint working between police and fire and rescue services, it has also consulted on fire and rescue authorities being funded in part by a Home Office grant rather than business rates. It will be important to ensure that both police forces and fire and rescue authorities are adequately resourced in future in order to maintain frontline services and, in areas where policing and fire services are brought together, there will need to be an assessment of the impact of implementation on both organisations.

Counter fraud

Counter fraud teams recognise that they are subject to the same budgetary pressures as other public sector service. Counter fraud professionals therefore need to consider how they reconfigure their approach to enforcement. Counter fraud activity is an important part of any organisation's strategy to ensure they maximise their resources and balance the budget.

Acknowledging the responsibility for protecting public services from fraud and corruption, CIPFA asks for greater flexibilities to be provided around data matching, intelligence sharing and support the important of risk management.

It is also CIPFA's view that as partners such as the police may have reduced resources to support local authorities, the fraud profession must be adequately resourced and trained.

Summary recommendations:

- There must be a detailed assessment of the impacts and costs of leaving the EU on all parts of the public sector in England and the devolved nations.
- Budgeting needs to focus on the medium to long term, with strategic investment to stimulate economic growth – this should include long-term preventative measures to improve the sustainability of health finances.
- There needs to be a better understanding of the performance of public services before making future policy and resourcing decisions.
- All public sector organisations should be allowed to use their resources flexibly in order to support service delivery, including greater flexibilities for local government to borrow to invest.
- To tackle the housing crisis, there must be more flexible investment, sustainable rent policies and retention of assets.

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