SURREY COUNTY COUNCIL

CABINET

DATE: **23 JULY 2013**

REPORT OF: **MR DAVID HODGE, LEADER OF THE COUNCIL**

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LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER AND DEPUTY DIRECTOR FOR BUSINESS SERVICES**

SUBJECT: **MEDIUM TERM FINANCIAL PLAN 2013-18, QUARTER ONE 2013/14 REVIEW**

SUMMARY OF ISSUE:

To consider and approve refreshed assumptions and strategic direction of the Medium Term Financial Plan (MTFP) 2013-18, following review during the first quarter of 2013/14; and the Government's Spending Round 2013, published on 26 June 2013.

RECOMMENDATIONS:

It is recommended that:

1. Cabinet notes the potential implications of Spending Round 2013 (SR2013) on the county council's budget position.

2. Cabinet notes the proposed MTFP 2013-18 budget assumption changes in light of new information available since February 2013 (paragraphs 13 to 23)

3. Cabinet revises the MTFP 2013-18 to:

   a) amend the capital programme to include an additional £95m in relation to school basic need and short stay schools for 2013-18 and £0.7m provisional expenditure in relation to the 800th anniversary of the Magna Carta.

   b) reflect additional revenue budget spend from 2014-18 for:

      - revenue costs of additional capital programme items (£7.4m)
      - unachievable savings targets included in existing MTFP of £0.8m and
      - additional Surrey Fire & Rescue Service spending pressures (£2.0m)
      - the provisional contribution to celebrate the 800th anniversary of the Magna Carta (£0.3m in 2014/15 only)

   c) add the level of additional savings that services have identified, which can realistically be delivered for 2014-18 (£56.0m in 2014-18, £19.5m in 2014/15)

   d) agree the predicted scale of currently unallocated savings required in 2014-18 if recommendations 3a-3c above are supported (£52.6m for 2014-18 and £25.6m for 2014/15).

e) recognise that the remaining currently unallocated savings (£52.6m in 2014-18, £25.6m in 2014/15) would need to be met through further savings and/or increased income to ensure a balanced and sustainable budget could be prepared for 2014/15 onwards.

4. Cabinet requires officers to continue to work to identify realistic options for discussion with stakeholders and members during the next phase of the budget planning process for preparing a balanced and sustainable budget for 2014/15 onwards.

REASON FOR RECOMMENDATIONS:

In setting the MTFP 2013-18, the Cabinet agreed to undertake a review in the first quarter of 2013/14 to take account of the need to revise any of the budget assumptions in the light of progress with efficiencies and spending reductions, any impact of the revised Corporate and Directorate Strategies and implications of SR2013.

DETAILS:

Introduction

1. The current MTFP (2013–18) was developed and approved in February 2013, in advance of a number of events that would have an impact on the council's finances in future years, specifically:

   - government policy announcements;
   - the Chancellor of the Exchequer's Budget in March 2013; and
   - the Spending Round in June 2013.

2. In addition, the council has been monitoring its budget and achievement of efficiencies & service reductions for the first quarter of 2013/14. Progress is detailed in the separate budget monitoring report on this agenda (Item 16).

3. The final MTFP (2013-18) approved by Cabinet in March included an element of unallocated savings, totalling £81m, that would be revised at the quarter 1 review in 2013/14. This early review of the MTFP (2013-18) aims to update and refresh the revenue and capital budgets for the period covering 2014 to 2018 in the light of new information ahead of moving into the next 5 year budget planning cycle.

Government policy announcements

4. In introducing the Business Rates Retention Scheme (BRRS) from April 2013, the government 'top-sliced' an amount of local government funding to be used to fund the BRRS safety net, but committed to returning unused funds to local authorities. In common with most other local authorities, and in line with intelligence from central government, the council made an assumption about the council's share of the amount that would be returned (£2.4m in 2013/14 and £3m in 2014/15). The latest advice is that due to the high number of successful appeals that billing authorities have assumed in their estimates of

business rates income this rebate is now very unlikely to be paid, if billing authority assumptions are realised.

Funding implications of Chancellor of the Exchequer announcements

5. In his budget on 20 March 2013, the Chancellor of the Exchequer confirmed the end of "contracting out" of the second state pension and provided details of the £144 a week flat-rate single state pension that will come into effect from 1 April 2016. The new single state pension will replace the two current state pensions with the state second pension to be abolished, and employees no longer able to contract out. 6

6. This will result in public sector employers (and private sector employers still offering defined benefit schemes) and their employees, facing an increase in national insurance (NI) costs.

7. For employers (including Surrey County Council), that means paying the same employer national insurance as those without defined benefit pension schemes. Thus, the council will move to a single national insurance rate, which will be in line with the current employer's NI rate of 13.8%. The current employer rebate of 3.4% will no longer be obtained as a credit (and neither will the employee get the current 1.4% rebate). Public sector employers will be required to absorb the burden with no additional revenue support grant planned or announced. For the council, this is estimated to cost an additional £6m per year from 2016/17.

8. The March Budget also indicated that the Spending Round 2013 (SR2013) would extend the Comprehensive Spending Review (CSR 2010) by one year to 2015/16 and would:

   - seek additional £11.5bn savings across Government;
   - extend protection for NHS, schools and overseas aid;
   - increase capital spending by £3bn, funded from reductions in revenue;
   - announce plans to extend community budgets; and
   - give further details of the Single Local Growth Fund (Heseltine Review).

9. The Government published SR2013 on 26 June 2013 with the stated principles of 'growth, reform and fairness'. The main points for local government are summarised below.

   a. The announcements principally covered 2015/16 – although the figures published within SR2013 have indicated an increase in the local government departmental expenditure limit (DEL) for 2014/15 of £1.7bn. The Government has indicated that before the summer recess it will publish the changes that comprise this net sum, including the local government share of the £1.2bn reduction announced in Budget 2013. Only then will it be clear whether and/or how these changes may affect Revenue Support Grant (RSG).

   b. Government budgets, including the local government control total, show average real terms reductions of -2.1% for 2015/16.

c. Government funding to local government reduces by 10% in real terms in 2015/16. This is equivalent to a reduction of -8% in cash terms.

d. The cumulative cut for all Government departments over five years from 2010/11 averages -10.3%,cuts average -18.5% across unprotected areas, some budgets will see cuts of more than a third, including local government

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e. Further council tax freeze grants for 2014/15 and 2015/16, funded at 1% for each year. The council's MTFP council tax strategy assumes a 2.5% increase in the level of council tax in each year from 2014 to 2018. The impact of accepting the council tax freeze grant in each of the two years that is equivalent to 1%, would be an on-going reduction in funding of £8.3m in both 2014/15 and 2015/16 in respect of the 2014/15 freeze, rising to £13.8m per year after that. Similarly, a freeze in 2015/16 would mean on-going reductions in funding of £8.9m, rising to £14.6m from 2016/17. By 2016/17, therefore, the on-going combined impact would be a lower council tax funding base by £28m for every year thereafter.

f. The Government intends to set the council tax referendum threshold at 2% for 2014/15 and 2015/16. The currently agreed MTFP assumes annual 2.5% council tax rises from 2014/15. If the council decided not to raise the council tax by more than the threshold limit of 2%, the loss of funding would be £2.8m per year.

g. The Government announced continued council tax freeze grant funding of £833m in 2015/16 for councils that froze their council tax in 2011/12 and/ or in 2013/14. DCLG has advised this will mean that freeze grants previously received that are due to end in 2014/15, will continue for a further year. For the council, this would mean an additional one-off funding of £13.8m in 2015/16, in respect of the 2011/12 accepted freeze grant. Decisions beyond 2015/16 will be made as part of the next Comprehensive Spending Review period (2016-20).

h. The Government announced £3.8bn pooled budget for NHS and local authorities to support integrated working. This is primarily a reallocation of some current and expected funding already in the system or announced, the main sources being core Clinical Commissioning Groups' funding. It is unclear what will happen beyond 2015/16.

i. The Government announced real terms protection of the schools budget. This is expected to protect funding going directly to schools relating to provision for pupils in school years from reception to year 11. The school related budgets that are held centrally by the Local Education Authority are not expected to be subject to the same protection, so are vulnerable to reductions.

j. The Government will reduce central education support by decreasing the Education Services Grant by around £200m in 2015/16. The Department for Education will consult in the autumn on the detail of how the reductions will be implemented through realising efficiencies and enabling local authorities to focus on their core role on schools. This new grant was introduced in 2013/14 to replace the funding formerly included within formula grant for central education support. The £200m equates to a 20% reduction. The council's MTFP assumes grant of £17m, so should this reduction rate be applied, the council could lose £3m. This reduction is in addition to any changes that may result from schools converting to academies.

k. The Government will set the Single Local Growth Fund at £2bn per year. The creation of this fund was announced in Budget 2013 and results from the recommendations of the Heseltine Review. Funding will be allocated to Local Enterprise Partnerships on the basis of growth deals negotiated with the Government. Of the total available £1.4bn will be for capital purposes. The Government has also introduced a requirement for local authorities to contribute £400m (estimated 33%) of the national funding available for the New Homes Bonus (NHB) to the Single Growth Fund and will consult on the mechanism for doing so. This is likely to reduce the council's NHB funding (£6m assumed in the MTFP for 2015/16). 6

l. The Government announced £665m funding to support collaboration and efficiency in service reform. £330m will support transformation of local services, including a £200m extension of the Troubled Families programme and a £100m collaboration and efficiency fund to enable the re-engineering of service delivery and the realisation of efficiencies. The £200m for Troubled Families was published in advance of the SR2013 announcement. It will commence in 2015/16, the first of five years and will be paid on a 'by results' basis. The Troubled Families programme is part of the 'whole place community budgets' policy, which was the subject of phase 2 of the Local Government Resource Review, launched in 2011. Data from pilot 'whole place' project business cases suggests the potential for significant savings across several service areas. In pump priming these projects it is likely that later spending plans (in the next CSR period) will seek to realise such savings.

m. In relation to Fire & Rescue Authorities, the Government announced:

- relative protection for Fire & Rescue Authorities, as a -7.5% reduction is applied to their budgets overall, rather than the -10% applied to the Department for Communities and Local Government overall. It is not clear how or whether the Government will ensure that county fire services are assigned similar protection when determining county funding allocations;

- a £45m capital fund for the Fire & Rescue Services to ensure that fire stations are appropriately located for efficient and effective service delivery. Also a £30m collaboration fund to encourage the fire service and other emergency services work together. This is to be funded from the local government settlement. This is in response to the Knight Review which identified opportunities for further efficiency reform within the fire service, such as sharing joint emergency centres, back offices and response systems. This could assist the Surrey agenda for local collaboration.

n. £13.5bn of local authority capital funding over six years, from 2015/16, comprising £4.9bn for major projects (of which £819m is for 2015/16); £5.9bn for maintenance (of which £976m is for 2015/16 and £2.7bn for integrated transport block (of which £458m is for 2015/16).

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10. The announcements above covered the whole of local government, that is district, borough, metropolitan, unitary and county councils meaning it is not possible to analyse the precise impact of these reductions on county councils as a whole, nor Surrey County Council specifically at this stage. Although the above is helpful in informing and to some extent validating the direction of travel assumed in the current MTFP planning assumptions, there is insufficient information available at this stage to propose amending the current budget planning assumptions as a result of SR2013. The future level of Government funding for this council, therefore remains uncertain.

11. It is expected that the Government will announce precise details about future funding in the Provisional Local Government Financial Settlement, which is likely in December 2013 (with the Final Settlement being expected around early February 2014). In view of the changes in the total departmental expenditure levels for 2014/15 there may be changes to previously announced funding levels for 2014/15. However, the main benefit to the council of SR2013 is therefore in relation to informing the MTFP longer term planning assumptions at the strategic level rather than any more precise information.

12. Annex 1 reproduces Sir Merrick Cockell's speech to the Local Government Association conference in July 2013 on Rewiring Public Services – Financial Sustainability. This is important contextually for all members and residents to be aware of, as it outlines the long term consequences for local government in England.

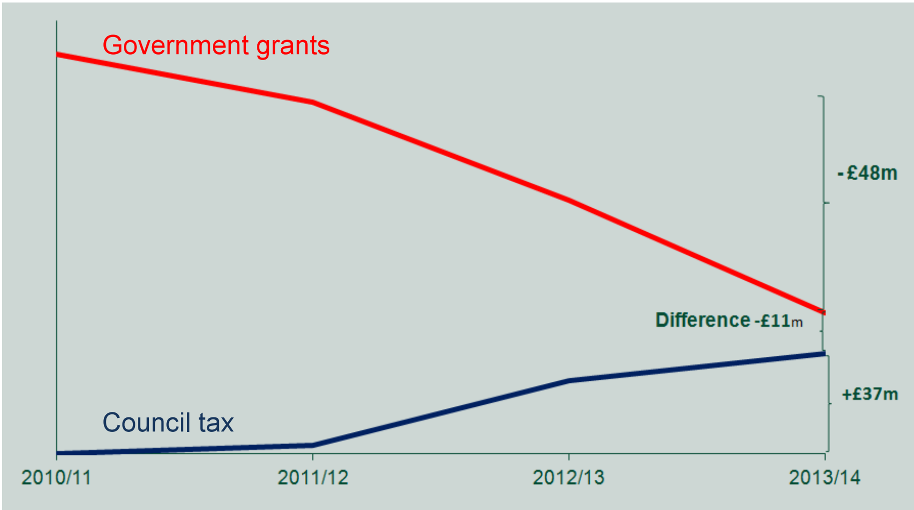
MTFP (2013-18) planning assumptions

13. Although there are no proposals to amend budget planning assumptions in light of SR2013, the following planning assumption changes are proposed in view of other Government announcements since the final, detailed MTFP was agreed in March 2013:

- safety net (reduction of £3m from 2014/15);
- single status (reduction of £6m per year from 2016/17);
- Revenue Support Grant (anticipated reduction of -£2m in 2014/15, rising to -£20m by 2017/18); and
- increase in business rates income (£6m by 2017/18).

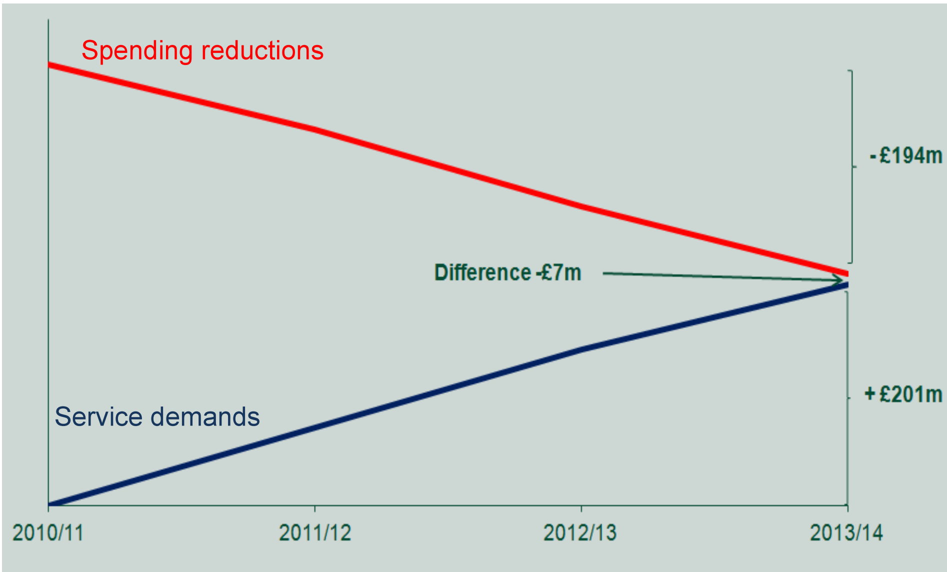
14. Between 2010 and 2014 although the council made significant strides and has further ambitious plans to deliver efficiencies, the level of service demands continue to exceed the total resourcing available, as illustrated in the chart below.

Changes in Government grants and council tax levels 2010–14



15. At the same time, the level of government funding has reduced at a faster rate than the increased income from council tax, as illustrated below.

Spending reductions and service demands 2010-14



16. These trends clearly demonstrate the significant financial challenges faced in recent years; indeed in the budget paper to Council in February 2013, it was highlighted that the position was expected to remain challenging and could worsen. This appears to be the case as illustrated by the examples of growing service pressures given below.

17. Significant among these service demand increases are the continuing pressures on school places as the birth rate has increased by around 20% since 2002. A further review of the number of schools places required beyond 2013/14 has been undertaken during the first quarter of 2013/14 and has concluded that:

- the council's programme of building school places needs to accommodate a further 4,000 children in the years up to 2018, at an

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additional cost of £93m, bringing the total capital cost of this work to £354m (£18.4m additional, £99.2m total in 2014/15) and revenue implications of borrowing the funds to deliver this programme of £1m in 2015/16 rising to £4.6m by 2018, with a full year impact of £7.3m from 2018/19. In total, the programme will provide school places for a further 20,000 children between 2012 and 2022.

- the council needs further investment in short stay schools of £2m over the next four years (£1m in 2014/15).

18. In adults' social care, demand has grown at 8% a year on average since October 2008. By way of example, the number of over 85s in Surrey's population is expected to double over the next 20 years. The Council's strategy is to act to reduce the speed at which demand is growing and there is evidence of successfully constraining demand in older people's and mental health services. In addition, the council has managed to control inflationary uplifts in its payments to suppliers of adult social care services.

19. Surrey has among the highest levels of road use in the UK, causing increasing levels of damage and wear, leading to bottom quartile road condition and a highways repair backlog of £400m. The council recognises addressing this backlog as a priority to maintaining the county's economy and facilitating its growth. As such, while the council is driving ever better value for money from its roads maintenance programme, it believes it must also maintain spending levels to improve transportation throughout Surrey.

20. A review of efficiency & service reductions targets in the Chief Executive's office has led to a reduction of £0.8m in the total likely to be achieved. Support being provided to the innovation agenda and public service transformation, together with new responsibilities for Public Health mean that the anticipated saving from reconfiguration is no longer available.

21. The Surrey Fire & Rescue Service faces increased demand pressures as a result of responding to West Sussex's withdrawal from Horley Fire Station (just over the county border) and from meeting legal requirements of providing contingency fire cover. The service also included an ambitious plan to raise income in the MTFP 2013-18, which is now unlikely to be fully realised due to the changed basis for sponsorship income. Collectively these lead to forecast additional spend pressures in 2014/15 of £1m, and up to £2m by 2017/18.

22. The council has provisional expenditure plans in relation to the 800th anniversary of the Magna Carta of: £0.7m capital spending contribution to the Magna Carta legacy programme (with consequent additional annual revenue costs of £0.1m by 2017/18) and £0.3m revenue contribution towards the Magna Carta events programme. A separate report on the Magna Carta anniversary on this agenda (Item 12) provides details.

23. With the introduction of retained business rates, the council now has a direct interest in encouraging economic growth and also the collection of business rates by Surrey's district and borough councils. Based on information and intelligence gathered during the first quarter of the financial year, it is possible to increase the forecast of business rates income in future years from an additional £2m in 2015/16 to £6m by 2017/18.

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Further savings to MTFP covering 2014-18

24. As a part of the MTFP review, services have identified further savings they consider possible to achieve between 2014-18. To enable forward planning to deliver these savings, it is proposed to add these formally to the 2013-18 MTFP at this stage. The savings total £56.0m over the period 2014-18, including £19.5m in 2014/15. Annex 2 provides details.

25. These £56.0m savings over the period 2014-18 (£19.5m in 2014/15) are additional to the £98.2m savings (£29.4m in 2014/15) already provided for in the MTFP. These current MTFP savings are analysed by risk rating below:

Savings & reductions	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2014-18 £m
Red	5,655	9,030	15,586	4,278	34,549
Amber	16,971	13,267	9,903	10,860	51,001
Green	6,773	3,183	2,214	500	12,670
	29,399	**25,480**	**27,703**	**15,638**	**98,220**

26. Following approval of these additional savings, officers will continue to work to develop robust plans for delivery of these savings for further discussion with stakeholders and members during the next phase of the budget planning process.

Summary

27. When the changes described above are factored into the MTFP 2013-18, the total unallocated savings becomes £26m in 2014/15 (compared to £47m as at February 2013) and £53m by 2017/18 (compared to £81m), as summarised in the table below.

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	2014/15 £m	2014/18 £m
MTFP unallocated savings	**46.6**	**81.4**
Funding adjustments;		
Safety net top-slice refund	3.0	3.0
Reduction in RSG	2.0	20.0
Business rates growth	0.0	-6.0
Total funding adjustments	**5.0**	**17.0**
Spending adjustments		
Impact of NI changes	0.0	6.0
Capital financing costs	0.1	7.4
Additional fire service pressures	0.3	2.0
Unachievable savings	0.8	0.8
Magna Carta celebration	0.3	0.0
Central Income and Expenditure savings	-8.0	-6.0
Total spending adjustments	-6.5	10.2
Additional service savings	-19.5	-56.0
Revised unallocated savings	**25.6**	**52.6**

28. Officers will continue to work to identify options for further savings or income generation for discussion with stakeholders and members during the next phase of the budget planning process around options for preparing a balanced and sustainable budget for 2014/15 onwards.

CONSULTATION:

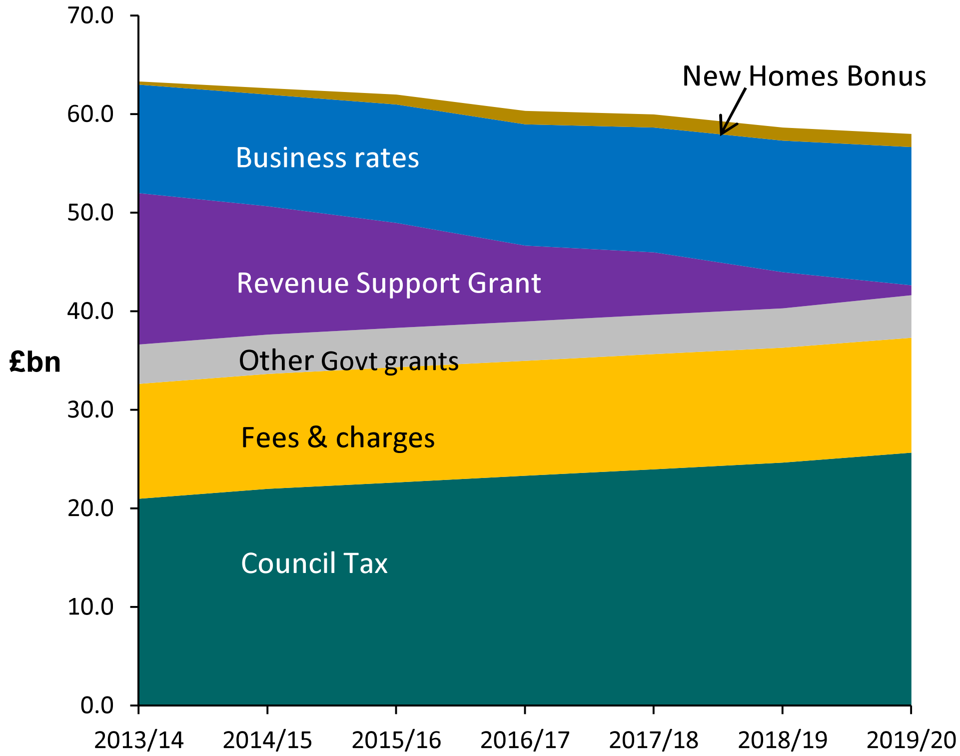
29. Consultation on the refreshed assumptions and strategic direction of the MTFP 2013-18 has taken place with all Cabinet Members, Chair of Overview Scrutiny Committee, Strategic Directors and Council Performance Team. In addition, briefings to all Members led jointly by the Chief Executive and the Chief Finance Officer have covered the Council's MTFP (2013-18) and the changing financial environment for the Council. This engagement will continue.

RISK MANAGEMENT AND IMPLICATIONS:

30. Although significant insight and rigour has been applied in constructing the budget planning assumptions, the changes reflected above illustrate the changing and challenging fiscal environment as well as changing Government policy environment within which local government operates, and evidences how this looks to be set to continue for the foreseeable future.

31. This was illustrated recently in the form of a forecast of local government future funding shared by the DCLG and replicated below.

Central government funding forecast for all local government 2013-20



32. Caution is needed in interpreting this chart since it covers the whole of local government and some sectors will have different reliance of the various funding sources. However, it is clear that the overall level of funding is likely to decline and the mix between locally derived sources (e.g. council tax) and centrally (e.g. government grant) will alter significantly in the next few years. Whilst the current MTFP planning assumptions reflect this as a direction of travel, it is not possible to assess whether these reflect the potential full effect. Officers will continue to monitor government policy closely to ensure any insights are assessed as soon as possible.

33. Further, the relative unpredictability of service demands (in particular for adults, children's and waste services) adds to the uncertainty.

Financial and Value for Money Implications

34. The cost of the emerging and new pressures faced by the council and the proposed actions to mitigate these are stated throughout this report and its annex.

Section 151 Officer Commentary

35. The section 151 officer confirms that the forecast budget pressures and savings have been based on reasonable assumptions given the uncertainty inherent in estimates of future funding levels and savings plans that will need to be developed further. There are risks in quantifying accurately the likely outcome of these pressures and savings, which is why the council has held a risk contingency budget in recent years and continues to do so in the MTFP (2013-18).

36. To develop a robust, balanced and sustainable budget the council needs to explore further additional savings and sources of funding.

Legal Implications – Monitoring Officer

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37. There are no direct legal implications arising from this report. The MTFP is an essential tool, enabling the Cabinet to plan towards its future obligations to set a balanced budget and to meet its statutory duties.

Equalities and Diversity

38. There are no direct equalities and diversity implications arising from this report. The MTFP is an essential tool, enabling the Cabinet to plan strategically towards its future obligations to set a balanced budget and to meet its statutory duties.

WHAT HAPPENS NEXT:

39. Officers will continue to work to identify options for discussion with stakeholders and members during the next phase of the budget planning process around options for preparing a balanced and sustainable budget.

40. Detailed plans for the engagement with stakeholders during the next budget planning cycle will continue to be developed.

41. Officers will take actions necessary to develop detailed plans to deliver the additional agreed savings in 2014/15.

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Consulted:
Cabinet Members and Cabinet Associate Members
Chair of Overview Scrutiny Committee
Chief Executive
Chief Finance Officer
Strategic Directors and Council Performance Team

Annexes:
Annex 1 Rewiring Public Services – Financial Sustainability
Sir Merrick Cockell's speech to LGA conference July 2013
Annex 2 Directorates' additional cumulative savings 2014-18

Sources/background papers:
- Budget – March 2013
- Spending Round 2013
- Investing in Britain's Future

Rewiring Public Services – Financial Sustainability

Sir Merrick Cockell's speech to Local Government Association conference, July 2013

Government taking big decisions may be tough but delivering them is tougher and dealing with the implications of such change day after day, year after year well, that is toughest of all.

We have endured the steepest reductions over the current spending review with 33% cuts in real terms. Now, with a single year further 10% cut announced in the spending round we were confirmed, yet again as the hardest hit part of the public sector.

We will have to deal with the impact on our residents. For many there will be a reduction, and in some cases, loss of important and valued local services such as culture, leisure facilities, school support, road maintenance and growth.

We know from our own modelling work the current financial position of many councils is unsustainable in the medium to long term.

Our analysis suggests that for 86 councils – from different regions, tiers and political control – estimated income will account for less than 85% of projected spend in 2015/16.

Put simply, these councils will be short by at least 15p for every £1 they are currently committed to spend.

These are stark figures and show the scale of what we are facing.

Vital services are being damaged because councils do not have a seat at the table to negotiate a fair deal for their communities. By contrast, where we have been directly involved in spending round negotiations, the results have been positive.

The extra £2bn of funding for health and social care integration that the LGA, on your behalf, worked so hard to negotiate will hopefully begin to tear down the old fashioned silos in Whitehall that have stood in the way of real progress.

This is a major breakthrough – it could be a game-changer but we need to go further… and we need to go faster.

We are now in a position where unless we undertake a radical reform of public services, local communities will be failed.

That's not just our view; it's the view of the Public Accounts Committee, the CLG Select Committee, the National Audit Office and many independent commentators.

In May the Public Accounts Committee concluded that government did not properly understand the overall impact on local services that result from funding reductions. It said that the government's modelling was inadequate and must be improved in time for the next spending round. Well, we've had the spending round and it has not.

We even find ourselves in the ludicrous position of having to manage cuts in areas where inspection regimes are being tightened and demands on us being increased.

A perfect example of this is the proposed 20% cut to the Education Services Grant whilst Ofsted proclaim that councils must do more to promote school improvement. This shows that not only is Whitehall not joined up but individual Whitehall departments are not even joined up with their own agencies.

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But what I am not going to do is stand here today, wringing my hands and blame others for the position we in local government find ourselves in. I'm not going to plead for more money from central government or even ask them to fix our problems. It might make us all feel better but it would be an easy, pointless option.

What I am going to say is that there is another, better way to operate but it needs central government to listen to us, carefully. They need to listen to us as a trusted partner, not the office junior who in addition to making the tea is sometimes allowed to 'have a go' at something more challenging – like the filing.

We are the ones with the track-record who time and again have proved that we have the skills, the ideas, the ambition and the vision to turn around public services in this country.

Most importantly, we have the legitimacy.

I have said many times over the last year that local is trusted over national and that remains the case.

Resident satisfaction with councils is high and people trust us more to take decisions over local services – local services that they value and care about and are at risk.

It is our duty to stand up for our communities.

We do not need permission from central government to do this and nor are we their local franchise or a branch office of Whitehall. We are uniquely local government.

We urgently need to address how councils can better lead economic growth, social care, health and children's services – with all local services putting citizens and not institutions at the heart of all that we do.

But the current model we have, indeed for public services overall, set in the context of an over centralised national state, will not see us through for very much longer. In many ways it is already bust.

That is why today we are launching 'Rewiring Public Services'- it is an ambitious programme which provides much-needed solutions to how we can deliver public services within an ever-tightening fiscal environment.

Our proposals to re-wire local public services around people are wide-ranging, ambitious and exciting and have been developed as a cross-party response to the issues facing local government.

We will show how public services can be transformed through local leadership by rebuilding democratic participation, fixing public services and revitalising the economy. Our approach contains important challenges to local government, to our communities, to our partners, but most of all to central government.

Our aim is to influence debate now and the party manifestos being written for the next General Election in two years' time.

We have set out 10 big ideas – 10 demands - to transform the way that local government is structured, funded, how that money is distributed and how central government will need to respond.

We believe these will enhance the quality of life for everyone in England and re-connect people to local democracy – giving them a reason again to participate in civic life and in their communities.

Over the last few months, we have travelled up and down the country to hear your views - nearly 700 of you took part. The ambition shown by leaders, leading councillors, chief executives and others from across England has been impressive and ensured that we have brought local and regional perspectives to the challenge we set ourselves.

In every area, something that has consistently been raised is the 'fairness issue for England'. Colleagues are clear that we must now address this 'English question' in the context of wider devolution within the United Kingdom.

People in Scotland, Wales and Northern Ireland already have a much greater say over everything from education and health to transport. Yet local government in England is still battling for the same freedoms to tackle national and local priorities. In simple terms, we and the people we serve want some of what they are already getting and, with the Scottish referendum next year likely to get even more of.

It is within this context that we set out our ideas for change.

So, first on our list of big ideas is to scrap the outdated Barnett formula and replace it with a new needs-based funding model.

In 2011/2012 England received £8,500 per person for public services. By contrast Scotland received £10,000. And last week it was announced that Scotland's day-to-day revenue spending would fall by 1.9% in real terms in 2015 and capital budgets would rise by £400m, to a total of £3.3bn. Contrast that with our settlement…

Every year I meet my opposite numbers in Scotland, Wales and Northern Ireland and they listen to us in wide-eyed disbelief at the budget cuts we are enduring and they are not.

We need to ask; if we are taking dramatically bigger cuts spending review after spending review and the other nations are getting freed from over-centralised control, what are we in England getting out of devolution? Well the answer is, not enough. I know that none of us want to hold the other nations back but we need equity and fairness throughout the United Kingdom.

Once England is able to determine its own financial fate, we propose a model based on need, with decisions about the financial distribution taken out of the hands of national politicians and replaced with an agreement across English local government.

Our proposition would change ministers' powers so such decisions are taken within the sector, with our unique local insight, rather than be vulnerable to 'tinkering' at every change of government or indeed reshuffle of ministers.

We, local government should negotiate our settlement with the Treasury – as equals, not as supplicants.

The current outdated way of working has to change.

One of the biggest complaints we have, and rightly so, is that government funding announcements are always too late.

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Indeed, last year's settlement announcement came after most of us had finalised our budgets and taken them through full Council.

We can no longer go on planning our finances over the short-term with announcements coming out seemingly at Ministerial whim.

We need certainty. We are running complex, multi-million pound businesses and we need to be able to plan our spending and investment decisions properly.

When you don't know next year's budget, but you know you have to balance it then you have to be cautious, plan for the worst and hold additional reserves. Yet government still does not understand why we do this instead suggesting that reserves are a 'pot of gold' freely available to offset the cuts.

Rule 1 of budgeting is you can only spend reserves once. And rule 2 is, "When it is gone, it's gone!"

So, we want to see a Multi-year funding settlement tied to the life of a government.

This will give local government certainty about funding and will mean we won't have to stagger from year to year having to engage in our annual guessing game about how much and when? It will lead to much better decision taking and long-term planning where financial certainty will allow service reforms that may not bring savings for several years.

Last week's announcement did give some two-year settlements and this is progress, but again, like so much, government needs to move off the too-hard shoulder and onto the super highway.

We cannot wait any longer for them to get up to speed.

Once we have fixed the structural reform of local government funding for England, we need to ensure people are given a meaningful voice on local tax and spending issues.

We believe that the starting point is a Local Treasury in every place.

This would have at its disposal all the various pots of money, across all local public services and be able to take local spending decisions based on local priorities and need. And it would have the power to decide whether specific taxes were appropriate for local circumstances.

This would truly place all of the financial power and decision-making at the local level and help to re-engage citizens.

They would be able to see that by using their vote, they have a direct influence over local spending.

The next thing we want to tackle is bureaucracy and red tape.

We must do this both in Whitehall and at the local level.

Each department has its own complicated structures of Ministers and officials, making it just about impossible for local government to work across all government departments that have a stake in local services. Each has a separate departmental budget, signed off by the Permanent Secretary that starts in Whitehall and reaches right into our neighbourhoods.

So here's an idea…If we can merge departments, merge budgets across councils… let's merge the Departments for Communities and Local Government, Energy and Climate Change, Culture, Media and Sport, DEFRA, Department of Transport, and relevant parts of the Home Office and BIS. 6

We could even rename it the 'England office', drawing together all of the areas of central government which impact at a local level and better joining up government at a national level.

Now that really would be civil service reform in action.

Not only would it reduce bureaucracy but also deliver efficiencies and savings for both tiers of government AND ensure there is a strong national voice supporting the local view in England.

We also need to cut red tape for local services by bringing decision-making together in one place.

What people want more than anything else is for services to be built around them and their families – not based around buildings, institutions and cosy bureaucracies.

This requires political, executive and managerial partnerships not just across local or indeed central government but across whole places – at a human level that people connect with and trust .

This is at the very heart of re-wiring local public services.

There are many examples of where different approaches are delivering effective joined-up local leadership.

We have already secured Prime Ministerial endorsement and in turn, government commitment to Community Budgets and an extension of the City Deals programme.

This will not only deliver big savings, both to local government and to central government, but will also improve outcomes for local people.

The Treasury and Number 10 are firmly behind a transformation of public services – we now need the rest of Whitehall to follow and implement this radical reform.

So with a new funding formula, a new Office for England and more joined up local services, what about the role of Ministers in local decision-making?

Our eighth demand is that local say is strengthened by reducing ministers' powers to intervene in local decisions, devolving more power down to the local level.

For local government to truly lead its communities we need to be freed from micro-managing ministerial interference. Too often, we end up picking up the pieces of a new idea which has come from nowhere, with little detailed consideration of the impact.

Nor can it be right that if we have a measles outbreak in our local area and we need to provide important public health information and we've used up our annual quota of council newspapers we have to 'Ask Eric' if it's OK to talk to our residents.

We have our own local democratic mandate and so it should be for us to decide how and when we can talk to our residents.

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Once we have the structure and the powers and the responsibilities we need to be left to get on with it, fully and openly held to account by residents.

We have shown over the last few years that local government is the one sector that can be trusted to deliver.

It is on this basis that we argue that we still need to go further in reducing and simplifying the inspection regime for local government.

The government has gone a good way to addressing the endless inspections, form-filling and returns that once existed and they deserve credit for that.

But we need to go further.

We need an end to flawed' tick-box' inspections and replace them with genuine consumer champions, focussing on the service people receive from schools, policing, hospitals and care homes, based on local knowledge - Information that can be developed in real time, by the people who use the services.

A kind of Trip Advisor for public services, if you like. In Kensington and Chelsea we've had resident reviewers for some time – looking in depth at particular services. And frankly, they do know best.

Take safeguarding. Our children are among the safest in the Western World and yet the whole inspection regime misses the point because it focuses too much on processes not outcomes as experienced by children.

It focuses on paper-chasing, not the well-being of children and the families and communities that they grow up in.

It focuses on blame and not on what can be learnt from success.

And it all costs a huge amount of money.

The Troubled Families Programme as a contrast invests in preventing failure not inspecting it.

It integrates public services rather than reinforcing silos.

It considers that housing, jobs and skills all contribute to the safety and well-being of children and their families.

It sees young people as a vibrant part of our future, not part of a current problem.

Another area that needs to be considerably strengthened is our ability to contribute to the housing, skills and jobs agenda.

One way to do this is to create a thriving market in municipal, bonds. SomethingEngland once had and many other countries still have. Wouldn't it be great if individuals or pension funds could invest in local bonds, get a decent return and see visible improvements in local transport or more affordable homes? And isn't it bizarre that investors can buy Danish local government bonds but they can't buy English ones?

In addition, the Housing Borrowing Cap needs to be removed so that Councils are on the same footing as any other social housing provider.

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We need to free local government borrowing from Treasury restrictions and give us more financial freedom to help support our local people and our local businesses.

Finally, we need to enshrine all of this in legislation so that we have some protection from future changes of government.

Giving the local government settlement formal constitutional protection will help to protect local democracy.

It's no good putting in place a new framework for local government only to see it dismantled by the next national government – of whatever political colour…or colours.

There are of course wide ranging political and constitutional impacts in all of this but my message to central government is clear - be as brave, ambitious and innovative as we are. We cannot continue to duck these big issues and hope that everything will be alright tomorrow.

If it is not working today, it certainly won't work tomorrow.

Simply reducing council budgets still further without making any structural changes to the current model of government will only mean that people will find that the services they thought they were paying for are no longer there – and in extreme cases, they may find their council is no longer there.

This is the start of my final year as chairman of the LGA. I won't be short of things to do over the next 12 months but it is a good time to reflect a little over the last two years.

As I travel up and down and across the country I have met literally thousands of councillors and council staff and although each place has had its own unique character, its own local issues and its own solutions, one thing has remained constant – a desire for people in local government to make a difference.

That's why rewiring public services will work.

We have a passion to make a difference to people's lives.

When I took up the chairmanship of the LGA I also wanted to ensure I made a difference to our own organisation, leaving it in better shape than when I arrived. I believe that working with my colleagues across all political parties and with the talented staff at the LGA we are now in a stronger position, with more focus and ambition than when I arrived.

By working together we have achieved much - even over the last year.

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Supported by the sector, the LGA has secured extra funding for councils or limited proposed reductions across areas such as public health, troubled families, schools and education, early years' provision, housing benefit and council tax support.

We have also continued to work on your behalf to recover money from the failed Icelandic banks, further increasing the amount repaid to councils.

In total, this added up to nearly £2bn of money that councils would otherwise not have had – money that has gone to our communities.

And that is on top of the extra £2bn announced last week for the integration of health and social care that we negotiated.

I think that's a pretty good return on your investment in us through your membership of the LGA.

We have been able to achieve all of this because we have been able to speak with one single voice on behalf of local government.

But, if we expect government to listen and act, we must also look at ourselves and be prepared to face the realities of what we see. In my time as LGA Chairman, I have not shied away from telling the coalition government what local government thinks. That hasn't always been easy. I've never been shrill or alarmist. I hope I've always been fair and straightforward. And I'm going to be that with local government today.

We need to re-balance the place councils occupy in the local mix of services and rethink what the role of a councillor actually means.

People are not interested in processes and how we do things.

They are not interested in structures and what parts of which organisation delivers which parts of a service.

They are not concerned about the number of buildings, who does facilities management or whose name is on the trucks. These are not the things that get you elected, or indeed re-elected.

What matters are outcomes – what difference are we making to their lives and the lives of their family. So you need to be challenging each and every service to see if there are cheaper ways of getting the same outcomes – whoever provides them.

We are the elected voice of our local people – often representing those without a voice.

We are the ones they trust to speak up for them, whether the public services are provided by councils, schools, hospitals or the police. If an academy or free school fails to provide the quality of education that those you represent expect or deserve, then who else but you has the legitimate right to demand improvements?

This gives us tremendous power if we choose to use it. This power comes from our community leadership through an electoral mandate, not from the size of our council or the number of people we employ.

That leadership role may mean we need to challenge ourselves, as well as others on a number of fronts.

Let me give you a really thorny example:

Joint commissioning of services by Health and Wellbeing Boards in a community budgets approach will incentivise both councils and CCGs to integrate, invest in prevention and keep older people from being readmitted to expensive hospital beds.

The results are good. People stay in their own home rather than in hospital. This is what they want. It is good for their health; they have longer and happier lives. There are also big savings to be made to reinvest in care and prevention but only if we tackle the issue of unneeded hospital beds head on.

How are you going to square integrated budgets, continuing statutory health scrutiny and the instinctive political response to defend your local hospital from any change that might question its viability?

These may require brave decisions, different ones from those you made in the past but someone has to provide that local leadership.

This is crucial if we are to better join-up local public services.

Itmay all feel uncomfortable but without change at all levels of government – and that includes local government - we will not be able to deliver a model that is future-proof.

This model is innovative, deliverable and sustainable. It will tackle long- term structural issues far beyond a shopping list of obvious one-off savings.

We now need government to play its part and help us to deliver better joined up public services, economic vitality for our nation and a new democratic deal for our residents. I urge central government to come to the table with us to be part of the solution – not part of the problem we are all trying so hard to tackle.

We have the opportunity to transform public services into something which will revitalise our communities, re-engage people with the democratic process and transform lives. That gives us great responsibility and will require courage from us all to be the community leaders this country needs for its future well-being.

The re-wiring of public services needs to happen.

It needs to happen now.

And it needs to happen at pace.

So, Rewiring Public Services sets out a pragmatic way forward which makes the most of this country's richness of community and place. It is based on fundamentally democratic principles and has the backing of all four LGA group leaders. It is founded on an idea of healthy grown up relationships: Grown up relationships between all parts of the United Kingdom, between central and local government, between those who use our services and those who provide them, between public, private and voluntary sectors.

It is not a shield to protect local government's interests. We may need to make some of the biggest changes and sacrifices. In fact it is a sword which will empower us to step forward and gain ground for our communities and for the country as a whole.

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This is your model of a future vision for local public services, created by local government.

It has the potential to leave a lasting legacy for our communities.

It is a prize we should proudly claim for the people who daily put their trust in us.

Thank you.

Directorates' additional cumulative savings

	Updated	
	2014/15	2014-18
	£m	£m
Adult Social Care	10.00	35.00
Children, Schools & Families	3.10	4.60
Customers & Communities	2.59	6.21
Environment & Infrastructure	0.80	2.80
Business Services	1.22	2.84
Chief Executive's Office	0.30	0.50
Cross council (Chief Executive's Office)	1.50	4.00
Total	**19.51**	**55.95**

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