



# ‘No Cuts’ Budget Proposal – Liverpool City Council

February 2021

## The Cuts

At the May 2010 local elections the Labour party regained control of Liverpool City Council (LCC) for the first time in twelve years. LCC has faced real-term central government funding cuts of more than 30 percent in the decade since. These savage cuts were first imposed by the Tory-Lib Dem coalition government, with proceeding Tory governments continuing the assault.<sup>1</sup>

But rather than resist these attacks, Liverpool’s Labour group has instead opted, in the main, to compensate for Tory cuts by decimating LCC’s services and raising council tax.<sup>2</sup> During the nine financial years from 2011/12 to 2019/20 Liverpool’s Labour Mayor and councillors administered £420.5m worth of budget cuts and tax

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<sup>1</sup> Liam Thorp, “[The devastating numbers that show just how badly Liverpool is treated by the Tories](#)”, *Liverpool Echo*, 28 January, 2019. It should also not be forgotten that, had Labour won the 2010 General Election, it too planned to implement a vicious nationwide austerity programme. See: Daniel Pimlott, “[Labour spending cuts deepest since 50s](#)”, *Financial Times*, 27 March, 2010. An excerpt: “[Labour Chancellor] Mr Darling on Thursday conceded that if Labour was re-elected, cuts would be ‘tougher and deeper’ than those carried out by Margaret Thatcher.”

<sup>2</sup> Attempts have also been made to compensate for Tory cuts via an “invest to earn” strategy. LCC has reportedly raised significant amounts of revenue through this scheme. But the fact remains that the figures often cited — even if taken at face value — are not large enough to compensate for Tory cuts. For example, see: Jonny Ball, “[The endless age of austerity: Liverpool puts the ghost of the 1980s to bed – for now](#)”, *New Statesman*, 9 March, 2020. An excerpt: “The strategy has brought in £57m of extra revenue for the council, but not nearly enough to compensate for the government’s fiscal tightening.”

hikes. On top of this, they passed a budget for 2020/21 which included £29.3m worth of cuts and tax hikes.<sup>3</sup>

The Liverpool Labour group's proposed LCC budget for 2021/22 includes further cuts of £15.4m and another £7.7m in tax hikes.<sup>4</sup>

In 2012 the city's then Labour Mayor, Joe Anderson, said that "people will die" as a result of his council's budget cuts.<sup>5</sup> Just under five years later the *Liverpool Echo* reported that around 160 people could be dying each year on Merseyside "due to austerity cuts".<sup>6</sup> And this was *before* the deadly Covid-19 pandemic. Clearly, the situation is unacceptable.

### **A Defeatist Strategy**

If the Liverpool Labour group's current strategy of administering Tory cuts is allowed to continue, not only is further misery guaranteed — there are now proposals to close down all of the city's One Stop Shops — but, ultimately, financial disaster is unlikely to be averted.<sup>7</sup>

"A third of England's councils believe they will run out of money to provide statutory services — such as looking after vulnerable children and adults and housing the homeless — by 2022", reported the *Financial Times* in July of 2019.<sup>8</sup> Less than a year later, there were press reports that Liverpool city council "could face

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<sup>3</sup> LCC, [General Fund Budget Update 2021/22 \(Report No: DFR/40/20\)](#), 18 December, 2020, page 1, paragraph 1.1.

<sup>4</sup> LCC, [General Fund Budget Update 2021/22 \(Report No: DFR/40/20\)](#), 18 December, 2020, page 12, table 6.

<sup>5</sup> Marc Waddington, "[Mayor of Liverpool promises to resign if 60,000 people want him to](#)", *Liverpool Echo*, 25 October, 2012.

<sup>6</sup> Bill Gleeson, "[Why are more people dying on Merseyside?](#)" *Liverpool Echo*, 7 October, 2017.

<sup>7</sup> The Liverpool Labour group's proposals to close down all of the city's One Stop Shops has engendered both public and trade union opposition. See: Lisa Rand, "[Council plans to close all One Stop Shops across the city](#)", *Liverpool Echo*, 20 January, 2021; Lisa Rand, "[Residents fear One Stop Shop closure plans will hit 'most vulnerable'](#)", *Liverpool Echo*, 21 January, 2021.

<sup>8</sup> Andy Bounds and Delphine Strauss, "[Third of councils to run out of money for statutory services by 2022](#)", *Financial Times*, 2 July, 2019. On this point, it should be noted that many Labour councillors who oppose "no-cuts" budgets claim to do so because of apparent concerns regarding the potential legal implications of such proposals, if implemented. Yet the same people appear to be much less concerned about the potential legal implications of passing council budgets which — because of cuts — in future might ultimately fail to deliver statutory services councils are legally obliged to provide.

bankruptcy”.<sup>9</sup> Then, in November of 2020, the Labour-run council in Croydon — after more than six years of obediently implementing Tory cuts — did in fact declare de-facto bankruptcy.<sup>10</sup> This made Croydon the second local authority to do so in recent years, following Tory-run Northamptonshire council’s effective bankruptcy in 2018.<sup>11</sup>

This all begs the question: why should Liverpool’s Labour group be allowed to decimate vital council services and lower working conditions, only for LCC to — in all likelihood — face eventual bankruptcy anyway?

### **A Fighting Strategy**

But there is an alternative: councillors could refuse to carry through further Tory cuts. Rather than carrying out the Tories’ dirty work, they could set a legal “no cuts” budget for the duration of at least the next year.

By adopting this strategy councillors could avoid an immediate legal confrontation, and avoid cuts in the short term.

The time bought could be used to launch a campaign — in collaboration with other local authorities and trade unions — demanding that the Tory government reverse cuts in central government funding for local councils, and provide relief funding for those authorities that have had to deplete their reserves or adopt other temporary budget balancing measures to maintain vital public services.

### **The Basic Plan**

This proposal outlines how the Liverpool Labour group’s plan to cut £15.4m from LCC’s budget by April, 2022, can be avoided. It also

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<sup>9</sup> Liam Thorp, “[Liverpool facing bankruptcy after government's shock coronavirus funding failure](#)”, *Liverpool Echo*, 30 April, 2020.

<sup>10</sup> Between 2010 and 2014 Croydon council’s budget cuts were administered by Tory councillors, who had won control of the council from Labour in 2006. Labour regained control in May of 2014, and continued to implement cuts.

<sup>11</sup> William Wallies, “[Croydon bankruptcy offers cautionary tale for cash-strapped councils](#)”, *Financial Times*, 13 January, 2021.

proposes that the Labour group’s planned council tax hike of 4.99 percent be jettisoned, and shows how such a move could be funded. Moreover it is shown that, for the next financial year, scope exists to provide LCC employees with a three percent pay rise — as opposed to the pay freeze planned for many LCC employees by the Tory government and Liverpool’s Labour group.

This “no cuts” budget proposal recommends the use of reserves. It should be noted that these reserves, once depleted, cannot be reused.

If implemented, this budget proposal will give councillors, trade unions, and community activists at least one year to mobilise a mass campaign to force the Tory government and its austerity agenda into retreat – stopping cuts and winning money back from central government.

### **Setting A Budget Over One Year**

This “no cuts” budget proposal advocates the setting of a one-year budget. The Liverpool Labour group’s current budget proposals are also based on a one-year budget. Therefore, on this point, no change is suggested.<sup>12</sup>

### **Buying Time with Usable Reserves**

Some reserves are legally ring-fenced for funding projects that councils are required by law to provide. These “unusable” reserves cannot be drawn on to oppose service cuts.

“General” reserves, on the other hand, can be used to oppose Tory cuts. According to the Chartered Institute of Public Finance and Accountancy (CIPFA), balancing an annual budget by drawing on “general” reserves “is not normally prudent”. However, it “may be viewed as a legitimate short-term option” provided that where “such action is to be taken, [it is] made explicit, and an explanation given

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<sup>12</sup> LCC, [General Fund Budget Update 2021/22 \(Report No: DFR/40/20\)](#), 18 December, 2020, page 3, paragraph 1.12: “A one-year budget is proposed as government funding in 2022/23 and future years is uncertain.”

as to how such expenditure will be funded in the medium to long term.”<sup>13</sup>

The same logic applies to the use of “controllable earmarked” reserves. These reserves are accounted for separately by councils. However, along with “general” reserves, they “remain legally part of the General Fund”, CIPFA notes.<sup>14</sup> Consequently, LCC has acknowledged that “controllable earmarked” reserves “may also be used on a short-term temporary basis for other purposes” — like balancing an annual budget — “provided the funding is replaced in future years.”<sup>15</sup> The public statements of some other local authorities are even more unambiguous on this point. Sunderland City Council, for example, notes:

The General Fund Balance represents general resources available to the Council to act as a contingency to help cushion the impact of unexpected events or emergencies and, as such, would be the last reserve to be considered for one-off use. ... ***Most of the other usable reserves could [also], in principle, be used to support one-off service provision*** [TUSC’s emphasis], although there are a few exceptions such as the Capital Receipts reserve and the Capital Grants Unapplied reserve which are subject to statutory limitations (for example the Capital Receipts Reserve can only be used to fund capital expenditure or repay debt) ... .<sup>16</sup>

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<sup>13</sup> CIPFA, [LAAP Bulletin 99: Local Authority Reserves and Balances](#), July, 2014, pages 9-10, paragraph 35.

<sup>14</sup> [Ibid.](#), page 4, paragraph 22.

<sup>15</sup> LCC, [Medium Term Financial Strategy 2013/2014 to 2016/2017](#), 6 March, 2013, page 40, paragraph 14.1. For further explanation of which reserves LCC considers to — in principle — be usable, see: LCC Information Team, [Freedom of Information Request 521865](#), 11 September, 2019. Note also that the Local Government Association (LGA) advises thus: reserves “restricted by local agreement to fund certain types of expenditure” — like controllable earmarked reserves — “can be reconsidered or released if the council’s future plans and priorities change.” LGA, [A councillor’s workbook on local government finance](#), March, 2018, page 24.

<sup>16</sup> Adam Dodsworth, Senior Accountant, Coordination and Technical Financial Management, Corporate Services, Sunderland City Council, [Freedom of Information Request 3266](#), 25 January, 2021. Available at: [https://www.whatdotheyknow.com/request/sunderland\\_city\\_council\\_reserves#incoming-1727405](https://www.whatdotheyknow.com/request/sunderland_city_council_reserves#incoming-1727405). For an example of where a local authority has used “controllable” earmarked reserves to support service provision on a once-off basis, see: St Helens Borough Council, [Freedom of Information Request 20210124-0076-1](#), 23 February, 2021. An excerpt: “in setting the 2020/21 budget £5m of earmarked reserves was utilised in balancing the budget. It is recognised the use of reserves for 2020/21 was one-off and is not a sustainable

There have been a small number of cases in recent history where anti-austerity councillors in England have proposed “no cuts” budgets based on the spending of usable reserves. No determination was made that such proposals were strictly “illegal”.<sup>17</sup>

In Lewisham in 2008, for example, two Socialist Party councillors proposed that “general” reserves be used to avoid cuts.<sup>18</sup> Lewisham’s Chief Financial Officer (CFO) acknowledged that “general” reserves could in principle “be applied on a once-off basis to support service provision.” Whether “general” reserves should be used to oppose cuts was “ultimately a judgement about the benefits of maintaining this resource rather than applying it”, the CFO added.<sup>19</sup>

Such sentiments reflect a basic principle of local authority finance: the level of reserves maintained by a council is a political decision. CIPFA is clear on this point:

In the absence of prescriptive legislation it has always been recognised that it should be a local decision to determine reserve levels. ... The assessment of ‘adequate’ and ‘necessary’ levels of reserves is a matter for local authorities to determine.<sup>20</sup>

Similarly, a parliamentary briefing paper published in 2016 explains:

Under section 32 of the Local Government Finance Act 1992, local authorities are required to maintain an appropriate level of reserve funding. As with prudential borrowing, the

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position moving forward.” Available at:

[https://www.whatdotheyknow.com/request/st\\_helens\\_metropolitan\\_borough\\_c\\_2#incoming-1731262](https://www.whatdotheyknow.com/request/st_helens_metropolitan_borough_c_2#incoming-1731262)

<sup>17</sup> TUSC, *Preparing a No Cuts People’s Budget*, 12 January, 2016.

<sup>18</sup> London Borough of Lewisham, *Council Meeting Agenda*, 3 March, 2008, pages 974 to 976.

<sup>19</sup> London Borough of Lewisham, *Budget 08/09*, 13 February, 2008, page 100 (Appendix Y3).

<sup>20</sup> CIPFA, *The CIPFA Financial Management Code (Consultation Version)*, 15 March, 2019, page 34, paragraphs 106 and 108. On this point, it should be noted that three councils reportedly opted to issue no “unallocated” reserves in 2017/18. Gareth Davies, “[Revealed: How up to 15 councils wrongly reported no reserves](#)”, *Local Government Chronicle*, 2 May, 2018.

judgement as to an appropriate level of reserves lies with local authorities: there is no formula to arrive at the ‘correct’ level.<sup>21</sup>

The fact that elected councillors have the final say on reserve levels is important.<sup>22</sup> So, too, is the fact that “general” and “controllable earmarked” reserves can be used to balance an annual budget provided the funding is replaced in future years. Taken together, both of these facts indicate that usable reserves can legally be drawn down to temporarily stop Tory cuts, thus buying time for councillors, trade unions, and community activists to mobilise a mass campaign to force the Tory government into retreat – ending austerity and winning money back from central government.

### **Liverpool City Council’s Usable Reserves**

The latest available LCC usable reserve figures, below, relate to reserve levels as they stood on 30<sup>th</sup> November 2020.

- “General” reserves: £17.4m
- “Earmarked risk” reserves: £29.6m
- “Specific scheme” reserves: £16m

Hence, according to the latest available figures, LCC has total usable reserves of £63m.<sup>23</sup>

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<sup>21</sup> Mark Sandford, *Local government in England: capital finance*, House of Commons Library, 2016, 27 June, 2016, page 8. Cited in Unison Leicester City, [“No Cuts” Budget Proposal](#), February, 2017, page 8.

<sup>22</sup> Although elected councillors must take account of the advice offered to them by their CFO, they are not obliged to follow it. “The level of reserves and balances is principally the professional responsibility of the [CFO] to advise members on. Members are not automatically obliged to accept this advice, but must pay due regard to it and be satisfied that they have met their own statutory and fiduciary obligations if they are minded to depart from the advice.” Lambeth London Borough Council, [Revenue & Capital Budget 2010/11 to 2012/13](#), 8 February, 2010, page 19, paragraph 5.8. Similar statements can be found elsewhere. See, for example, Isle of Wight Council, [The Legal Framework Governing Budget Decisions](#), 21 February, 2007, paragraph 5: “Members should have regard to the personal duties placed upon the Director of Finance as Chief Financial Officer. The Council may take decisions which are at variance with his advice, providing there are reasonable grounds to do so.”

<sup>23</sup> At the time of writing (February 2021) the latest usable reserve figures available are in: LCC, [Revenue Monitor 2020/21 Month 8 \(November 2020\)](#), 22 January, 2021, pages 21-23, paragraphs 7.1 and 7.4 (table 3). For an explanation of which reserves LCC considers to be usable, at least in principle, see: LCC Information Team, [Freedom of Information Request 521865](#), 11 September, 2019. This document explains that “general” and “earmarked risk” reserves “spent on a one-off basis to support service provision during the year ... would need to be replenished the following year.” It also explains that the reallocation of “specific scheme” reserves

## **No More Tory Cuts – Resist Now**

Liverpool’s Labour group plans to cut £15.4m from LCC’s budget by April, 2022. Some of the service areas targeted are: regeneration, adult and children’s social care, and community resources — including the proposed closure of every One Stop Shop in the city.<sup>24</sup>

These vicious cuts can and should be avoided by drawing down LCC’s “general” reserves. Doing this would reduce the “general” reserves from £17.4m to £2m.

## **Reverse the Council Tax Hike**

Liverpool’s Labour group also plans to raise council tax by 4.99 percent in 2021/22. Through this LCC will draw in estimated additional revenue of £7.7m over the next year.<sup>25</sup>

This tax hike can and should be reversed, with the resultant shortfall of £7.7M to be met by drawing down: (a) the remaining £2m of “general” reserves; and (b) £5.7m from the “earmarked risk” reserves.

This would leave LCC with total usable reserves of £39.9m (“earmarked risk” reserves of £23.9m and “specific scheme” reserves of £16m).<sup>26</sup>

## **Reverse the Pay Freeze**

The Liverpool Labour group’s budget proposals for 2021/22 note:

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can potentially jeopardise projects such reserves were initially assigned to fund. But neither of these points imply an outright prohibition against the use of the aforementioned categories of reserves to fund services on a one-off basis — especially if such use is accompanied by an explicit plan to restore the funds in future. The launch of a council and trade union campaign demanding that central government provide relief funding to replenish spent reserves constitutes such a plan.

<sup>24</sup> LCC, [General Fund Budget Saving Options — Appendix 1](#), 4 January, 2021. For further information on the proposed One Stop Shop closures, see: Lisa Rand, [“Council plans to close all One Stop Shops across the city”](#), *Liverpool Echo*, 20 January, 2021.

<sup>25</sup> LCC, [General Fund Budget Update 2021/22 \(Report No: DFR/40/20\)](#), 18 December, 2020, page 12, table 3.

<sup>26</sup> The “general” reserves would be exhausted, leaving only “earmarked” reserves. This is not an unprecedented situation. Three councils reportedly opted to issue no “unallocated” (i.e. “general”) reserves in 2017/18. Gareth Davies, [“Revealed: How up to 15 councils wrongly reported no reserves”](#), *Local Government Chronicle*, 2 May, 2018. An excerpt: “three ... councils did in fact have nothing in their unallocated reserves, ... [t]hey each told the Bureau [of Investigative Journalism] they had put the money into their earmarked reserves”.

an overall 3% increase in pay had been assumed in the forecast for 2021/22. According to the Spending Review the Government is proposing a one-year pay pause for the public sector except for some NHS workers and those earning less than £24,000 per annum who will receive a minimum £250 increase. If the pay pause is implemented then the forecast budget gap for 2021/22 can be reduced by £4.5m.<sup>27</sup>

Irrespective of what the Tory government proposes, such a pay freeze should not be implemented by Liverpool's councillors.<sup>28</sup>

Reversing the planned pay freeze and instead giving LCC employees an overall three percent pay rise will cost £4.5m.

Having been drawn down to help reverse the Labour group's planned council tax hike, LCC's "earmarked risk" reserves would stand at £23.9m. This figure should be drawn down by a further £4.5m in order for the planned pay freeze to be jettisoned, thus providing LCC's employees with an overall pay rise of three percent.

Doing this would leave LCC with total usable reserves of £35.4m ("earmarked risk" reserves of £19.4m and "specific scheme" reserves of £16m).

### **Restoring Funds Used To Fight Cuts**

Reserves spent implementing a "no cuts" budget in 2021/22 will have to be replaced in future years. In order to achieve this, Liverpool's councillors should launch a campaign — in collaboration

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<sup>27</sup> LCC, [General Fund Budget Update 2021/22 \(Report No: DFR/40/20\)](#), 18 December, 2020, page 12, paragraph 4.1.

<sup>28</sup> Interestingly, when in opposition in March of 2010, Liverpool's Labour group advocated that "earmarked" reserves be drawn down — albeit on a more limited scale than this "no cuts" budget report advocates — following the Local Government Employers decision not to offer a pay award to local government workers that year. The proposed draw down of reserves was intended, in part, to fund "possible wage rises for Council Staff". LCC, [City Council Meeting Summons](#), 3 March, 2010, pages 14-15. An excerpt: "Making financially prudent provision for possible wage rises for Council Staff ... [should, in the opinion of the Labour group, be one of the] City Council's priorities ... Therefore the Budget should take into account the following measur[e]: ... In view of the Local Government Employers decision not to offer a pay award to local government workers for 2010, the 2010/11 provision of £1,013,000 and the future years reserves (indexed) proposed to provide resources for any 2010 pay award be reduced to £500,000, saving £513,000."

with trade unions, councillors from other local authorities, and community activists — demanding that the Tory government reverse cuts in central government funding for local councils, and provide relief funding for those authorities that have had to deplete their reserves or adopt other temporary budget balancing measures to maintain vital public services.

### **Summary**

Margaret Thatcher once said “there is no alternative.” She was not telling the truth. Neither are Liverpool’s Labour councillors when they repeat her maxim.

This “no cuts” budget proposal shows that there is an alternative. It is possible to implement a legally balanced budget that avoids an immediate legal confrontation, avoids cuts in the short term, and provides breathing space to build a struggle against Tory austerity.

Rather than carrying out the Tories’ dirty work, Liverpool’s councillors should pursue an alternative strategy: fight cuts now — implement a legal “no cuts” budget.