

Committee:	Date:
Finance Committee	9 December 2014
Subject: i) Autumn Statement and ii) National Audit Office report on the Financial Sustainability of Local Authorities	Public
Report of: The Chamberlain	For Information
Summary	
<p>The Chancellor's Autumn Statement gives a broad view of overall public sector finances and reductions in the overall departmental expenditure levels until 2020.</p> <p>The Government has confirmed the level of local authority funding for the current Comprehensive Spending Review period which ends in March 2016. The pace of spending reductions in 2016-17 and 2017-18 appear to be faster and steeper than previously thought. With ring-fencing of health, education and international development likely to continue, and local government continuing to bear a disproportionate share of the cut, further substantial cuts to local government and police funding seem likely.</p> <p>Further analysis will be undertaken as more detailed information becomes available and included in the reporting on medium term financial forecasts to Finance Committee in February.</p> <p>The NAO's recent report on the Financial Sustainability of Local Authorities concluded that local authorities have worked hard to manage the reductions in funding through a mixture of efficiency measures and service transformation there is some evidence of reductions in service levels. The NAO therefore advises the DCLG to look for evidence of financial stress in local authorities' ability to deliver the services they are responsible for and encourages the Department to be better informed in discharging this role.</p> <p>Recommendation</p> <p>Members are asked to note the report.</p>	

Main Report

Background

1. The Chancellor's Autumn Statement gives a broad view of further reductions in overall public sector finances and therefore an indication of whether our forecast reductions over the medium term are adequate or whether further reductions are likely. The Government has confirmed the level of local authority funding for the current Comprehensive Spending Review period which ends in March 2016. The City Fund financial forecast includes further

reductions in local government funding over the medium term horizon up to March 2018 (namely, a £10.6m reduction over the next three years; representing a 24.8% reduction from 2014/15 funding levels).

The Autumn Statement

2. From our perspective as a local and police authority, the key financial points are:
 - The pace of spending reductions in 2016-17 and 2017-18 appear, at this early stage, to be faster and steeper than previously thought.
 - a. The 2013 Spending Round outlined a 10% cut in real terms for the Department for Communities and Local Government in 2015-16. From this, the illustrative local government finance settlement shows a real terms cut to Settlement Funding Assessment (ie core funding) for London boroughs of 16%.
 - b. It is not possible to say how this will affect local government and police as individual DELs have not been set beyond 2015/16. However with ring-fencing of health, education and international development likely to continue, and local government and police continuing to bear a disproportionate share of the cut to the remaining Resource Department Expenditure Level (DEL), the steeper cuts to overall DEL in 2016-17 to 2019-20 suggest further substantial cuts to local government and police funding. London Councils will update its modelling of Revenue Support Grant for circulation to finance officers shortly.
 - The Government is committing to give local authorities and CCGs indicative multi-year budgets as soon as possible after the next Spending Review.
 - There are a range of measures to reduce the tax burden on business rate payers, including capping the business rates multiplier at 2% in 2015-16; extending small business rates relief for 2015/16; and increasing retail relief. The Government will also conduct a long term review of the structure of business rates.
 - The principles of the Troubled Families programme will be extended to other groups of people with complex needs from the next Spending Review.
 - No new announcements on Council tax were made.
3. There are a few further points of interest:
 - An extra £2 billion will be spent on frontline NHS services in 2015-16.
 - The Government will seek a further £10bn of efficiency savings by 2017/18, led by the Cabinet Office, working with HM Treasury and departments. It is not yet known how this will affect police and local government.
 - The OBR has concluded that the Government is on track to meet its fiscal mandate – to borrow only what it needs to pay for investment,

adjusting for the state of the economy, at the end of the five-year forecast – with £50.6 billion to spare.

- In its first formal assessment, the OBR judged that the Government is on course to keep spending on social security and tax credits (excluding the state pension and those benefits that vary most with the state of the economy) within the permitted margins of the ‘welfare cap’.
- GDP growth figures for 2014 have been revised up since the 2014 Budget from 2.7% to 3.0%; likewise figures have been revised up slightly for 2015. However, forecasts for 2016, 2017 and 2018 have fallen since March.
- Government has changed the calculation of Stamp Duty on purchases of residential property so that rates apply to the portion of the purchase price within each band – which is similar to how income tax works. The Government will also amend the rates and thresholds taking effect on and after 4 December 2014.

4. There is more detail in the attached London Councils analysis (appendix 1).

National Audit Office Report: Financial Sustainability of Local Authorities

5. The level of the reduction on funding for local authorities since 2010 has prompted the National Audit Office to review the impact and assess the overall financial sustainability of local authorities. The NAO reported its conclusions in November highlighting that the 37% real term reduction on government funding to local authorities between 2010/11 and 2015/16 has led to a fall in the provision of core services, although not necessarily leading to a worsening in the quality of service or outcomes for users. Local authorities have coped well in financial terms with the reductions so far, but Auditors are now highlighting that 52% of single tier and county councils are not well placed to deliver their medium term financial strategies.
6. The DCLG has changed the funding system to allow local authorities to keep a share of locally raised business rates, and the intention is that this change will enable local authorities to increase their income. For the City of London Corporation, the level of appeals, reducing the business rates income, means we have not benefitted from the change.
7. Other key findings include:
 - The Department’s main indicator of change to local authority income does not give it a measure of the scale of the financial challenge facing local authorities over time and the department has a limited understanding of the financial sustainability of local authorities.
 - The Department expects local authorities to manage future funding reductions by transforming the way they deliver services, but has limited understanding of the size and timing of resulting savings.

- The Department does not monitor the impact of funding reductions in a co-ordinated way.

8. The NAO concludes:

Local authorities have worked hard to manage the reductions in government funding through a mixture of efficiency measures and service transformation. At the same time, there is some evidence of reductions in service levels. Because of the legal requirement on local authorities to balance their budgets, it is unlikely that stress in local authorities will manifest itself in financial pressures. Instead, the Department will need to look for evidence of financial stress in local authorities' ability to deliver the services they are responsible for. Some services, such as adult social care, are also under pressure from demographic-led demand. Demands on children's services are also increasing.

The Department for Communities and Local Government has a central role in funding local authorities and establishing and maintaining contact between central and local government. It should be better informed in discharging this role, both in its information about the situation on the ground among local authorities across England, and about the various funding decisions and initiatives taken by departments in Whitehall. This is particularly important given the pressures on local government arising from austerity to date, and the fact that this is likely to continue for some years to come.

Conclusion

9. The pace of government spending reductions in 2016-17 and 2017-18 appear, at this early stage, to be faster and steeper than previously thought. Further substantial cuts to local government and police funding seem likely. Local authorities have worked hard to manage the reductions in government funding through a mixture of efficiency measures and service transformation, but further transformation and reductions in service provision appear a likely outcome from further reductions in funding.

Appendices

- Appendix 1 – London Councils summary
- Appendix 2 – National Audit Office Report: Financial sustainability of local authorities: SUMMARY. Full report can be found at the following link:

<http://www.nao.org.uk/wp-content/uploads/2014/11/Financial-sustainability-of-local-authorities-20141.pdf>

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