Committee:	Date:
Finance Committee	15 December 2015
Subject: Autumn Statement and Spending Review	**Public**
Report of: The Chamberlain	**For Information**

Summary

The Autumn Statement – which confirmed a £27bn improvement in the forecast public finances over the Parliament – enabled a softening in the degree of austerity announced in the Spending Review.

The two 'surprise' announcements were the cancellation of the reduction in tax credits and on police funding.

Police were given a 'flat real' settlement, based on the assumption that local council tax would increase to offset a 1.3% real terms reduction in central government funding over four years.

The position for local government is more complex, with the phasing out of revenue support grant in part offset by council tax and localisation of business rates. Estimates suggest this will translate into a 24% real terms reduction over four years. We will only know the detailed local impact on City and CoL Police when the provisional settlements are published on 16/17 December.

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.

Recommendation

Members are asked to note the report.

Main Report

Background

1. On 25 November, the Chancellor announced the outcome of the Spending Review 2015. The Spending review details settlements for each government department over the next four years.

2. While generally seen as very positive with the decision not to cut tax credits and protection for police, there is a mixed outlook for many public services. The decisions are reliant on the current growth forecast for the economy, which suggests the country is on track to eliminate the deficit with a £10bn surplus in 2019-20. Interest rates are assumed to remain low, there are

improved forecasts for GDP and a number of tax and spending initiatives that, over the course of the current Parliament, will result in £6bn additional income per year.

3. The Spending Review provided a complex picture for local government. While a cash-terms increase in spending over the course of Parliament was suggested by the Chancellor, this is based on the premise that a cut in funding will be offset by an increase in taxation receipts, generated by council tax and business rates. The Chartered Institute of Public Finance and Accountancy has stated that "The sector's early view is actually that this disguises a range of worrying and significant real cuts depending on the assumptions used. The lack of detail and transparency in the announcement makes it very difficult to determine the actual outlook for local government". In practice, local government may face a reduction of around 24% in real terms funding.

The Autumn Statement

4. From our perspective as a local and police authority, the key financial points are:

- The Chancellor's announcement that there will be 'no cuts' to Police budgets is obviously very welcome news, especially at a time of emerging threats and new forms of crime. However, the headline may not translate into 'no cuts' to the City of London Police. Overall police funding, including funding for Counter Terrorism, has been cut by 1.3% in real terms over four years. In a letter to PCCs and Chief Constables the Home Secretary and Policing Minister say that "taking into account the scope that you have to raise local council tax, this means a flat real settlement for policing as a whole."

  There is therefore an assumption that 'no cuts' is possible if flexibility is used in raising Police precepts. A number of 'topslices' are also expected from the overall funding pot to meet an additional commitment to counter terrorism and other priority schemes. This implies that core funding will reduce. Notwithstanding these uncertainties, the Spending Review should significantly improve our current financial forecast for the Police which shows a deficit of £4.8m by 2017/18 having fully utilised reserves – this would have required budget savings of approaching £9m to achieve a reserve level of £4m.

- Phasing out of revenue support grant (RSG). There is no detail as yet on the profile of the reductions. Our financial forecasts assume an even trajectory, with RSG eliminated by 2019/20.

- Introduction of an apprenticeship levy of 0.5% on salary bill from April 2017. It is not clear from the announcement whether there will be any exemptions for public bodies. If not this could be an additional annual cost of approximately £1.2m. That said, if we employ apprentices, they would be funded through the scheme.

- New council tax precept of up to 2% which must be spent on funding social care. For the City this would only generate a relatively modest £100,000.

- Business Rates devolution, with local government retaining 100% of business rates revenues by the end of the Parliament. It is unclear how this would work in practice as reference is still made to levies and tariffs and, of course, the GLA share would need to be negotiated. The Chancellor revealed little extra information. It appears to be a positive development, but it is not yet known which responsibilities may be transferred under the deal e.g. police, public health and special education needs. The Government will consult on the reform in 2016, taking into account the wider resources available to councils including council tax, and consider the transfer of funding for the administration for Housing benefits for pensioners, TfL capital funding and public health.

- The Government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects. Instead of holding assets that could be made surplus, councils will be able to sell them and reinvest in their services that allow them to deliver more for less – for example in home improvements that can help keep older people from needing to go to hospital. The flexibility to use asset receipts for reform projects will be subject to a number of conditions, including limits on the years in which the flexibility will be offered and the qualifying criteria for reform projects.

5. There are a few further points of interest:

   - An extra £6billion will be invested in the NHS, but £2bn is already factored into the 2015-16 resourcing, which is set to overspend.

   - The Better Care Fund will be expanded by £1.5bn nationally by 2020

   - 400,000 affordable homes to be started by 2020/21.

   - In London a new Help to Buy equity loan scheme will allow buyers to get a loan for 40% of the value of the home from 2016. The current scheme offers 20%.

   - The OBR forecast suggests the Government is on track to meet its fiscal mandate and supplementary target – public sector net borrowing is expected to be in surplus by 0.5% of GDP (£10.1bn) in 2019/20.

   - The OBR forecast that the terms of the ‘welfare cap’ are set to be breached in three successive years from 2016/17 to 2018/19.

6. There is more detail in the analysis by London Councils, attached at Appendix 1 and in the analysis by the Police and Crime Commissioner’s Treasurers’ Society at Appendix 2.

7. Further analysis will be undertaken as more detailed information becomes available in December with the local government and police settlements and will be included in the reporting on medium term financial forecasts to Finance Committee in February. Your Chairman and the Chairman of Police also plan to run a Member session in January to discuss the implications of the settlement expected in December for Police.

Appendices

Appendix 1 – London Councils summary
Appendix 2 – Police and Crime Commissioners Treasurers' Society summary

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