

Response to the Spending Review from CIPFA Local Government Policy panel

From a local government policy perspective this Spending Review addressed some of the key items on the national policy agenda. Policy debates, such as the raising of council tax, which had until now been confined to the specialist media or interested stakeholders, have been made part of the national conversation.

These topics are important to debate and discuss as it familiarises the public with the challenges of making sure our public sector is supported by sustainable funding. While directors of finance will be aware of the policy discussions, it is critical that we take this opportunity to raise the profile of some of these arguments.

The exact implications for individual authorities will really only become evident when the provisional settlement is announced mid-December. This is because the Spending Review figures will be different from the provisional settlement, as some of the assumptions made by the OBR may differ from figures produced by others. Despite this, underlying policy debates can still be held and now is a good time as we wait for the detail.

When you look at the cuts that have been received across the board over the last 3 years local government and the DCLG have been the hardest hit. Yet, local government has been very successful when it comes to managing service deliver with less and less resources. As the Chancellor himself said local government has received increased satisfaction levels over this period.

“and public satisfaction with our local government services has risen.”

Local government is clearly still able to effectively manage and deliver. It is against this backdrop that Government has developed a devolved agenda. As part of the devolution deals, local government has willingly taken on more risk and responsibilities. Now a conversation has to take place around the balance of those risks and responsibility.

It is the responsibility of the director of finance to make the case where there is an imbalance not just at a national level but also at a local level. Being part of the consultation on additional responsibilities will be key to this so it is welcome that the debate around public health was announced in the speech. However this conversation should also extend to additional fiscal flexibilities such as borrowing.

A key part that helps to ensure local government finances are sustainable was also missing in the Spending Review narrative- there was still no inclusion of multiyear settlements. Short term funding is not contusive to the new financial landscape and the requests for a longer term approach are getting louder. Understanding that this approach might take time, realistically the sector cannot have the figures this month, but this should not be a barrier to providing details during 2016.

Since 2013, local authorities have been faced with a referendum limiting any increase on council tax. The rise in council tax now being introduced to pay for adult social care is a step forward in acknowledging that council tax and any increase in council tax is no longer unthinkable as well as the demographic pressure of a maturing population. A sustainable finance system has to be based on more than grants.

While the recognition that demand could not be met without additional tax raising powers is significant, it should be pointed out that this 2% increase is wholly inadequate to pay for the budget in this area. In fact the increased national living wage may alone swallow up the increase.

The implications for this funding stream both for the individual authorities and the system in which they operate must now be the subject for debate. The risk to local government is that rising taxes at a local level will be seen as an unpopular move and the localised nature of the tax raising powers could see Whitehall passing on contentious policy decisions to local government.

The wider discussion around, fiscal devolution has to include more than isolated elements of financial flexibility. Tax raising powers, borrowing powers and other fiscal policy changes must be introduced together to avoid an imbalance.

Within the Spending Review speech there was no announcement regarding the use of reserves. While Greg Clark did draw attention to this area of policy, the fact that it was not subject to additional pressure from George Osborne. This hopefully reflects the Government taking a more prudent approach.

Another interesting policy approach and again one that was timely, was the early investment to help health during transformation. The acknowledgment that this is a difficult and challenging period for the health sector is recognised by everyone. A smoother and more effective transition period will result in faster and more cost efficient outcomes.

Very little about the policy on 100% business rates retention was new to the local authority audience. Equalisation and how the appeals system works are going to play an important part in this policy going forward. Although much of this process will be technical; the public sector must be fully engaged in the wider policy approach from a local government financial view. Ensuring the transfer of business rate income and the reduction of RSG dovetail must be a priority to reduce funding risk during the period of transition.

The policy to allow capital assets sales being allowed for transformation within the public sector is welcome although debate around replacing capital with revenue is one that should be acknowledged and addressed within sound financial decision making. However, it should also be noted that it may take local authorities a little time to create a space for this in their current plans and so any strict time limits that are imposed might burden the successful implementation of this initiative. Again, we welcome change but the policy must be supported by a considered framework.

In conclusion, it is the higher policy messages as well as the detailed analysis that are important within this Spending Review. It is the job of the local government sector to take part in the debates to ensure a successful outcome.