Report to the Council

Committee: **Cabinet** **Date: 15 December 2015**

Subject: **Finance**

Portfolio Holder: **Councillor S Stavrou**

Recommending:

That the report of the Finance Portfolio Holder be noted

Accountancy

The Spending Review and Autumn Statement were presented by the Chancellor on 25 November. A lot of the media coverage has been devoted to the welcome change of policy on tax credits, which had been pencilled in to deliver £4.4 billion of savings. It seems the Office for Budget Responsibility is in need of a new crystal ball as the Autumn Statement told us the position on the public finances was £27 billion better than their previous estimates. This improvement has arisen from continued low interest rates holding down the cost of borrowing and higher than previously anticipated income. The higher income figures include the correction of a £3.3 billion error in VAT forecasting. However, I do not want to be too critical as the better than expected state of the public finances is good news.

The improved financial position allowed the Chancellor to make several other changes to his plans, in addition to the change on tax credits, whilst maintaining the target of a £10 billion budget surplus by 2019/20. Borrowing will be £8 billion less than previously predicted and capital investment £12 billion higher and the pace of reductions in spending has been reduced. The highest profile beneficiary of the revised spending plans was the Home Office and in particular the Police who saw their budget protected. Spending reductions for the Department for Communities and Local Government were again amongst the largest seen across Government although these too were lower than had been previously anticipated. How these reductions feed through to the detailed settlement for local authorities remains to be seen and I will update on this if the settlement is published before this meeting.

It is worth considering some of the policy announcements as there are more big changes ahead in terms of the structures, responsibilities and financing of local authorities. The key announcement was in the English Devolution section of the Statement and that paragraph is provided in full below –

DCLG will shortly consult on changes to the local government finance system to pave the way for the implementation of 100% business rate retention by the end of the Parliament. The consultation will take into account the main resources currently available to councils, including council tax and business rates. As part of these reforms, the main local government grant will be phased out and additional responsibilities devolved to local authorities, empowering them to drive local economic growth and support their local community. For example, the government will consider transferring responsibility for funding the administration of Housing Benefit for pensioners and Transport for London's capital projects to local government and will also consult on options to transfer responsibility for funding *public health. The government will consult on these and other additional responsibilities in 2016.*

In addition, a further consultation will also take place on the New Homes Bonus. This is likely to see a change in the method of calculation and a reduction in the period that the Bonus is payable over from six to four years. It is expected that over time the balance will shift significantly away from the current 80/20 share between districts and counties. This is likely to reduce our funding although the Statement did say that the consultation would include proposals for a floor system to ensure that no authority lost out disproportionately. In constructing the budget for 2016/17 we have already taken the decision not to include the full amount of New Homes Bonus in the Continuing Services Budget and we will carefully consider the amounts of New Homes Bonus in the Medium Term Financial Strategy as the budget is finalised.

The Statement included a promise to bring forward reforms to the planning system to accelerate housing supply and get more homes built. Whilst the majority of the detail on these reforms is still awaited, a new delivery test for local authorities was mentioned to ensure delivery against the number of homes set out in Local Plans.

The final announcement worth mentioning in this section is on the Right to Buy for Housing Association tenants. Local authorities will have a role to play in funding this and so have a keen interest in how it will work and what the level of take up will be. The Government have stated that they will run a pilot with five Housing Associations to inform the design of the final scheme.

<u>Benefits</u>

In addition to the policy change on tax credits the Statement contained a number of other announcements on Benefits. The most significant of these is to cap the amount of rent that housing benefit will cover in the social sector to the relevant local housing allowance, which is the rate paid to private renters on housing benefit. This will apply to tenancies signed after 1 April 2016, with housing benefit entitlement changing from 1 April 2018 onwards.

The Chancellor also announced that the Department for Work and Pensions (DWP) would be transformed into a smaller more efficient department. This will involve a 20% reduction in the DWP estate and expand the number of job centres co-located with local authorities. This should help provide a more joined up service and as we are looking to make better use of our estate as well I am sure that any approach from the DWP to co-locate would be welcomed.

Later on the agenda we have the Council’s scheme for Local Council Tax Support (LCTS) for 2016/17. It was three years ago now that we approved our first LCTS scheme for 2013/14 and the scheme has remained largely unchanged since then. However, concerns about the financial burden of the scheme and the equality of treatment for the employed and self-employed have necessitated changes for 2016/17. As we will debate these changes later I do not want to say any more about them at this stage.

<u>Revenues</u>

The Statement included items of interest on both Business Rates and Council Tax. I was pleased to see the support for small businesses from the extension of the doubling of small business rate relief for 12 months to April 2017. This measure is estimated to provide full relief to over 400,000 businesses across the country, with a further 200,000 benefiting from tapering relief. The Government's wider review of Business Rates is continuing and should report as part of the Budget 2016.

For Council Tax we have seen a relaxation in the controls that have prevented increases in recent years. Authorities with responsibility for social care, such as Essex County Council, will be able to raise Council Tax by up to 2% per year to fund adult social care. Police and Crime Commissioners (PCC) will also be given greater flexibility, with those that have historically kept their Council Tax low being allowed to increase their charge by £5 instead of 2%. We do not know yet how these flexibilities will be used within Essex but I would expect both the County Council and the PCC to increase their charges for 2016/17.