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Foreword

The government's priorities are to reduce the current budget deficit and rebalance the economy. In the long term the government aims to achieve a budget surplus. It plans to do this by cutting spending and increasing tax revenues while reforming local government funding to devolve power and financial autonomy. While cuts, efficiencies and spending limits have long been part of the public sector the current cuts are adding to the pressures faced by local government.

By 2020 the government claims funding for local government services will actually be marginally higher in cash terms, mainly as a result of council tax growth and the retention of local business rate income by authorities. However, the promise of a raise in the local income profile has seen the government reduce its Revenue Support Grant (RSG) to local authorities by £7.8bn or 78% over the next four years. This comes on top of the last five years of grant cuts since 2011.

The next few years will be tough for all but particularly so for some. The spectre of some councils being in financial crisis will return and at that point the role of the chief finance officer (CFO) in local government will be vital to the long-term interests of taxpayers and service users. Financial crisis in this sense will be a council being unable or unwilling to take the actions and difficult decisions needed to live within its revenue budget and accumulated resources. This may be as much about historical decision-making and leadership across the council as it will be about the facts of the current and future funding environment.

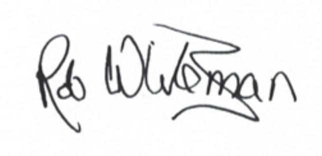
The financial management challenges facing councils are complex and ever shifting. Adding to this heady cocktail are the new devolution deals for local government. This sees the joining up of some local services from different agencies in a way not done before and under new local governance arrangements not tried and tested before.

In practice the nature and scale of all the financial risk facing local government will not be uniform and local history and local circumstances will mean some authorities have a relatively more or less challenging local context to deal with. Despite the differences it is safe to generalise that the best local budget plans are those owned and articulated by the whole council and its senior leadership, not simply the CFO. Plans will include cost drivers and income sources, risks and how the authority will deliver a balanced budget and savings. Delivering a robust budget is an organisational responsibility and failure to do so points to wider failures within the structure.

This publication reviews the current financial challenges faced by local authorities and looks at what they need to consider should it be necessary to instigate a spending freeze. We explore options available to balance the budget as well as considering the option of submitting a Section 114 report if the budget fails to balance and the implications of doing so.

If a council finds it necessary to impose a voluntary spending freeze, or indeed if the CFO issues a Section 114 report, this must be seen as taking the correct steps needed to maintain the financial control expected by statute. Unlike other parts of the public sector, councils cannot borrow to fund revenue resourcing and it is not permissible to run a deficit where spending exceeds the budget and resources.

Importantly the publication advises that these decisions are made as early as possible while there is still time to act. Good councils will see the pressures in advance and manage the risks before they can materialise. And a medium-term financial planning approach will be all the more important as rate retention means that authorities need to manage the risks for the downturn by having greater financial resilience.



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Introduction

There have been a lot of changes affecting the finances of local authorities in recent years, many of which have resulted in local authorities streamlining and modernising their administrative functions, finding new ways of delivering services and considering alternative methods of funding and income generation. This drive for efficiency is nothing new to the public sector. However the cumulative impact of cuts imposed in local government finance settlements since 2010, the national goal of deficit reduction and the prospect of challenging grant settlements have created a greater sense of urgency.

While making budget cuts is nothing new to local authorities, since 2010 local government has been the sector most affected by cuts to government grants and it faces further reductions between now and 2019/20.

With the loss of further central government grant over the next few years, local government now faces further challenges in its ability to both deliver services and balance budgets. Financial pressures have increased for local authorities in line with demands on public expenditure, not least in the area of social care, and following the spending review in 2015 authorities also now need to plan for the phasing out of the Revenue Support Grant. Even with sensible planning, unexpected demographic changes and/or major events such as the recent floods in Cumbria and Lancashire can have dramatic effects on council budgets.

There are also additional financial pressures created by the local government pension revaluations, further implementation of the Care Act 2014 and welfare reform. Each time public funding is changed there is concern about whether every authority will have the capacity to respond to the demands.

However, the phasing of financial transformation is key and some local authorities say they have exhausted the ability to make further short-term savings or anticipate medium-term changes. In the short term, as an emergency measure, some have resorted to freezing spending and only offering essential services.

The 100% localisation of business rates will not be completed until 2020 and may not be the immediate financial panacea for all. The next four years are going to be difficult for all authorities but especially so for some and solutions would be to look at long-term financial planning, demand management and the generation of alternative sources of income.

This publication will be of interest to anyone involved in public finance and financial planning including students, internal and external auditors, chief finance officers and council members. It will be of interest to readers new to the subject and those who are already involved.