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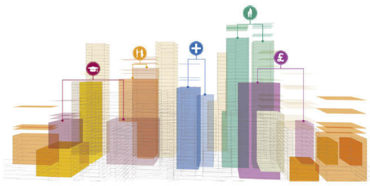
CIPFA The Chartered Institute of Public Finance & Accountancy



CFO *Insights*

Driving performance improvement through insight and benchmarking

Budget 2016-17 insights review

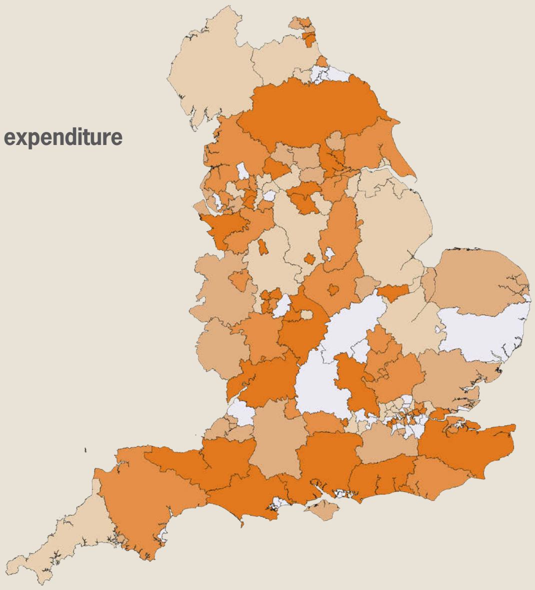
Local government funding is caught in a strange limbo, between the imbalances of the old needs based formula, and the arrival of the new system based on local taxation. In the interim, the government has put in place a number of short term fixes to try to address the old weaknesses, without adding to the already significant financial challenges councils are facing.

National picture

61%
of councils saw budget reductions between 2015/16 and 2016/17

Variance in total service expenditure (excl District Councils) 2015/16 - 2016/17

- More than 1.3
- -0.4 to 1.2
- -1.6 to -0.4
- -3.4 to -1.6
- Less than -3.4



Change in service line spend of all councils 2015/16 - 2016/17

-1.93% Planning and Development

-3.64% Cultural and Related Services

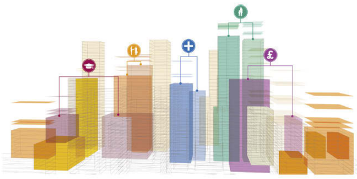
-0.29% Central Services

+3.81% Highways and Transport

+1.93% Adult Social Care

+1.99% Child Social Care

What impact is this having?



Data on local government revenue budgets has recently been released by the Department for Communities and Local Government (DCLG) for the current financial year, 2016/17. There have been a number of small but significant changes to local government funding and we wanted to explore, using our CFO Insights tool, the impact of these changes. As the greatest impact will be on county and single tier authorities we have decided to focus our analysis on those.

In summary, the key changes were:

- A change to the way reductions in Revenue Support Grant (RSG) were allocated between councils, as the government phases out this funding by 2020. The largest reductions now falls on councils who derive more of their income from local taxation (ie business rates and council tax) and are least reliant on grant. This came as a shock to a number of councils – particularly some of the southern counties – and DCLG subsequently announced transitional funding to ensure that any sudden financial shortfalls it generated could be better managed.
- Most council areas are facing significant demand pressures, particularly in adult social care, that are absorbing increasing amounts of council spending power. DCLG announced, as part of the Autumn Statement in 2015, a new adult social care precept of up to 2% of council tax collected, that could be raised to support these services, without requiring a local referendum.

Looking at the 2016/17 budget data (based on RA returns submitted to DCLG by local authorities, netted off against income generated from services) we see that only 61% of councils reported an overall reduction in their 2016/17 budgets. Although these results maybe initially surprising, once district councils are removed - as many of them are working toward financial self-sufficiency - we see a familiar picture of councils having to reduce their budget.

There are a number of county and single tier councils that have managed to increase their overall budgets since the prior year including some of the biggest beneficiaries of transitional funding. A look at the budgets of individual services goes some way to explaining the picture. Adult social care expenditure, usually the biggest area of spend, has increased at 74% of county councils and 68% of other single tier authorities. The adult social care precept in particular – which 94% of eligible councils have taken up – will have helped facilitate this. London borough councils however have bucked this trend, with only 24% increasing their budgets – which could indicate different prevailing conditions in London.

CFO Insights provides immediate:

- benchmarking capabilities for all financial income, expenditure and budget data
- comparison on authority spend by cost per 'unit'
- identification of the authorities with the best service outcomes
- sight of socio-economically similar authorities and their spend on services
- visibility of authorities' spend on services and their outcomes
- understanding of where income generation is coming from
- clear visualisation of the numbers through data cards, mapping, bar charts, spider profiles and leagues tables
- segmentation by different authority types
- segmentation by different region
- segmentation by core cities or key cities
- aggregation of different authorities' spend
- reduction in the time to identify sources of information
- baseline information for future comparison and progress reporting.

Changes in children's social care budgets show a wide variance, with increases and decreases split fairly evenly for all council types, supporting the view that cost pressures are closely tied to particular local conditions, such as Ofsted inspections and their findings.

While the adult social care precept and transitional funding will have helped facilitate some of these budget increases, some council services have faced major budget reductions. The key areas for this are common across all counties and single tier councils. Cultural and related services, and planning and development services in particular have seen significant cuts at the majority of councils (although both may be supplementing their budget through increased income in order to retain some of the service) – evidence perhaps of the long held fear that the cost of social care is gradually eroding away the ability of councils to deliver some of their other services and regulatory responsibilities, and that the limited new money coming in is not sufficient to buck this trend.

For further information, please visit **www.cfoinsights.co.uk** or contact one of the team:

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