

# 1. Local Government Finance – Economic & Statutory Context

## Autumn Statement & Wider Economy

- 1.1 On 22<sup>nd</sup> November 2023 the government announced its Autumn Statement, a six-month update on the Spring Budget. The Chancellor set out his approach to public spending, with priorities to keep debt falling, cut taxes for working people and businesses, reform welfare to help people into work and remove barriers to business investment in order to boost growth.
- 1.2 The Government confirmed that it would continue to freeze tax allowances and that unprotected Departmental budgets (including local government resources) will not be uplifted in line with inflation forecasts.
- 1.3 Alongside the Autumn Statement, the Office for Budget Responsibility published its Economic and Fiscal Outlook. This outlined that whilst the forecasts for inflation indicate that the peak has now been passed, CPI inflation will remain higher than the target of 2% during 2024 before returning to 2% in 2025.
- 1.4 Key economic forecasts in the report included:
  - In the UK, CPI inflation is expected to reduce to 4.8% in the final quarter of 2023. Inflation is then expected to drop further over the course of next year to 2.8% by the final quarter of 2024 returning to its 2 per cent target in 2025.
  - It is anticipated that the economy will grow in 2024, as opposed to the possibility of falling into recession as was considered a risk in 2023, but that the growth will be relatively minor at 0.6% of GDP in 2023 and 0.7% in 2024.
  - Pressures therefore remain, but the Chancellor is anticipating that the measures announced will provide a positive stimulus to investment in the economy, which in turn will promote overall growth. These measures have been funded via a decrease in public sector borrowing but this in turn has led to both fiscal drag on public sector spending and the Chancellor's expectation that the public sector will increase productivity by 0.5% per annum.

## Impacts for Local Government

- 1.5 Overall there was little within the Autumn Statement that had an immediate direct impact upon local government. Changes to Business Rates to support economic growth came with compensatory funding to ensure local government was not disadvantaged as a consequence.
- 1.6 In the medium term there are potentially significant impacts arising from the confirmation that unprotected government spending budgets, i.e. excluding health, schools and defence services, will increase by less than forecast inflation rates. The Office for Budget Responsibility has warned that, from 2025/26, spending on public services will have to fall by 2.3% per year in real terms. (Source: Office for Budget Responsibility Economic and fiscal outlook – November 2023). The Chancellor announced as part of the Autumn Statement that the Chief Secretary to the Treasury is running an

ambitious Public Sector Productivity Programme with all departments to reimagine the way public services are delivered.

- 1.7 In recent days there have been reports that Local Government will receive additional funding, with the possibility that local authorities like Norwich City Council could receive a share of between £30 million and £40 million nationally. Details have yet to be confirmed.
- 1.8 **Council Tax.** The Local Government Finance Policy Statement published in December 2022 had previously confirmed that the Council Tax increase referendum threshold for 2024/25 would remain at 3% and no announcements were made to contradict this.
- 1.9 **Business Rates:** Business Rates are calculated for individual business properties depending on several criteria, one of which is the business rate multiplier, which is effectively used to apply a different rate relative to the size of the business concerned i.e. whether a business is deemed to be small or standard. These multipliers have traditionally been uplifted each year to reflect inflation by the same amount. With effect from April 2024 the multipliers will be uplifted by different inflationary amounts, the small business multiplier has been frozen whilst the standard multiplier has been increased by the September CPI rate (6.7%).
- 1.10 In addition, the more generous Retail, Hospitality and Leisure relief introduced in 2023 has been extended for a further year.
  - Local authorities are fully compensated for any loss of income as a result of these business rates measures not being in line with inflation and will also receive new burdens funding for administrative and IT costs.
- 1.11 **Living Wage.** There will be an increase in the National Living Wage, from £10.42 per hour, to £11.44 per hour from April 2024.
- 1.12 **Levelling Up.** Norwich City Council received notification of the success of the Norwich North bid, which potentially will provide additional capital funding of at least £7.6 million.
- 1.13 **Provisional Local Government Finance Settlement.** The provisional local government finance settlement was published by the Department for Levelling Up, Housing and Communities (DLUHC) on 18<sup>th</sup> December 2023. This set out the details of the funding available to support local government in 2024/25 alongside some of the assumptions underpinning the settlement. The final settlement will be published in the near future following the completion of the consultation period on 15<sup>th</sup> January 2024. There is currently nothing to indicate that there will be any material changes to the settlement as a consequence of the consultation.
- 1.14 **Core Spending Power.** This measures the maximum level of funding available to a local authority, assuming that the maximum increase to Council Tax is adopted by each individual local authority. As such, this is an indicator only, rather than a guarantee, of the resources available. The Government will often refer to the Core Spending Power (CSP) when talking about the resources made available, as distinct from the decisions made locally by individual local authorities in setting Council Tax levels.

- 1.15 CSP also reflects the proposed increases to core grants such as the Services Grant, Funding Guarantee and New Homes Bonus. On the basis of these assumptions, the Government assumed that Norwich City Council's CSP has increased by £0.6 million when compared to the baseline figures of 2015/16 (2.7%). When compared to the CSP for 2023/24, it has increased by £1.1 million (5.7%). The increase is welcomed but it also makes apparent that the CSP for Norwich City Council has increased above the 2015/16 baseline level for the first time in nine years.
- 1.16 **The Revenue Support Grant (RSG)** has been increased by 6.6% in line with inflation at September 2023.
- 1.17 **The Funding Guarantee** introduced for the first time in 2023/24 has been continued and increased, rising from £0.64 million in 2023/24 to £0.97 million in 2024/25, however offsetting this is a significant reduction in the **Services Grant**, which has reduced from £0.24 million in 2023/24 to just £0.04 million in 2024/25. This decrease in funding reflects the Government decision to switch the majority of the Services Grant towards supporting social care and therefore away from district councils, regardless of the contribution made by district councils towards preventative services linked to reducing the demand for social care support from upper tier local authorities.
- 1.18 **Business Rates** have had a significant change introduced, linking different multipliers to different types of business (small and standard), which has made an already complex funding mechanism even more so. Officers have worked through the implications for Norwich City Council in detail, drawing on additional expertise from LG Futures, which indicates that 2024/25 will produce an increase in income, subject to the impact of changes in volume, valuation, the outcome of appeals and the incidence of bad debts. These factors will be kept under review throughout 2024/25, as well as the longer-term implications for the MTFs.
- 1.19 **Medium-Term Outlook.** There continues to be a high degree of uncertainty about the future of local government funding, in part because of the continuing absence of multi-year spending settlements which have created effective planning problems for years, but also because of the absence of reviews of the fundamental basis of local government funding, whether in relation to Business Rates, Fair Funding or the use of short-term grants and bidding processes. In addition to these on-going uncertainties, there is further uncertainty arising from the volatility of the economy, whether in terms of poor levels of forecast growth, the uncertainty arising from the imminent general election or the volatility in global factors, such as the Middle East and the potential impact upon inflation.
- 1.20 Set within this context, it is clear that the medium term outlook remains challenging for local government and Norwich City Council, requiring on-going efficiencies and effective financial control and management to rise to the challenge. That being said, Norwich City Council is in a much healthier position than many local authorities around the country currently, which provides an opportunity to build from a position of solid foundations.