CIPFA The Chartered Institute of Public Finance & Accountancy

2012 Autumn Statement – Briefing Paper

Briefing from the CIPFA Finance Advisory Network (FAN)

Contents

Introduction to Chancellor's Autumn Statement 2012

The Autumn Statement is one of the two major statements the Chancellor to the Exchequer has to make to Parliament every year, the other being the Budget. Since 1997 the main budget, which traditionally contains the main announcements on tax, duty and benefits, has been scheduled in the spring before the start of the new Tax Year. The Autumn Statement (formerly the Pre-Budget Report under Labour) has traditionally provided updated forecasts for Government finances, however more recently, in response to the challenging economic position, it has become much more like a mini Budget.

George Osborne presented his Autumn Statement to Parliament on 5 December 2012. Alongside the Autumn Statement the Office of Budget Responsibility (OBR) released its latest Economic and Fiscal Outlook, containing the latest update on the Economy and public finances.

This briefing is provided to assist FAN members understand the implications of the Autumn Statement for their authorities. The briefing reports what the Chancellor and others have said without commenting on whether CIPFA agrees or disagrees with the analysis. The briefing also includes FAN's initial assessment of the likely impact on local authorities, which is included in a separate section of the briefing.

Details of an additional CIPFA service to provide tailored reports on the impact of the Local Government Funding Settlement on individual authorities are provided at the end of this Briefing Paper.

Earlier announcements in the 2012 Budget

Chancellor George Osborne delivered his third budget speech on the 21st March 2012 stating that, "This country borrowed its way into trouble. Now we're going to earn our way out". A CIPFA Networks briefing paper on the main contents of the 2012 Budget can be downloaded here.

Autumn Statement 2012 – Key announcements

The Chancellor set the scene for his Autumn Statement by saying that growth will be slower and borrowing higher than previously thought, but that "Britain is heading in the right direction".

The Executive Summary of the full Statement commented that the UK economy was recovering from the most damaging financial crisis in generations, with the UK experiencing one of the deepest recessions of any major economy, and that the global recovery has been much slower than forecast.

A number of areas of progress were identified, with the deficit being reduced by a quarter over the two years since 2009-10; an additional 1.2 million private sector jobs created since the first quarter of 2010; and market interest rates falling to near record lows, with cumulative debt interest payments from 2010-11 to 2015-16 forecast to be £33 billion lower than expected at the June 2010 Budget.

The summary confirms the Government's commitment to ensuring the impact of the consolidation is shared fairly, and highlights the actions the Government will take in three areas; protecting the economy, growth and fairness. Details of the actions are contained within the full Autumn Statement document, which can be downloaded from the HM Treasury website.

Key announcements on the state of the UK economy and public finances included the following:

Economic Growth and unemployment

- Growth forecast reduced for 2012 from an estimated 0.8% growth predicted in the Budget to a forecast contraction of 0.1%.
- Forecast growth for future years also reduced as follows - 1.2% in 2013, 2% in 2014, 2.3% 2015, 2.7% in 2016 and 2.8% in 2017.
- Unemployment is expected to peak at 8.3%, lower than the previous prediction of 8.7%, with employment set to rise in each year of the parliament.

Government borrowing and spending

- The Chancellor's manifesto Debt Target will be missed, with the point at which net debt as a proportion of Gross Domestic Product (GDP) is predicted to fall being delayed by a year to 2016/17, however the deficit is forecast to reduce this year, as is cash borrowing.
- The deficit is predicted to fall from 7.9% to 6.9% of GDP this year, and to continue falling to 1.6% by 2017/18.
- Borrowing is forecast to fall from £108bn in this year to £31bn in 2017/18, with £33bn savings on interest debt payments compared to amounts predicted in 2010.
- Government spending as a share of GDP is predicted to fall from 48% in 2009/10 to 39.5% in 2017/18.
- Of particular interest to Local Authorities, the next Spending Review will take place in first half of 2013.
- Government departments will be required to reduce spending by 1% in 2013/14 and a further 2% in 2014/15. The cuts in revenue funding, alongside changes in taxation and welfare benefits, is to finance £5 billion of investment in infrastructure, including roads and schools (see details below).

Taxes and Allowances

- The Chancellor confirmed that the Autumn Statement would be fiscally neutral, so as far as taxes were concerned there would be changes but no net rises.

- As part of a host of measures to boost UK businesses, the main rate of Corporation Tax, already scheduled to reduce from 24% to 22%, will be cut by extra 1% to 21% from April 2014. In addition, the capital allowances for investment in Plant and Machinery will increase ten-fold from £25k to £250k, providing real incentives for growth.
- However this will not apply to the banks, where the Government's major reforms will result in the Bank levy rate being increased to 0.130% in 2013/14.
- In terms of personal tax allowances, the basic income tax threshold will be raised by £235 more than previously announced, to £9,440 in 2013/14, moving it within touching distance of the targeted £10,000 figure.
- Not so good news for higher rate taxpayers, where the higher rate threshold for 40% rate of income tax only rising by 1% in 2014 and 2015, from £41,450 to £41,865 and then £42,285. With inflation forecast to exceed the 1% figure, this represents a real terms increase in tax burden.
- The Chancellor announced that the Inheritance tax threshold will be increased by 1% in 2013/14, and to encourage responsible saving, the ISA contribution limit will be raised to £11,520 from next April.
- It was announced that the Government's coffers would be boosted by £5bn over six years, as a result of a treaty with Switzerland to deal with undisclosed bank accounts.
- As expected, tax evasion and avoidance was high on the agenda. It was announced that HM Revenue and Customs budgets will be spared from the wider cuts to enable them to up the fight against tax avoidance, closing a number of loopholes, and addressing the concerns over recent headlines re multinational companies trading in the UK without paying Corporation Tax. It was confirmed that prosecutions for tax evasions were up 80%, with new anti-abuse rules to come in next year.
- It was also confirmed that there would be no new tax on property value, following the speculation around the so-called "Mansion Tax".

Investment budgets

- Transport infrastructure – An extra £1bn will be added to the roads programme, including upgrading A1, A5-M1 link, A30, and M25, with a further £1bn loan earmarked for the extension of London's Northern Line to Battersea Power Station.
- Technology – An Ultra-fast broadband expansion to go ahead in 12 cities: Brighton and Hove, Cambridge, Coventry, Derby, Oxford, Portsmouth, Salford, York, Newport, Aberdeen, Perth and Derry-Londonderry. An additional amount of £600m was being allocated for scientific research.
- The announcements mean that the annual infrastructure investment is now £33bn.

Supporting Businesses

- Alongside the cuts to business taxes, it was announced that the Government will be addressing the credit problems for companies by creating a new 'Business Bank' and providing it with £1 billion of extra capital, expected to lever in private lending to help small and medium sized firms.
- Extending the Small Business Rate relief scheme by a further year to April 2014, which has already helped over half a million small firms, with 350,000 paying no rates at all.
- The Chancellor announced the publication of the Government's Gas Strategy, designed to ensure the best use of lower cost gas power, including new sources of gas under the land. The Government will be consulting on new tax incentives for shale gas and announcing the creation of a single Office for Unconventional Gas.

Benefits and Pensions

- The Chancellor announced that most working-age benefits will rise by 1% for each of next three years, which represent a real terms cut after allowing for the effects of inflation. Similarly, Child Benefit to rise by 1% for two years from April 2014.

- The 1% rise in benefits will require primary legislation, with an Uprating Bill expected to be introduced before Christmas.
- As a further measure to finance the investments being promised as part of the Autumn Statement, changes in the tax relief for pensions were announced. From 2014-15 the lifetime pension relief allowance will fall from £1.5m to £1.25m, and, as expected, the tax free pensions savings cap will be reduced from £50,000 to £40,000.
- Local housing allowance rates are to rise in line with the existing Government policy in April 2013 but increases in the following two years to be capped at 1%. It was announced that the saving would be used to increase the cap in certain high rent areas.
- The Basic state pension will rise by 2.5% next year to £110.15 a week.
- The combined changes to welfare announced in the Statement are forecast to save £3.7bn by 2015/16

Education and Families

- George Osborne announced an investment of £1bn to improve good schools and build 100 new free schools and academies.
- In addition, the Chancellor commented that "since improving our education system is the best investment in a competitive economy, I am today committing £270 million to fund improvements in further education colleges £270m".

Other announcements

- Overseas Aid – The Government promised to spend the previously agreed 0.7% on development to be honoured next year, but this level will not be exceeded.
- Fuel Duty – As a welcome relief to drivers and businesses, Mr Osborne's "Santa Claus" moment was the announcement that the planned 3p increase in fuel duty scheduled for January was now not going to go ahead at all.

OBR Economic and Fiscal Outlook

To coincide with the Autumn Statement, the Office for Budget Responsibility's latest Economic and Fiscal Outlook was published on December 5th. It set out forecasts for the economy and the public finances, and an assessment of whether the Government is likely to achieve its fiscal mandate and supplementary target.

Many of the headlines were referred to in the Chancellor's Statement, the main messages being:

- The economy has performed less strongly this year than expected at the March forecast, primarily reflecting the weakness of net exports. Looking forward, the recovery still lacks momentum.
- OBR now expect a small fall in GDP in the fourth quarter of this year, followed by a gradual pick-up in 2013. GDP is forecast to fall by 0.1 per cent overall in 2012 and then to grow by 1.2 per cent in 2013.
- Forecasts are more pessimistic about the economy's medium term growth prospects than back in March, with weak productivity expected to constrain earnings growth for longer, with a slower fall in inflation delaying the pick-up in real incomes. In addition the outlook for the world economy and UK exports has deteriorated and it is expected that the difficulties of the euro area will depress confidence and put upward pressure on bank funding costs for longer. Investment is likely to be restrained by poor credit conditions and uncertainty about demand.
- Public sector net borrowing (PSNB) is forecast at £108 billion or 6.9 per cent of GDP this year, excluding the transfer of the Royal Mail's historic pension deficit and associated assets into the public sector. This total is £11 billion less than forecast in March, primarily reflecting the decision to transfer balances from the Bank of England's Asset Purchase Facility (APF) to the Exchequer. Other receipts are likely to be weaker than

expected, although it is assumed that the Government will raise an extra £3.5 billion from the 4G spectrum auction.

- The Government now appears more likely than not to miss its 'supplementary target', which requires Net Debt to fall as a share of GDP between 2014-15 and 2015-16. OBR now predict that Net Debt will rise by 1 per cent of GDP in 2015-16 and fall by 0.8 per cent a year later.
- The Government's 'fiscal mandate' requires it to balance the cyclically-adjusted current budget (CACB) at the end of a rolling five-year period, now 2017-18. The central forecast shows the CACB in surplus by 0.9 per cent of GDP in 2017-18, implying that the Government is more likely than not to meet the mandate. This is a result of the additional year of cuts in non-investment spending.
- The Economic Forecast is summarised below:

Table 1.1: Economic forecast overview

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast[1]					
	2011	2012	2013	2014	2015	2016	2017
Output at constant market prices							
Gross domestic product (GDP)	0.9	-0.1	1.2	2.0	2.3	2.7	2.8
GDP Level (2011 =100)	100.0	99.9	101.1	103.2	105.6	108.4	111.4
Output gap (per cent of potential output)	-2.7	-3.1	-3.5	-3.3	-3.0	-2.5	-1.9
Expenditure components of GDP at constant market prices							
Household consumption[2]	-0.9	0.5	0.9	1.6	1.8	2.4	2.9
Business investment	2.9	3.8	4.9	8.1	10.2	10.1	9.5
General government consumption	0.2	2.4	-0.7	-1.4	-1.2	-2.1	-3.0
General government investment	-20.4	-9.2	-2.5	4.8	-3.0	-2.6	0.7
Net trade[3]	1.2	-0.6	0.3	0.2	0.2	0.2	0.1
Inflation							
CPI	4.5	2.8	2.5	2.2	2.0	2.0	2.0
Labour market							
Employment (millions)	29.2	29.5	29.6	29.7	29.9	30.2	30.4
Average earnings[4]	2.2	2.7	2.2	2.8	3.7	4.0	4.0
ILO unemployment (% rate)	8.1	8.0	8.2	8.2	8.0	7.6	7.1
Claimant count (millions)	1.53	1.59	1.66	1.69	1.63	1.53	1.43
	Changes since March forecast						
Output at constant market prices							
Gross domestic product (GDP)	0.1	-0.9	-0.8	-0.7	-0.7	-0.4	
GDP Level (2011=100)	0.0	-0.9	-1.7	-2.4	-3.2	-3.7	
Output gap (per cent of potential output)	0.0	-0.4	-0.9	-1.2	-1.7	-2.0	
Expenditure components of GDP at constant market prices							
Household consumption[2]	0.0	0.0	-0.5	-0.8	-1.2	-0.6	
Business investment	2.7	3.1	-1.5	-0.7	-0.1	0.0	
General government consumption	-0.1	1.8	0.4	0.7	1.6	0.5	
General government investment	-7.3	-4.2	1.1	4.7	-3.3	-1.2	
Net trade[3]	0.0	-1.1	-0.2	-0.2	-0.1	0.0	
Inflation							
CPI	0.0	0.0	0.6	0.2	0.0	0.0	
Labour market							
Employment (millions)	0.0	0.4	0.4	0.3	0.2	0.2	
Average earnings[4]	1.0	0.1	-0.9	-1.6	-0.7	-0.6	
ILO unemployment (% rate)	0.0	-0.7	-0.4	0.2	0.8	1.3	
Claimant count (thousands)	2	-62	22	166	275	340	

[1] The forecast is consistent with the second estimate of GDP data for the third quarter of 2012, released by the Office for National Statistics on 27th November 2012.
[2] Includes households and non-profit institutions serving households.
[3] Contribution to GDP growth, percentage points.
[4] Wages and salaries divided by employees.

Source – OBR Economic and fiscal outlook – December 2012

Potential issues for Local Government

Contained within the Autumn Statement were a number of references to Local Government. The main issues are summarised below:

Local Government Funding

- Local government will be exempt from the 1% reduction in 2013-14 departmental budgets, as local authority budgets have already been reduced by a comparable amount through the decision to allow them to freeze council tax in that year. The Statement adds that "this provides an opportunity for local authorities to invest in reform in order to deliver further savings by consolidating back-offices and transforming service delivery as demonstrated by the Whole-place Community Budget pilot".
- The bad news is that the Autumn Statement confirms that the additional 2% departmental budget savings to be found in 2014/15 will also apply to local authorities. Health and schools will continue to be protected in line with the policy set out at Spending Review 2010.
- It was also confirmed that details of departmental spending plans for 2015-16 will be set at a spending review, which will be announced during the first half of 2013.

Investment in Infrastructure

- The Chancellor expressed the need to ensure high quality infrastructure was in place for the UK to remain competitive, and said that the private sector, local government and central government all have a role to play in reversing the historic underinvestment in the UK's infrastructure so that UK businesses can compete and grow.
- Details were also published of the replacement for the discredited PFI. Mr Osborne commented that "since we can all see now that the public sector was sharing the risk, we will now ensure we also share in the reward".

Public Sector Pay

- The government confirmed it has ditched plans for local pay in the civil service, NHS and Prison Service, but will consult on giving schools more power to set salaries in line with performance.

Local Enterprise Partnerships (LEPs)

- Mr Osborne stated that government spending should be aligned with the priorities of the local business community. To that end it will provide new money to support the Local Enterprise Partnerships and from April 2015 the Government will place more of the funding that currently goes to local transport, housing, skills and getting people back to work into a single pot that LEPs can bid for. Funding will reflect the quality of strategic proposals put forward by LEPs, as well as local need.
- LEPs, which bring together local leaders and businesses, will be asked by the Government to lead the development of new strategic plans for local growth consistent with national priorities. In developing the plans, LEPs will be expected to consult with all relevant local partners, including the local chambers of commerce and other business bodies. These multi-year plans will build on any existing plans and include coordination with ongoing public programmes. It is expected that local authorities or other bodies, and not LEPs, will deliver programmes and projects, ensuring that there are proper accountability structures in place
- When developing the plans, LEPs will be expected to seek to leverage funding, including from local authorities and the wider public and private sector. The Government will make available a new concessionary Public Works Loan Board (PWLB) rate to an infrastructure project nominated by each LEP (excluding London), with the total borrowing capped at £1.5 billion. The concessionary rate, referred to as the 'Project Rate' will be 40 base points below standard PWLB rates.

Shared Services and Partnerships

- In recognition of the importance of partnership across a functional economic area the Government will support local authorities that wish to create a combined authority or implement other forms of collaboration (for example, shared management arrangements), and will also ensure that the existing legislation is fit for purpose.

Council Tax

- To assist households with living costs, the Government announced in October 2012 that for the third year in a row it would provide a grant to local authorities in England that decide to freeze or reduce their council tax in 2013-14. A freeze is worth around £70 for the average Band D property compared to a 5 per cent rise.
- The Government also proposes to lower the tax referendum threshold to 2 per cent. This will ensure that local people have the right to approve or veto council tax increases above the 2 per cent level through a binding referendum. Information on the calculation of the tax-base for referenda purposes will be issued with the provisional settlement.

Welfare Reform

- One of the recurring themes in today's Statement was that most benefits would only be increasing by 1% per year. This cap on benefits rises will mean a cut in real terms for people living on welfare and those on low incomes. With local authorities providing services to many of those whom this announcement will hit, this will potentially have an impact on local authority finances in the longer term.

So what does this all mean for local authorities?

- The announcement that the 2013/14 Settlement is not being opened up for additional savings will come as welcome news to councils, especially with all the uncertainties of moving to a new funding regime. On the downside the additional 2% savings to be found in 2014/15 will add an estimated £445 million pressure to an already difficult local authority budget position.
- Whilst local authorities have done incredibly well to absorb the savings already achieved with minimal impact on front line services, just how realistic is it that these new savings can be found when most authorities already have some way to go to close existing budget gaps? It all adds further doubt over the future viability of the existing local government structures, and so perhaps it is no bad thing that additional support will be offered for those seeking collaboration or merger…but in what form will that 'support' take…can we assume it is extra money, and is there an expectation of full political mergers or just more joint working?
- What is notable is that OBR predicts that by 2017/18 there will be 1.1 million fewer public sector jobs than currently. The "good news" is that this is expected to be replaced by an extra 2.4m private sector jobs, but is this any consolation to local authority staff?
- Regarding the concessionary PWLB loan rate for LEPs, it is not clear whether this will be in addition to the 'scrutiny rate' announced in the 2012 Budget or in place of it. With the expectation that it will be local authorities that will borrow the money for LEP schemes, perhaps there is a message here that the only way to obtain further reductions in borrowing costs is to work through LEPs?
- One of the possible casualties of the 1% benefit increase limit is authorities with Council Housing. On the assumption that the real-term cut in benefits will feed through to Universal Credit, to which Housing Benefit is transferring, what impact will this have on council tenants? It is not untypical for HRA councils to have 75% of tenants receiving some element of Housing Benefit, so they will be hit financially. However last year's self-financing settlement assumed a 1% rent rise <u>in real terms</u> (effectively a 3.5% in cash terms). This could be a problem - councils have levels of debt that assumes tenants can afford 1% real increases, but for many their actual income is only going up by 1% in cash terms. What impact might this have on council income and the financial sustainability of the HRA? The recognition of problems of the cap for high rent areas is welcomed though.

What others are saying…

Here are a mix of views, opinions and commentary from various sources on the key issues and likely impact of the Autumn Statement announcements:

A carrot and stick for business – Robert Peston, BBC Business Editor

Is George Osborne right to look confident after 'mini-Budget'? – Nick Robinson, BBC Political Editor

The Bank, the OBR and Mr Osborne – Stephanie Flanders, BBC Economics Editor

The autumn statement was about cuts not localism (*Guardian*, Public Leaders Network)

ACCA's view

Grant Thornton UK's overview

Grant Thornton response to PFI replacement

Other assorted quotations:

"We welcome today's statement and we are encouraged by the Chancellors' acknowledgement that small businesses need more help. We accept that bold actions are needed to boost the economy and we hope we are on the right road to helping small firms. The Chancellor has listened to many of our members' concerns, and has put forward proposals to address these issues - notably around capital allowances, more encouragement for investors to place funding in small businesses, and cancelling the 3p rise in fuel duty. We now eagerly await further details on the small business bank which we have long seen playing a central role in opening up finance for small firms." – **John Walker, National Chairman of the Federation of Small Businesses**

"For the wider economy the worst is probably past. The independent Office of Budget Responsibility and most other forecasters expect the economy to grow modestly next year. However, for now, at least, this looks like a choppy, fragile recovery." - **Ian Stewart, Chief Economist at Deloitte**

The CBI has been crying out for real action on infrastructure, investment and exports. £5 billion on near-term infrastructure, like the tube to Battersea, half a billion a year tax relief for small firms, and £1.5 billion extra export support should boost investment and create jobs. The Government now has everything to prove by delivering. Businesses need to see the Chancellor's words translated into building sites on the ground. It is no surprise that after a difficult year the economic realities dictate that austerity and debt reduction will take longer. The Chancellor has stuck to his guns on deficit reduction - avoiding deeper cuts or more borrowing in order to retain international credibility". – **CBI Statement**

"The Government will take twice as much from this tax hit on pensions as it will from the increase in the bank levy. That cannot be fair, and will only undermine confidence in pension saving. The Chancellor is wrong to say that the changes will only affect those at the top of the wage tree. Osborne claims he is taking a carrot away from the rich, but he is also beating many middle class savers with a stick. Middle managers in the public and private sectors will get caught in the net. People in a final salary pension who have worked loyally for the same employer for years and then get a pay rise, or a promotion, could end up with a tax bill of several thousand pounds. This is a charge just for saving into a pension. The self-employed and those nearing retirement desperately trying to catch up by boosting their pension are also at risk". - **National Association of Pension Funds**

"Cancelling January's rise is exactly what we asked for. It will provide much needed support for consumers. It will ease the pressure on household budgets, boost customers' ability to spend and help hard-pressed retailers contain their transport costs. Rebuilding the confidence of customers to spend and retailers to invest and create jobs have to be the Chancellors priorities. This will provide a useful boost. For the future, the ritual of announcing rises that are later dropped or delayed should end. A clearer more consistent approach would support longer-term decision making". - **British Retail Consortium**

"The new fiscal forecasts are disappointing but not surprising, so it would be premature to assume that the UK will lose its AAA rating. The Chancellor's commitment to tackle the deficit remains resolute. His decision to cut welfare spending further and reduce the number of civil servants will reinforce market confidence. At the same time, there is a welcome focus in the Autumn Statement on policies that will improve the productive potential of the economy through investment incentives and reduced corporation tax." - **David Kern, chief economist, British Chambers of Commerce**

Public Sector commentary from Grant Thornton - The Chancellor's Autumn Statement on 5 December 2012 reinforced the austerity measures announced in the October 2012 Spending Review (SR10). A further £6.6bn of savings from welfare, overseas aid and Government Departmental spending was announced (1% in 2013/14 and 2% in 2014/15). This will be used to fund an additional £5.5bn infrastructure investment and support for businesses (including an additional £1bn infrastructure funding for schools, free schools and academies). Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding.

The Government has suggested that the exemption from additional cuts in 2013/14 will give authorities the stimulus to further invest in new income generation services and projects so they become less reliant on government grant. Paul Dossett, Public Sector Assurance Partner commented: "Our analysis and discussions with the sector indicate that a potential 'tipping point' is on the horizon for some in the sector, for instance where a local authority can no longer meet its statutory responsibilities to deliver a broad range of services within the funding available; a Section 151 Officer being unable to set a balanced budget or decision paralysis, where an authority is unable to make the challenging but necessary decisions required. We do not believe that all authorities share the same level or types of risk or indeed that all authorities could experience a tipping point. We are however engaging with the sector to explore the concept, what the consequences would be for stakeholders and what mitigating actions are required".

Comparison with Pre-Statement hopes and expectations

In advance of the Autumn Statement there was, as is often the case with these things, some significant media debate about what might be in the Statement and what changes should (and should not) be made.

A number of key themes emerged as front-runners in the betting for likely announcements. These included measures to support small businesses (such as employee share schemes, launch of a 'Business Bank' and simplification of income tax rules), and raising the income tax personal allowance to £10,000 by April 2015, balanced with an anticipated reduction to the maximum tax-free annual pension contribution from £50,000 to £40,000 and a commitment to tackle actual or perceived tax avoidance. Well, on balance these were pretty close weren't they!

Following on from recent bank of England announcements, a downwards forecast of GDP was expected. John Cridland, director-general of the CBI, said that the Chancellor should use his autumn statement to plough £1.5bn into the economy to kick-start growth, to be financed from government department underspends and the proceeds from mobile phone spectrum auctions. Once again, the hopes and expectations were not far off the mark.

Responding to some of the key challenges facing Local Authorities and the wider public sector, a number of media appeals were made to the Chancellor to avoid further cuts to Local Government funding. However with many predicting the Government may be significantly off-course, would George Osborne be forced to implement even tougher cost-cutting measures and abandon his debt forecasts, potentially threatening Britain's prized AAA Rating?

Well, only time will tell if the failure to meet the Net Debt target will lose the confidence of the markets…it is probably fair to say that the initial market reaction has been relatively calm. When the European stock markets closed the FTSE 100 had closed up 0.4% at 5,892.08, while UK benchmark borrowing costs fell slightly. Research for the *Telegraph* suggests that although Mr Osborne got off to a shaky start, by the time he finished delivering the Autumn Statement, 67% of the sentiment on Twitter was positive. Whilst this may offer confidence to the markets, ratings agency Fitch has already expressed its concern over the AAA rating being lost.

The announcements on capital investment being financed from revenue cuts to Government departmental spending was pretty-much leaked on the eve of the Autumn Statement, so the confirmation that £5 billion of improvements to schools and other capital projects would be funded by cuts to Government spending by 1% in 2013/14 and 2% in 2014/15 did not take anyone by surprise.

What would the additional cuts mean for a public sector whose finances are reportedly rapidly deteriorating? Only recently, the Audit Commission expressed concerns in their report *Tough times 2012* that "a number of councils have already shown signs of stress", indicating that more than one in ten councils are 'not well placed' to stay within budget in 2012/13. The Autumn Statement doesn't provide any answers to this tricky situation.

Prior to the Statement, and in an appeal to the Chancellor to spare further cuts to Local Government funding, Local Government Association Chairman, Sir Merrick Cockell, commented "It would be a fatal error to scale back local government funding to the point where councils can no longer provide local businesses with the support they need to get Britain back on its feet". Whilst a number of the announcements in the Autumn Statement provided some hope and stimulus to UK businesses, with future Local Government funding now intrinsically reliant on business growth, could the additional cuts in public spending mean that the so-called "virtuous circle" underpinning the revised Local Government Funding system from 2013/14 might end up feeling more like a "vicious circle" to council Members and Finance Directors? We certainly live in interesting times!

Sources of Further Information

- Spending Review Framework (HM Treasury 2010)
- Autumn Statement 2012 (HM Treasury)
- Budget 2012 (HM Treasury)
- Office of Budget Responsibility website
- Autumn Statement 2012 Commentary (Institute for Fiscal Studies)
- The Long Downturn (CIPFA)
- Regional analysis - what the Autumn Statement means for you (HM Treasury)
- HMRC Guide to the Autumn Statement
- Towards a tipping point (Grant Thornton)

Local Government Funding Settlement – Additional CIPFA Service

With this year's Settlement including important new data around the localisation of Business Rates and Council Tax Benefit, Local Authority finance staff will need to quickly distil the key messages and figures from the Settlement (anticipated on 19 December) and establish what it means for your authority. To help you in this task, CIPFA are offering to provide specially tailored reports for councils. This service will provide a summary report, delivered to you via email by 2pm the next day, of the national funding picture and importantly what it means for your Council. The report will include the main tables and key data relevant to your authority with comparative data where available. Further details of this service are available from the CIPFA website.

You may also be interested in this CIPFA event on 22 January, which will focus upon the potential impact of the next Comprehensive Spending Review (CSR) in the context of wider financial, political and demographic issues.