LOCAL GOVERNMENT FINANCE

Thank you for your letter dated 26 February seeking some further information on local government finance. I apologise for the delaying in responding to your request.

You have asked for an explanation as to how the Treasury's 2.3% local government spending reduction figure for 2014-15 to 2015-16 had been calculated. The Treasury have confirmed that the elements listed in your letter were indeed included in the calculations with the exception of the Public Health Grant which was not included. Danny Alexander set out the details in his letter to you of 9 December 2013.

Since 2011-12 we have provided spending power figures. We published illustrative spending power figures for local authorities for 2015-16 alongsides the 2014-15 Local Government Finance Settlement in December 2013. These figures include a detailed explanation of the calculation and assumptions that therefore update the original 2.3% figure at the time of the spending round. Full details can be found on the Gov.uk website at https://www.gov.uk/government/publications/change-in-spending-power. Spending Power figures are used by the Government consistently in all statements on local government spending. The spending power figure for 2014-15 (including public health) is -2.9% and the indicative figure for 2015-16 -1.8%.

Your understanding is correct that the spending power figures published at the time of the 2013-14 Local Government Finance Settlement did show a (cash) spending power figure of -1.7% when the Public Health Grant is excluded and a reduction of -1.3% when the Public Health Grant was included. We published the two versions to ensure transparency on the impact of this grant on the overall picture.

You also mentioned local authority reserves. To clarify, the figure of £1.2 billion is the amount budgeted for by local authorities at the start of the year. The final outturn position, as in the case of last year where local authorities added £2.6 billion to their reserves, may indeed differ substantially.
You are right that there are a number of different measures used for local government finance. As I set out above the most widely used measure is spending power as it takes account of a wide range of revenue available to local authorities including central government grants and local taxes. However, it is important that other measures are collected so that our policy development analytical base is made up of a wide range of measures providing differing perspectives on local authority total expenditure. This ensures that our analysis of local government finance is fully informed and provides a comprehensive analytical input into the public debate.

You also suggest there is a case for ‘a local government equivalent for the Office of Budget Responsibility’. We have introduced the Local Audit and Accountability Bill to improve transparency and accountability in local government funding and brought forward several measures requiring councils to publish spending.

THE RT HON ERIC PICKLES MP