

CABINET
12 JANUARY 2016
PROVISIONAL LOCAL GOVERNMENT SETTLEMENT
2016/2017

Portfolio Holder: Councillor Alan Jarrett, Leader

Report from: Phil Watts, Chief Finance Officer

Summary

This report provides Cabinet with details of the provisional Local Government settlement announced by Government on 17 December 2015.

1. Budget and Policy Framework

1.1 The provisional settlement is an important step in the process of setting the 2016/17 budget in that it gives a firmer base to the resource assumptions underpinning the draft budget. Formulation of the 2016/17 budget proposals is a matter for Cabinet, however it will be the role of Council to agree the final budget at its meeting on 25 February 2016.

2. The Settlement

2.1 The Minister for Local Government announced the provisional financial settlement to the House of Commons on 17 December 2015. The main headline emerging from the settlement, which covers a four year period, is a reduction to the England Settlement Funding Assessment (SFA) of 31.8% against the adjusted 2015/16 figure, which rolls a number of specific grants into the RSG – principally the 2015/16 council tax freeze grant and the care act implementation grant.

2.2 From 2017/18 there will be an additional £1.5bn through the “Improved Better Care Fund”, partially mitigating the reductions in SFA funding. This funding is specifically targeted at adult social care and complements the new flexibility announced in the Spending Review 2015 to allow upper tier authorities to raise a further 2.0% from Council Tax to fund social care responsibilities.

2.3 Rather than all local authorities receiving the same percentage reduction in Revenue Support Grant (RSG) funding, the Government now proposes to take into account the amount that can be raised locally from Council Tax, applying greater reductions in RSG funding for those authorities with a higher ratio of Council Tax revenue to SFA and lesser reductions for local authorities with lower than average tax bases.

- 2.4 The Council Tax referendum limit applicable to local authorities and fire authorities remains at 2.0%, however, as previously mentioned local authorities with social care responsibilities will be able to increase council tax by up to 4.0%, providing that the additional 2.0% is ring-fenced for social care.
- 2.5 Provisional New Homes Bonus allocations have been calculated, using the same methodology as in 2015/16, however as announced in the Spending Review, Government will be consulting on reforms to the NHB. These will include proposals to 'sharpen' the incentive to reward communities for additional homes and a reduction in the longevity of grant payments from 6 years to 4 years. They will also include a preferred option for savings of at least £800 million, which could be used for social care.
- 2.6 Not specifically addressed in the provisional settlement, but the Spending Review 2015 announced further pressures affecting local government, including 9.6% cuts in Public Health Grant and the imposition of the Apprenticeship levy, estimated at around £300,000 per annum for Medway.

3. Core Spending Power

- 3.1 The Minister announced that the Spending Power calculation that has been published in previous years has been amended to exclude funding that is not directly controlled by local government and is now known as Core Spending Power. This means that the original Better Care Fund and Public Health Grant allocations have been removed from the figures.
- 3.2 The calculation now only includes the Settlement Funding Assessment, Council Tax, the Freeze Grant, the Improved Better Care Fund, New Homes Bonus and the Rural Services Delivery Grant.

Table 1: Core Spending Power

	2015-16 Adjusted £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
2015/16 Revenue Support Grant	38.784				
Care Act Implementation Grant	1.284				
Lead Local Flood Authority Grant	0.051				
Sustainable Drainage Systems Grant	0.009				
Carbon Monoxide / Fire Alarm Grant	0.001				
Adjusted Revenue Support Grant	40.128	28.031	18.504	12.306	6.053
NDR Baseline Funding Level	43.760	44.125	44.993	46.320	47.800
Settlement Funding Assessment	83.889	72.156	63.496	58.626	53.853
Council Tax excl. Parishes	95.249	98.665	102.707	107.019	111.622
Potential 'Social Care Precept'	0.000	1.948	4.085	6.441	9.038
Proposed Improved Better Care Fund	0.000	0.000	0.000	2.325	4.688
Illustrative New Homes Bonus	6.166	7.568	7.608	4.780	4.586
Core Spending Power	185.304	180.336	177.897	179.192	183.788

Percentage (Reduction) / Increase

(2.68%)

(1.35%)

0.73%

2.57%

- 3.3 The Core Spending Power calculation is not in itself a statement of the actual resources likely to be available to the Council over the medium term. At one level it is simply a mechanism used by Government to illustrate that in spite of the reductions in central grant support the cash reduction in the overall funding available to local government is not significant, however, the assumptions in the Core Spending Power calculation do impact on the SFA methodology and ultimately on the Revenue Support Grant. Overly optimistic assumptions by Central Government concerning each local authority's tax base and business rates income could have a significant adverse impact on its RSG.

4. Settlement Funding Assessment

- 4.1 In headline terms the overall settlement figure, announced as the 'Settlement Funding Assessment' (SFA), is some £11.733 million less than the adjusted figure for 2015/16. This represents a cut of 14.0% compared to the national figure of 12.5%, reflecting Medway's higher than average council tax base relative to SFA. The SFA comprises the adjusted Revenue Support Grant, which again rolls in a number of previously separate grant streams, together with Government's assumptions regarding the local share of business rates. Table 1 (above) sets out the provisional SFA, however the business rate assumptions are predicated on a baseline calculation founded on collections in 2010/11 and 2011/12. The MTFP uses the Council's own estimate of the anticipated business rates collection for 2016/17, which in turn is based on the actual collection to date, in 2015/16. The SFA excludes some other important grants such as the Dedicated Schools Grant (DSG), other schools based grants, Public Health Grant, New Homes Bonus, Housing Benefit Administration Grant, Adult Learning and a number of more minor grants.
- 4.2 The important component of the SFA is the Revenue Support Grant (RSG) which is provisionally set to decrease by £12.097 million to £28.031 million, a 30.1% cut. This is £1.241 million less than the estimate used within the MTFP reported to Cabinet in September and the draft budget reported in November.

5. New Homes Bonus

- 5.1 Medway's provisional New Homes Bonus for 2016/17 is £7.462 million, which interestingly is different to the illustrative figure used by Government in the Core Spending Power calculation. These figures do not include the affordable homes premium earned in the preceding year but since the amounts are known our accounting practice has been to accrue the income.
- 5.2 Government proposes to reduce the number of years that grant is receivable from six to four years. This would be effective from 2017/18, with the 2012/13 new homes only resulting in five years' worth of grant and 2013/14 homes and onwards only generating grant for four years.

6. Business Rates

- 6.1 The income from business rates, and the subsequent Council share as forecast in the draft budget, will not be affected by the measures announced in the 2015 Autumn Statement as these are all compensated for by section 31 grant and are a continuation of current arrangements. These are:

- The current £1,500 discount for all retail, pubs, cafes (excluding banks and betting establishments) with rateable values below £50,000 will end on 31 March 2016; and
- The doubling of Small Business Rate Relief will continue for a further year.

6.2 The Spending Review 2015 announced that local authorities would retain 100% of business rates by the end of the current parliament, in exchange for the loss of Revenue Support Grant, and whilst at face value this could be viewed positively, offering the Council further opportunity to benefit directly from business growth, it would also increase risk. The baseline upon which top-ups and tariffs are calculated will almost certainly be reset and at this stage there is very little detail available regarding which other grants would cease and what additional responsibilities local authorities might be required to take on.

7. Dedicated Schools Grant (DSG)

7.1 The DSG for 2016/17 continues to be calculated in three blocks for Schools, Early Years and High Needs and is driven by pupil numbers. The Schools Block per-pupil rates for 2016/17 have remained at £4,357.89 per pupil and are accompanied by an increase in pupil numbers. The Early Years per pupil funding rates have remained the same as the 2015/16 funding rates, whilst the High Needs Block base funding has increased by £0.497m. Overall the projected DSG for 2016/17 is set out in Table 2 below:

Table 2: Schools Based Grant Funding (DSG)

	2015/16 £000's	2016/17 £000's	2017/18 £000's
Schools Block – Pupil Numbers	37,680	38,158	38,680
Schools Block Funding	£164.262m	£166.346m	£168.563m
Early Years Block – Pupil Numbers	2,817	2,722	2,800
Early Years Block Funding	£15.271m	£15.271m	£15.708m
High Needs Block Funding	£32.491m	£25.439m	£25.439m
Dedicated Schools Grant (gross)	£212.024m	£207.056	£209.710m
Academy Deductions	(£100.845m)	(£103.154)	(£106.422m)
Dedicated Schools Grant (Net)	£111.179m	£103.902	£103.288m
Pupil Premium	£6.140m	£4.756	£4.000m
Sixth Form Funding	£0.543m	£0.437m	£0.437m
Net Schools Based Funding	£117.861m	£109.095m	£107.725m

7.2 The DSG is calculated initially using the pupil numbers for all schools in Medway, including academies. Subsequently the Education Funding Agency will reduce the Council's DSG allocation in respect of schools that have converted to academies. Academies are expected to account for £103.154 million, leaving Medway's net DSG allocation at £103.902 million.

8. Pupil Premium Grant

8.1 Schools receive a separate grant to improve the attainment of pupils from deprived backgrounds based on pupils eligible for a free school meal, 'looked after children' (LAC), and children with a parent in the armed forces.

8.2 Per pupil rates for 2016/17 have remained the same 2015/16 rates:

	Primary	Secondary
Free School Meals	£1,320	£935
Looked After Children	£1,900	£1,900
Service Children	£300	£300

8.3 These rates will produce a total grant for Medway schools, excluding academies, of about £4.756 million in 2016/17.

9. Education Services Grant

9.1 The Education Services Grant (ESG) was introduced in 2013/14 to fund local authorities statutory and other services in relation to education outside of the DSG. This includes funding for services such as school improvement and education welfare. The ESG has been formed from funds transferred out of formula grant under the LACSEG adjustment and is therefore not new money. The total deducted from formula grant is split between local authorities and individual academies in proportion to their pupil numbers.

9.2 The ESG retained duties rate of £15 per pupil remains the same in 2016/17 but the general fund rate per pupil has reduced by £10 to £77 per pupil.

9.3 The settlement figure for the ESG is £2.124 million, which is £221,000 less than the estimate used within the draft budget.

10. Public Health Grant

10.1 Further to the in-year grant reduction announced in the Summer, the Public Health Grant is faced with further cash reductions of 9.6% over the next four years. In his letter to local authorities, dated 27 November, the Chief Executive of Public Health England provided some more detail regarding the phasing of this reduction – 2.2% in 2016/17, 2.5% in 2017/18 and 2.6% in each of the subsequent two years. For Medway this amounts to further reductions totalling almost £1.8 million over four years.

11. Capital Settlement

11.1 The capital settlement announcements are often delayed, however both the Department for Transport (DfT) and Department of Health (DoH) had previously announced multi-year settlements and these are already reflected in the current programme.

11.2 In the Spending Review 2015 the Government announced that it would introduce flexibility for the period of the Spending Review to allow local authorities to use capital receipts from the sale of non-housing assets to fund

the revenue costs of service reform and transformation and Cabinet may wish to explore this opportunity.

12. Summary of Impact on the 2016/17 Provisional Budget

- 12.1 The draft budget that Cabinet approved on 24 November 2015 was predicated on the funding assumptions contained in the MTFP. Table 3 (below) seeks to summarise the potential impact of the provisional settlement on the MTFP figures, assuming that the Council chooses to avail itself of the flexibilities offered in terms of Council Tax.

Table 3: Potential Impact of Settlement

	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
Medium Term Financial Plan Assumptions				
Budget Requirement	331,301.5	326,717.7	320,728.0	326,596.4
Available Funding	(317,453.5)	(300,771.2)	(287,039.9)	(284,697.6)
Budget 'Gap'	13,848.0	25,946.5	33,688.1	41,898.8
Potential Impact of Provisional Settlement				
Council Tax: 'Social Care Precept'	(1,915.0)	(3,830.0)	(5,745.0)	(7,660.0)
Reduction in RSG	1,241.0	2,566.0	1,135.0	1,388.0
Loss of Care Act Implementation Grant	1,156.0	1,156.0	1,156.0	1,156.0
Reduction in New Homes Bonus	0.0	1,270.9	3,028.0	2,525.8
Reduction in ESG	221.0	221.0	221.0	221.0
Reductions in Public Health Grant	402.2	447.0	463.7	463.3
Apprenticeship Levy	0.0	300.0	300.0	300.0
Revised Budget 'Gap'	14,953.2	28,077.4	34,246.8	40,292.8

- 12.2 In consulting on the provisional settlement, Government has expressed its commitment to offering any council wishing to accept a four year funding settlement up to and including 2019/20, subject to it publishing an efficiency plan. The consultation document is not explicit regarding what exactly this condition would entail, however a four year funding settlement would at face value offer much greater certainty in terms of financial planning and maybe something that the Cabinet would wish to consider.
- 12.3 The worsening of the gap means that it is even more important that a number of the measures required to balance the budget are implemented as soon as possible rather than waiting for Council to agree the budget. This includes for example a review of grants to voluntary organisations and other non-contract spend.
- ## 13. Risk Management
- 13.1 The continuation of severe funding cuts has prompted much discussion within local government finance circles regarding the risks to local authorities of being unable to set sustainable budgets and it is worth reminding the Cabinet what a failure to set a balanced budget might mean for the Council.

- 13.2 In setting the Council's budget the Section 151 Officer is required, under Section 25 of the Local Government Act 2003, to report on the robustness of the budget and the adequacy of reserves supporting the budget. The requirement on the Section 151 Officer is to ensure that the budget recommended to Council is balanced (i.e. expenditure does not exceed income), deliverable and ensures that the local authority maintains an adequate level of reserves.
- 13.3 If the Council were to set a budget, which in the Section 151 Officer's view would put the authority at risk of an overspend, because it is not robust, is not balanced or puts the authority at risk of bankruptcy because it does not provide for an adequate level of reserves, then he or she would be required to submit a report to the Council under Section 114 of the Local Government Finance Act 1988. The issuing of a Section 114 report would prevent the Council from incurring any expenditure which was not subject to approved contract, was not needed to maintain statutory services or was not incurred to address emergency requirements.
- 13.4 There remains a slight possibility that consultation changes could affect the overall position for the Council in terms of Government support. This is considered a low risk but in the event that it proves to materialise there may be need to table revised proposals for consideration by Council.

14. Financial and Legal Implications

- 14.1 The financial implications of this report are set out above. There are no direct legal implications other than those referred to under risks.

15. Recommendation

- 15.1 That Cabinet notes the implications of the provisional settlement in formulating its 2016/17 budget proposals.

16. Suggested Reasons for Decision

- 16.1 These provisional levels of grant are a fundamental component of the 2016/17 budget, and their announcement is a further stage in the process of preparing a balanced budget.

Appendices

None

Background papers

Draft Medium Term Financial Plan 2015/20 report to Cabinet 29 September 2015
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=28440>

Draft Capital and Revenue Budget 2016/17 report to Cabinet on 24 November 2015
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=28943>

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