

## **CABINET**

**17 JANUARY 2017**

### **PROVISIONAL LOCAL GOVERNMENT SETTLEMENT 2017/2018**

Portfolio Holder: Councillor Alan Jarrett, Leader

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#### **Summary**

This report provides Cabinet with details of the provisional local government settlement announced by Government on 15 December 2016.

#### **1. Budget and Policy Framework**

1.1 The provisional settlement is an important stage in the process of setting the 2017/18 budget in that it provides a firmer base to the resource assumptions underpinning the draft budget. Formulation of the 2017/18 budget proposals is a matter for Cabinet, however it will be the role of Council to agree the final budget at its meeting on 23 February 2017.

#### **2. Core Spending Power**

2.1 The local government settlement is underpinned by the Core Spending Power calculation, which according to the DCLG measures the core revenue funding available for local authority services. Last year it was amended to exclude funding that is not directly controlled by local government and comprised the Settlement Funding Assessment, Council Tax, the Freeze Grant, the Improved Better Care Fund, New Homes Bonus and the Rural Services Delivery Grant. Since then the Transition Grant announced in the 2016/17 final settlement and the new one-off Adult Social Care Support Grant have been included in the calculation. Medway Council's Core Spending Power is summarised in Table 1.

2.2 The Core Spending Power calculation is not in itself a statement of the actual resources available to the Council over the medium term. 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. This was indeed the case for upper tier authorities in the South

East and it was only through lobbying by the SE7 group of local authorities, that the Government decided to introduce the Transition Grant in 2016/17 and 2017/18.

**Table 1: Medway Council's Core Spending Power**

	2015-16 Adjusted £m	2016-17 Adjusted £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	45.026	46.474	48.127
Settlement Funding Assessment	83.889	72.156	63.529	58.781	54.180
Council Tax excl. Parishes	95.249	98.845	102.925	107.174	111.597
Potential 'Social Care Precept'	0.000	1.938	4.076	6.429	9.014
Proposed Improved Better Care Fund	0.000	0.000	0.000	2.325	4.688
Illustrative New Homes Bonus	6.166	7.563	5.367	4.020	3.857
Transition Grant	0.000	0.343	0.344	0.000	0.000
Adult Social Care Support Grant	0.000	0.000	1.002	0.000	0.000
<b>Core Spending Power</b>	<b>185.304</b>	<b>180.846</b>	<b>177.244</b>	<b>178.729</b>	<b>183.336</b>

Percentage (Reduction) / Increase (2.41%) (1.99%) 0.84% 2.58%

### 3. The Provisional Settlement

- 3.1 The Minister for Local Government announced the provisional financial settlement to the House of Commons on 15 December 2016. In terms of the Settlement Funding Assessment this does not change the four year Revenue Support Grant allocations announced in the 2016/17 settlement and the changes to the NDR Baseline are negligible. As Medway Council is in the 97% of all local authorities that opted to accept the Government's offer of a four year settlement, this headline level of grant funding is guaranteed.
- 3.2 Within the provisional SFA calculations, the NDR baseline and top up/tariff amounts have been amended to reflect the 2017 rates revaluation. The adjusted amounts are intended to ensure that changes in rateable value remain revenue neutral for individual authorities; with changes to authorities' NDR Baseline (and therefore tariff/top up) being equal and opposite to the forecast change in the ability to raise business rates locally. There were however some other headlines in the provisional settlement that could have a more significant impact on the 2017/18 draft budget assumptions.
- 3.3 The 2017/18 New Homes Bonus allocations and details of the consultation on the future of the scheme were announced. The number of years that the scheme will be based upon (currently 6 years' in 2016/17) will reduce to 5 years in 2017/18 and 4 years from 2018/19 onwards. Furthermore, the scheme will now also only reward growth in homes above 0.4% per annum.

- 3.4 The changes to the scheme have allowed the government to remove £241.0 million from the 2017/18 New Homes Bonus allocation and divert it to the new Adult Social Care Support Grant. This funding is for one year only and is to be distributed based on the adult social care relative needs formula, however Medway's share of this grant is provisionally set at £1.0 million and falls well short of compensating the loss of New Homes Bonus.
- 3.5 The Council Tax referendum limit applicable to local authorities and fire authorities remains at 2.0%. Also, upper tier local authorities will also be able to continue to apply the so-called "social care precept", however they will now be able to increase Council Tax by up to an additional 3.0% per annum in 2017/18 and 2018/19. Authorities that take advantage of this further flexibility will not be able to make a further increase in 2019/20, as the total allowable increase over the three-year period remains at 6.0%.

#### **4. Settlement Funding Assessment**

- 4.1 Following a cut of £11.733 million last year the 'Settlement Funding Assessment' (SFA) for Medway is set to reduce by a further £8.627 million in 2017/18. This represents a cut of 12.0% compared to the national figure of 10.6%, reflecting Medway's higher than average council tax base relative to SFA. The SFA comprises the adjusted Revenue Support Grant, 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 current rateable value. 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 other minor grants.
- 4.2 The important component of the SFA is the Revenue Support Grant (RSG) which is provisionally set to decrease by a further £9.527 million to £18.504 million, a 34.0% cut. Together with £343,000 of Transitional Grant, this remains consistent with the MTFP considered by Cabinet on 27 September 2016.

#### **5. New Homes Bonus**

- 5.1 Following consultation, the Government has made some changes to the New Homes Bonus scheme, as described in paragraph 3.3. The introduction of a threshold on eligibility and a reduction in the number of years has had a dramatic effect on Medway Council's grant entitlement, reducing the 2017/18 New Homes Bonus figure from the £7.508 million assumed in the MTFP to just £5.367 million.

#### **6. Business Rates**

- 6.1 The 2017 rate revaluation has created even more uncertainty around the funds available to individual local authorities for 2017/18, however based upon the current rateable value, the recently announced multiplier and the knowledge that transitional relief will be compensated 100% by Section 31 Grant and through application of the Government's Top-up Grant calculator, we have assumed that the

Council's share of business rates and associated grants in 2017/18 will be consistent with the draft budget assumptions.

- 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 still very little detail available regarding which other grants would cease and what additional responsibilities local authorities might be required to take on.

## **7. Education Services Grant**

- 7.1 The non-ringfenced Education Services Grant (ESG) was introduced in 2013/14 to fund local authorities statutory and other services outside of the DSG. It notionally funds services related to education, such as admissions, school improvement and education welfare, but also a share of the Council's support services.
- 7.2 The MTFP originally anticipated that the ESG would be lost within the DSG completely from 2017/18, however the draft revenue budget considered by Cabinet on 22 November 2016, reflects the Government's decision to phase the loss of this grant over two years.
- 7.3 From 2017/18, the ESG will be reduced to £66 per pupil (a £10 per pupil reduction) and will be included in the dedicated schools grant.

## **8. Dedicated Schools Grant (DSG)**

- 8.1 The DSG for 2017/18 continues to be calculated in three blocks for Schools, Early Years and High Needs and is driven by pupil numbers. The 2017/18 individual blocks have been rebased, to reflect historic reallocations agreed by Schools Forum, and will now include the ESG Grant mentioned above.
- 8.2 The Schools Block per pupil rate for 2017/18 has reduced by £62.90 to £4,294.99 per pupil and are accompanied by an increase in pupil numbers. The Early Years per pupil funding rates have remained the same as the 2016/17 funding rates, but the grant now reflects the increase to 30 hours per week for certain eligible families, whilst the High Needs Block base funding has increased by £0.658m. Overall the projected DSG for 2017/18 is set out in Table 2 below:

**Table 2: Schools Based Grant Funding (DSG)**

	2016/17	2017/18
	£000's	£000's
Schools Block – Pupil Numbers	38,158	38,796
Schools Block Funding	£166.346m	£166.628m
Early Years Block – Pupil Numbers	2,823	2,823
Early Years Block Funding	£15.284m	£16.940m
High Needs Block Funding	£32.665m	£37.380m
Dedicated Schools Grant (gross)	£214.295m	£220.948m
Academy Deductions	(£113.194m)	(£121.036m)
<b>Dedicated Schools Grant (Net)</b>	<b>£101.101m</b>	<b>£99.912m</b>
Pupil Premium	£5.014m	£4.000m
Sixth Form Funding	£0.633m	£0.633m
<b>Net Schools Based Funding</b>	<b>£106.748m</b>	<b>£104.544m</b>

8.3 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 £121.036m, leaving Medway's net DSG allocation at £99.912m.

8.4 From April 2017, the amount which can be retained centrally on the Early Years block is capped at 7% for 2017/18 and reduces to 5% in 2018/19. It was anticipated that this capping would be introduced on the High Needs block at the same time but this is now not the case.

## 9. Pupil Premium Grant

9.1 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.

9.2 Per pupil rates for 2017/18 have remained the same as 2016/17 rates:

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

9.3 These rates will produce a total grant for Medway schools, excluding academies, of about £4.0 million in 2017/18.

## 10. Public Health Grant

10.1 Following the in-year grant reduction during 2015/16, the Public Health Grant has been subject to further cash reductions of 9.6% over the medium term. In his letter to local authorities, dated 27 November 2015, the Chief Executive of Public Health England provided 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 Education Funding Agency (EFA) had previously announced multi-year settlements and these are already reflected in the current programme.

11.2 In his Autumn Statement the Chancellor also announced the £23 billion 'National Productivity Investment Fund' to implement a five year programme of spending on technology, housing and transport infrastructure. Of most interest to local government is the £2.3 billion 'Housing Infrastructure Fund', which will be allocated to local authorities on a competitive basis and will be targeted at unlocking new private house building, to deliver 100,000 new homes in the areas where housing need is greatest.

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

12.1 The draft budget that Cabinet approved on 22 November 2016 was predicated on the funding assumptions contained in the MTFP, but also reflected the work undertaken at that date to close the deficit. 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**

	2017/18 £,000	2018/19 £,000	2019/20 £,000
<b>Draft Revenue Budget (Cabinet 22/11/16)</b>			
Budget Requirement	268,881.6	242,051.8	243,887.0
Available Funding	(261,103.2)	(235,603.5)	(234,464.7)
Budget 'Gap'	7,778.4	6,448.3	9,422.3
<b>Potential Impact of Provisional Settlement</b>			
Council Tax: 1% additional 'Social Care Precept'	(1,015.0)	(2,136.0)	32.5
Reduction in New Homes Bonus	2,140.5	3,487.3	3,650.2
Adult Social Care Support Grant	(1,002.3)	0.0	0.0
<b>Revised Budget 'Gap'</b>	<b>7,901.5</b>	<b>7,799.5</b>	<b>13,104.9</b>

12.2 The slight worsening of the projected deficit next year means that it is imperative that the savings already underpinning the MTFP, such as the £7.0 million transformation savings, are delivered and the new proposals being considered through this budget setting process are agreed and implemented as soon as possible. The additional savings required to close the 'gap' in 2017/18 will need to have recurrent and sustainable impact, with scope to achieve 'stretch' targets.

### **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 following consultation, changes could be made to the settlement that adversely 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 a 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 2017/18 budget proposals.

### **16. Suggested Reasons for Decision**

- 16.1 These provisional levels of grant are a fundamental component of the 2017/18 budget, and their announcement is a further stage in the process of preparing a balanced budget.

## **Appendices**

None

### **Background papers**

Medium Term Financial Plan 2016-2020 report to Cabinet 27 September 2016

<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=32868>

Draft Capital and Revenue Budget 2017/18 report to Cabinet on 22 November 2016

<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=33616>

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