

CABINET
16 JANUARY 2018
PROVISIONAL LOCAL GOVERNMENT
SETTLEMENT 2018/2019

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 the Secretary of State on 19 December 2017.

1. Budget and Policy Framework

- 1.1 The provisional settlement is an important stage in the process of setting the 2018/19 budget, providing a firmer base to the resource assumptions underpinning it. Formulation of the 2018/19 budget proposals is a matter for Cabinet, however it will be for Council to agree the final budget at its meeting on 22 February 2018.

2. Core Spending Power

- 2.1 The local government settlement is underpinned by the Core Spending Power 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. It is simply a mechanism used by Government to illustrate the potential funds available to local authorities. In practice, the budget will be based upon the Council's own estimate of local tax yields.

Table 1: Medway Council's Core Spending Power

	2017/18 £m	2018/19 £m	2019/20 £m
Adjusted Revenue Support Grant	18.504	0.000	6.053
NDR Baseline Funding Level	45.026	58.685	47.407
Settlement Funding Assessment	63.529	58.685	53.460
Council Tax excl. Parishes	106.148	114.362	119.724
Section 31 Compensation for Under-Indexing	0.580	0.966	1.451
Improved Better Care Fund	3.962	5.152	6.095
Illustrative New Homes Bonus	5.365	2.512	2.446
Transition Grant	0.344	0.000	0.000
Adult Social Care Support Grant	1.002	0.000	0.000
Core Spending Power	180.931	181.676	183.176

3. The Provisional Settlement

- 3.1 The Minister for Local Government announced the provisional financial settlement to the House of Commons on 19 December 2017. As Medway Council is within the 97% of all local authorities that opted to accept the Government's offer of a four year settlement in 2015, the headline level of grant funding allocated in each of the four years from 2016/17 to 2019/20 is guaranteed and has already been reflected in the Medium Term Financial Strategy (MTFS). The Secretary of State did, however, make two announcements as part of the provisional settlement, which could have significant implications for Medway in terms of setting the 2018/19 revenue budget.
- 3.2 Firstly, he announced that the referendum limit for Council Tax will be increased from 2% to 3%. This means that, should Medway Council chose to avail itself of this additional flexibility, it could increase Council Tax by a further 1% over and above the 4.994% assumed in the MTFS. Based on the tax base assumptions in the MTFS, this would yield an additional £1.072 million in 2018/19.
- 3.3 Secondly, he announced that Medway's joint submission to pilot 100% business rate retention, in a pooled arrangement with Kent County Council, Kent Fire and Rescue Service and the twelve lower tier Kent authorities, was one of only ten successful bids. The implications of this will be discussed later in the report.
- 3.4 There were other matters of note. The Secretary of State announced that the Government's conclusions, following the "Fair Funding Review: a review of relative needs and resources", will be implemented in the 2020/21 financial year. He confirmed that the business rates baseline will be reset in 2020/21, with the introduction of a 75% business rates retention scheme. Several existing grants, including Revenue Support Grant and Public Health Grant will be incorporated into the scheme.
- 3.5 Within the business rates retention system, the NDR baseline and top up and tariff amounts have been amended to reflect Revaluation 2017. The adjusted amounts are intended to make changes in rateable value revenue neutral for individual authorities; with changes to authorities' NDR baselines (and therefore tariffs and top ups) being equal and opposite to the forecast change in the ability to raise business rates locally.

4. Business Rates

- 4.1 In addition to the adjustments to tariffs and top-ups following Revaluation 2017, the Chancellor announced in his Autumn Budget that he was bringing forward his plan to change the basis of determining the annual increase to the business rates multiplier from RPI to CPI. This change means that the business rates yields will now only increase by 3.0% (September CPI) rather than 3.9% (September RPI). It is expected that this shortfall of 0.9% will be refunded through Section 31 grant and the change should therefore be revenue neutral in 2018/19.
- 4.2 More importantly for Medway and the Kent local authorities is the successful bid for a 100% business rates pilot in 2018/19. Under the terms of these new pilots, local authorities will retain 100% of all rates collected, but will no longer receive Revenue Support Grant. The **baseline** additional rates retained will be used to offset the loss of grant and the balance will be returned to Government in the form of an adjusted tariff. For Medway, this means retaining 100% of the rates collected, losing £12.3 million of RSG and moving from a position of receiving a £4.5 million top-up grant to having to pay a £27.3 million tariff. In terms of the baseline, this should have a fiscally neutral effect, however the benefit to local authorities in the pilot comes from being able to retain the other 50% of business rates growth achieved above baseline since 2013. Across the Kent and Medway area this could represent between £18 million and £25 million in additional revenue in 2018/19.
- 4.3 The submission included all fourteen authorities across Kent and Medway, plus the Kent Fire and Rescue Service, and clearly articulated how the retained growth would be used to support financial sustainability and generate further business growth. It is underpinned by a financial model for sharing the benefits of the additional retained growth and the main features of this model are that it:
- Ensures that no authority will receive less than it would under the existing 50% scheme and current Kent pooling arrangements;
 - Goes further than this by guaranteeing a minimum increase for every authority in the pool;
 - Recognises both population growth and business rates growth as proxies for additional spending pressures;
 - Rewards authorities with the strongest growth;
 - Promotes collaboration, by setting aside some of the growth to deliver regeneration initiatives, in the form of a 'growth fund'; and
 - Recognises North Kent, East Kent and West Kent as separate 'functional economic areas' through the cluster arrangements for managing growth fund monies.
- 4.4 An important facet of the pilot is that Medway will join the Kent business rates pool for the first time and there are a number of variables affecting the additional resources that the pilot scheme could yield, including collection rate assumptions and appeals provisions across thirteen separate collection funds. The actual implications for 2018/19 revenue budgets will not be known until the NDR1 forms have been collated at the end of January 2018 and the distribution methodology applied.
- 4.5 Whilst the initial offer for the new pilot areas was for one year only, it remains to be seen if pilot status will be allowed to continue for 2019/20. This would be sensible given the Government's plans to introduce the 75% scheme from 2020/21.

5. New Homes Bonus

- 5.1 The 2018/19 allocations have now been announced (previously these figures were only indicative) and reflect increased figures for Medway. There has been no change to the deadweight threshold (at 0.4%) or the eligibility of properties qualifying for the funding.

6. Education Related Grants

- 6.1 No further changes have been made to Education related grants, although it has been confirmed that plans to cap centrally retained expenditure against the high needs block of the Dedicated Schools Grant have now been dropped and, of course, the overall grant funding available to the local authority will continue to be impacted by academy conversions.

7. Improved Better Care Fund

- 7.1 The Improved Better Care Fund allocations remain as previously announced.

8. Public Health Grant

- 8.1 Public Health Grant allocations have been confirmed for 2018/19 and 2019/20 and are in line with the MTFS assumptions.

9. Other Grants

- 9.1 Medway Council's Flexible Homelessness Support Grant provisionally increases from £679,032 to £760,516 in 2018/19. This is in addition to the Homelessness Reduction Act: New Burdens Grant allocation of £145,871.

10. Summary of Potential Impact on the 2018/19 Revenue Budget

- 10.1 The draft budget that Cabinet approved on 21 November 2017 was predicated on the funding assumptions contained in the MTFS. Table 2 seeks to summarise the potential impact of the provisional settlement on the 2018/19 budget, assuming that the Council chooses to avail itself of the flexibilities offered in terms of Council Tax.

Table 2: Potential Impact of Settlement

	2018/19
	£,000
Draft Revenue Budget (Cabinet 22/11/16)	
Budget Requirement	291,409.2
Available Funding	(287,307.9)
Budget 'Gap'	4,101.3
Potential Impact of Provisional Settlement	
Council Tax: 1% increase in the referendum cap	(1,071.9)
Increased New Homes Bonus	(193.9)
Revised Budget 'Gap'	2,835.6

- 10.2 Overall the provisional settlement has been relatively positive in terms of the potential impact on the Council's 2018/19 budget, with the additional flexibility given over council tax raising powers and the opportunity to retain 100% of the growth in

business rates. This will go some way to closing the £4.1 million gap identified in the MTFS, however Members are reminded that the £5.0 million transformation savings expected in 2018/19 still need to be delivered, as well as the savings attached to the adult social care improvement programme and some challenging income targets around leisure, parking and other front line services, which underpin the 2017/18 budget.

11. Risk Management

- 11.1 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.
- 11.2 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.
- 11.3 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.
- 11.4 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.

12. Financial and Legal Implications

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

13. Recommendation

- 13.1 That Cabinet notes the implications of the provisional settlement in formulating its 2018/19 budget proposals.

14. Suggested Reasons for Decision

- 14.1 These provisional levels of grant are a fundamental component of the 2018/19 budget, and their announcement is a further stage in the process of preparing a balanced budget.

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Appendices

None

Background papers

Medium Term Financial Strategy 2017-2022 report to Cabinet 26 September 2017

<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=38043>

Draft Capital and Revenue Budget 2018/19 report to Cabinet on 21 November 2017

<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=38821>