

CABINET

15 JANUARY 2019

PROVISIONAL LOCAL GOVERNMENT SETTLEMENT 2019/20

Portfolio Holder: Councillor Alan Jarrett, Leader

Report from/author: Phil Watts, Chief Finance Officer

Summary

This report provides Cabinet with details of the provisional local government settlement announced by the Secretary of State on 13 December 2018.

1. Budget and Policy Framework

- 1.1 The provisional settlement is an important stage in the process of setting the 2019/20 budget, providing a firmer base to the resource assumptions underpinning it. Formulation of the 2019/20 budget proposals is a matter for Cabinet, however it will be for Council to agree the final budget at its meeting on 21 February 2019.

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

	2018/19 £m	2019/20 £m
Adjusted Revenue Support Grant	0.000	6.053
NDR Baseline Funding Level	58.685	47.441
Settlement Funding Assessment	58.685	53.494
Council Tax excl. Parishes	114.663	119.953
Section 31 Compensation for Under-Indexing	1.063	1.546
Improved Better Care Fund	5.152	6.095
Illustrative New Homes Bonus	2.512	1.978
Adult Social Care Support Grant	0.624	1.705
Winter Pressures Grant	0.998	0.998
Core Spending Power	183.696	185.768

3. The Provisional Settlement

- 3.1 The Minister for Local Government announced the provisional financial settlement to the House of Commons on 13 December 2018. 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 Revenue Support Grant allocated for 2019/20 is guaranteed and has already been reflected in the Medium Term Financial Strategy (MTFS). Between them, however, Government Ministers have made a number of funding announcements, which have significant implications for Medway in terms of setting the 2019/20 revenue budget.
- 3.2 Firstly, the Chancellor in his Autumn Budget allocated additional funds for social care, £240million in the current year, increasing to £650million next year. For Medway this meant £997,871 per annum to fund Winter Pressures in both 2018/19 and 2019/20 and a further £1,704,697 in 2019/20 to be used to meet pressures across both Adults and Children's Care.
- 3.3 Then in announcing the Provisional Settlement, the Secretary of State announced that Kent and Medway had been unsuccessful in applying for a second year of the Business Rates Retention Pilots. Whilst this is disappointing, the MTFS had not assumed that the bid would be successful and so this does not represent a worsening of the position reported in the Draft Budget.
- 3.4 Finally, on 16 December 2018, the Education Secretary announced an additional £350million to support children with special educational needs. This amounts to £677,199 per annum in 2018/19 and 2019/20, plus a share of the £100million allocated for capital expenditure.
- 3.5 Fair Funding Review: The government has published a further technical paper on the "Review of local authorities' relative needs and resources", which consults on the assessment of relative needs, relative resources and transitional arrangements. The consultation, comprising 16 questions, will run until 21 February 2019 and outlines:

- Proposals to simplify the assessment of local authorities' relative needs by introducing a simple Foundation Formula, alongside several 'service-specific' formulas. This includes a focus on the structure of the needs assessment, the weighting between services, weighting of cost drivers, Area Cost Adjustments and future proofing the needs assessment;
- The type of adjustment that will be made to an authority's relative needs assessment to take account of the relative resources available to them to fund local services, such as council tax; and
- A set of principles that will be used to design transitional arrangements and examines how the baseline for the purposes of transition should be established.

3.6 Business Rates Retention: The government has published the consultation paper "Sharing risk and reward, managing volatility and setting up the reformed system", a technical consultation which seeks views on proposals for sharing risk and reward, managing volatility in income and setting up the reformed business rates retention system. This consultation also runs until 21 February 2019 and outlines further proposals to:

- Update the balance of risk and reward, to better reflect the wider context for local authorities in 2020. It suggests a future approach to resets that would smooth potential 'cliff edges' in income, proposes reforms to the levy that would allow more authorities to keep more of their business rates growth, and reaffirms the Government's commitment to a safety net to protect authorities from sudden reductions in income;
- Mitigate volatility in income and simplify the system; and
- Set up the new business rates retention system in April 2020 – specifically, inviting views from local authorities on the operational steps that may be necessary to set accurate Business Rates Baselines.

3.7 The Secretary of State also said that he shared the concerns of CIPFA regarding some councils' commercial investments and the potential "risks they are exposing" themselves and the public to and he would be discussing with the Treasury "whether further intervention might be required".

4. Business Rates

4.1 As the Kent and Medway Authorities have not been included in the Business Rates Retention pilots for next year, Medway will return to the 50% scheme and revert from being a 'tariff' Authority, back to receiving a 'top up' grant of £4.423million in 2019/20.

4.2 An additional £180million was also announced by the Secretary of State. It has been funded from the surplus on the Business Rates Retention levy/safety net account, however the MHCLG have not included this in the Core Spending Power figures, as it is a one-off allocation and it will therefore be in addition to the amounts shown in Table 1 above. Medway's share of this funding is £727,831.

5. Council Tax

- 5.1 The Council Tax referendum limit remains at 3% and Medway's Draft Budget assumes that Council Tax will be increased in line with this. The updated tax base underpinning the preparation of the budget is being calculated and will be signed off by the Chief Finance Officer in consultation with the Leader at the end of January.

6. New Homes Bonus

- 6.1 The 2019/20 provisional allocations have now been announced and indicate a £138,000 reduction for Medway, against the MTFS assumptions. Owing to a £10million injection by the Government, there has been no change to the deadweight threshold (at 0.4%) or the eligibility of properties qualifying for the funding.

7. Education Related Grants

- 7.1 As referenced above the Education Secretary has announced an additional £350million over the next two years to support children with special educational needs. As this funding is ring-fenced it will not reduce the General Fund budget gap, but will alleviate the pressure on the High Needs DSG. The capital allocations are yet to be announced.

8. Improved Better Care Fund

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

9. Public Health Grant

- 9.1 Public Health Grant remains in line with MTFS assumptions and continues to reduce from £17.217million in 2018/19 to £16.762million in 2019/20.

10. Other Grants

- 10.1 Medway Council's Flexible Homelessness Support Grant provisionally increases from £760,516 to £894,843 in 2019/20. This is in addition to the Homelessness Reduction Act: New Burdens Grant allocation of £154,196.

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

- 11.1 The draft budget that Cabinet approved on 20 November 2018 was predicated on the funding assumptions contained in the MTFS. Table 2 overleaf seeks to summarise the potential impact of the provisional settlement on the 2019/20 budget.

Table 2: Potential Impact of Settlement

	2019/20 £,000
Draft Revenue Budget (Cabinet 20/11/18)	
Budget Requirement	296,919.3
Available Funding	(292,511.9)
Budget 'Gap'	4,407.5
Potential Impact of Provisional Settlement	
Social Care - additional funding	(2,702.6)
Business Rates Levy - surplus	(727.8)
Homelessness Reduction Act - New Burden funding	(154.2)
New Homes Bonus - reduction	138.0
Revised Budget 'Gap'	960.9

- 11.2 Overall the provisional settlement has been relatively positive in terms of the potential impact on the Council's 2019/20 budget and this could go some way to closing the £4.408million gap identified in the Draft Budget. Members are reminded that the additional £2.1million transformation savings expected in 2019/20 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 underpinned the 2017/18 budget.

12. Risk Management

- 12.1 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.
- 12.2 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.
- 12.3 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.

12.4 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.

13. Financial and Legal Implications

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

14. Recommendation

14.1 That Cabinet is asked to note the implications of the provisional settlement in formulating its 2019/20 budget proposals.

15. Suggested Reasons for Decision

15.1 These provisional levels of grant are a fundamental component of the 2019/20 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 2018-2023 report to Cabinet 25 September 2018

<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=43672>

Draft Capital and Revenue Budget 2019/20 report to Cabinet on 20 November 2018

<https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=44488>