

## **Summary Sheet**

### **Council Report**

Report to Advisory Cabinet 18<sup>th</sup> January 2016

Portfolio Holder Cllr. Alam

Decision to be taken by Commissioner Myers

### **Title**

The Provisional Local Government Finance Settlement 2016/17

### **Is this a Key Decision and has it been included on the Forward Plan?**

No.

### **Strategic Director Approving Submission of the Report**

Stuart Booth, Acting Strategic Director of Finance and Corporate Services

### **Report Author(s)**

Anne Ellis, Strategic Finance Manager, Resources Directorate

01709 822019, [anne.ellis@rotherham.gov.uk](mailto:anne.ellis@rotherham.gov.uk)

### **Ward(s) Affected**

All

### **Executive Summary**

This report summarises the Provisional Local Government Finance Settlement for 2016/17, a Consultation Paper on the future of the New Homes Bonus (NHB), guidance on the Flexible use of Capital Receipts, the Draft Council Tax Referendum Principles for 2016/17 and a letter to Council Chief Executives providing details of the additional 2% flexibility on the Proposed Council Tax Referendum Thresholds for Adult Social Care which were released in December 2015.

The Provisional Settlement allocation for Rotherham's Settlement allocation is some £0.349m less than had been projected within the Council's Medium Term Financial Strategy (MTFS). However, consultation on many of the proposals is still ongoing and details of other funding streams (such as Public Health Grant) have not yet been confirmed, consequently details are subject to change and the Council's MTFS will be updated as information becomes available.

## **Recommendation**

Commissioner Myers is asked to:

- **Note the contents of this report and the financial implications identified for the Council's 2016/17 Revenue Budget and future Medium Term Financial Strategy.**

## **List of Appendices Included**

### **Background Papers**

- The Provisional Local Government Finance Settlement 2016/17 and offer to councils for future years - Consultation Paper DCLG December 2015
- Letter to Chief Executive from DCLG "Council Tax Setting in 2016/17: The Government's Offer to Adult Social Care Authorities. December 17<sup>th</sup> 2015
- The Draft Referendums Relating to Council Tax increases (Principles) (England) Report 2016/17 DCLG December 17<sup>th</sup> 2015
- Council Tax Setting in 2016/17 – the Government's Offer to Adult Social Care Authorities - Report to Commissioner Manzie 7<sup>th</sup> January 2016.
- New Homes Bonus – Sharpening the Incentive – Technical Consultation. DCG December 2015

### **Consideration by any other Council Committee, Scrutiny or Advisory Panel**

No

### **Council Approval Required**

No

### **Exempt from the Press and Public**

No

## **The Provisional Local Government Finance Settlement 2016/17 and Offer to Councils for Future Years - Consultation Paper**

### **1. Recommendation**

1.1 Commissioner Myers is asked to:

- **Note the contents of this report and the financial implications identified for the Council's 2016/17 Revenue Budget and future Medium Term Financial Strategy.**

### **2. Background**

2.1 Following the Government's November Spending Review and Autumn Statement the Provisional Local Government Finance Settlement for 2016/17 was

announced on 17<sup>th</sup> December 2015 providing details of the provisional grant allocations to authorities for 2016/17 and for the following three financial years up to 2019/20.

- 2.2 Also released in December were: a Consultation Paper on the Future of the New Homes Bonus (NHB), guidance on the Flexible use of Capital Receipts, the Draft Council Tax Referendum Principles for 2016/17 and a letter to Council Chief Executives providing details of the additional 2% flexibility on the Proposed Council Tax Referendum Thresholds for Adult Social Care.
- 2.3 Consultation on the Provisional Settlement will continue until 15<sup>th</sup> January 2016 and the Consultation Paper indicates that the Government will seek Parliamentary approval for the Final 2016/17 Settlement in February 2016, at which time the final terms of the Adult Social Care Flexibility and the Council Tax Referendum Principles will also be confirmed.

### **3. Key Issues**

- 3.1 The Secretary of State confirmed the plan set out in the Autumn Statement for local government to retain 100% of Business Rate revenues to fund local services by the end of this Parliament. The Government intend to consult on the implementation of the 100% Business Rates retention in the summer of 2016, following a period of extensive engagement with councils and their representatives in the preceding months.
- 3.2 As part of these reforms, the main local government grant, Revenue Support Grant (RSG) will be phased out, however the present system of Business Rates Top-ups and Tariffs which redistributes revenues between local authorities will be retained but the Uniform Business Rate will be abolished permitting local areas to cut Business Rates. These changes are intended to strengthen incentives to boost local economic growth, help to attract business and create jobs.
- 3.3 Over the period up to 2019/20, the total England Settlement Funding Assessment (SFA), which comprises; RSG, Government Business Rates projections and Business Rates Top-up Grant, will be reduced by of 31.8%. This reduction is front loaded with the largest reductions in 2016/17 and 2017/18 – the proposed phasing as follows:
  - -12.5%
  - -10.6%
  - - 6.5%
  - - 6.7%
- 3.4 Whilst this planned overall reduction for England appears broadly consistent with the assumptions in the Council's Medium Term Financial Strategy (MTFS) of a 9% reduction in settlement funding per year for 3 years, it must be stressed that these reductions are based on an adjusted 2015/16 base figure, which includes

within RSG the following funding streams that are currently outside the SFA (and which the Council's MTFS has treated as specific grants):

- |  |       |
|--|-------|
| • Council Tax Freeze Grant 2015-16     | £115m |
| • Efficiency Support Funding 2015-16   | £2m   |
| • 2015-16 Care Act - Adult Social Care | £183m |
| • 2015-16 Care Act - funding reform    | £119m |
| • Lead Local Flood Authority Grant     | £10m  |

3.5 The Provisional Settlement also proposes changes to the way that RSG is distributed between authorities. Rather than the same percentage reduction in RSG funding being applied to all authorities, the Government are proposing to take into account the amount that can be raised locally from Council Tax. This will have the effect of increasing the reduction in RSG funding for authorities with higher tax bases in comparison to their SFA and lowering the reduction for lower than average tax base authorities (like Rotherham). In addition the Government has altered the distribution of funding between tiers of local government, which would appear to favour upper tier authorities (like Metropolitan Districts) and lead to higher funding reductions for county district councils.

### **3.6 The Fixed Funding Offer**

The Provisional Settlement included an offer from the Government of a four year settlement running to 2019/20 to any council that wishes to take it up. Councils will need to request the four year settlement and have an efficiency plan in place in order to qualify.

3.7 However the Government has not yet indicated what the formal process for this request is; what the timetable for the request will be; and what the required efficiency plan should look like or when it should be completed. It is also important to note that the offer is qualified as the final grant determinations for future years will still be subject to change:

- As the annual Business Rates multiplier changes;
- For future changes such as transfer of functions between national and local government; and
- It is also stated that unforeseen events could result in changes to settlements but it is not indicated if this includes unforeseen economic events such as the Government failing to meet its fiscal targets for a budget surplus.

### **3.8 New Homes Bonus**

A Technical Consultation on the future of the New Homes Bonus (NHB) was also launched in December and closing in March 2016. Although the New Homes

Bonus (NHB) programme will continue in its current form and allocations to authorities will continue on the current basis in 2016/17, it is intended that changes will begin to take effect from 2017/18, with major changes affecting 2018/19 onwards. The proposed reforms include:

- Shortening the scheme from 6 to 4 years;
- Reform the bonus amount awarded to reflect local authorities' performance on housing growth and
- How to keep with the announced funding amounts if there was an increase in housing growth beyond that forecast.

The consequent saving of around £0.55bn nationally in the cost of the scheme is part of the £1.5 billion additional Better Care Funding announced in the Autumn Statement and Spending Review. In addition it is thought that the £250m DCLG contribution to the NHB will also be included in the Better Care Fund.

### **3.9 Council Tax Referendums**

The Draft Council Tax Referendum Principles for 2016/17 were also issued on December 17<sup>th</sup>. In line with the assumptions in the Council's MTFS, an increase in Council Tax of 2% or more would be deemed excessive and require a local referendum – (the MTFS currently includes an increase of 1.95%).

3.10 However the Draft Principles also confirm that, as announced in the Autumn Statement, there will be additional flexibility for local authorities responsible for social care. These authorities (including Rotherham) will be allowed the flexibility to raise Council Tax in their area by up to 2% above the existing referendum threshold of 2% - giving the Council a referendum threshold for 2016/17 of 4%.

3.11 It is for authorities to determine whether to utilise this flexibility, however in a letter to Chief Executives of December 17<sup>th</sup>, the DCLG has requested that Section 151 officers in qualifying authorities indicate whether their authority is minded to take up the 2% flexibility (in full or in part), by 5pm on 15 January 2016.

3.12 At this stage the submission does not commit the Council to increasing its Council Tax but secures the flexibility for it to do so should Members wish. Accordingly, Commissioner Manzie's approval has been granted for the Council's Section 151 Officer to indicate to the DCLG that the Council is minded to utilise the 2% flexibility to increase Council Tax in 2016/17 for Adult Social Care.

3.13 In order to satisfy the requirement that this funding is ring-fenced for social care purposes, authorities will be required to provide specified information on Council Tax levels and budgets both to the Secretary of State and on the face of the Council Tax bill.

### 3.14 Core Spending Power

As part of the Provisional Settlement the Government has introduced a new measure - Core Spending Power. This is shown as reducing by 2.8% for 2016/17 and by 0.5% over the four year period to 2019/20.

- 3.15 Core spending Power includes: authorities' Settlement Funding Assessment (SFA), Improved Better Care Fund allocations, New Homes Bonus (NHB) and Rural Services Delivery Grant. Also included are the Government's projections of Council Tax income over the period up to 2019/20. These Council Tax income projections are based on assumptions in relation to increases in Council Tax, which is projected to rise in line with the Consumer Price Index (CPI) and growth in the tax base which is based on the national average growth between 2013/14 and 2015/16. Rotherham's **actual** Council Tax income will depend on Members' decisions in relation to Council Tax rises and the local growth in the tax base which is 2% in 2016/17.

### 3.16 Implications for Rotherham,

Initial assessments indicate that Rotherham's Settlement allocation is **overall some £0.349m less** than had been projected within the Council's Medium Term Financial Strategy (MTFS). However as this reflects gains and losses across several funding streams and as yet not all grant announcements have been made and the settlement is provisional, the position is subject to change. The table below summarises the position.

	<b>MTFS Estimate  2016/17  £m</b>	<b>Provl. Settlemt.  2016/17  £m</b>	<b>Variance from MTFS  £m</b>
Revenue Support Grant	38.436	39.405	0.969
Share of Business Rates Top up Grant	23.099	22.817	-0.282
Baseline Business Rates Local Share retained	35.413	35.930	0.517
Grants Received 2015/16 run into RSG	1.297		-1.297
New Homes Bonus	6.355	6.099	-0.256
<b>Settlement Resources</b>	<b>104.600</b>	<b>104.251</b>	<b>-0.349</b>

### 3.17 Business Rates

Due to the variable nature of the Business Rates Retention element of local authority funding, the provisional settlement no longer provides the absolute

funding level for authorities and actual Business Rates represent the key variable in resources projections for authorities.

- 3.18 The latest projections for Rotherham show an increase of £0.5m over and above the MTFS projections, mostly as a result of late notification of a new development by Rolls Royce in the AMP but outside the Enterprise Zone. Going forward the Council's income will be affected by both local factors – such as new developments and national ones such as the growth in the Rates Multiplier or the impact of the ongoing review of the Business Rates system and the National Rates Revaluation which will take effect from 2017/18.

**3.19 Council Tax and Social Care Precept**

The Council's MTFS currently assumes a 1.95% increase in the Council Tax - £24.92 on a Band D Council Tax and it is **estimated that an additional 2% Social Care Precept would generate £1.7m per year**. The additional precept is equivalent to £25.55 on a Band D property and would result in a total increase of £50.47 or 3.95%, which is within the 4% Referendum Threshold.

- 3.20 Using the flexibility offered by the Adult Social Care Precept will need to be considered carefully due to the impact on Council Tax payers of a 3.95% increase in Council Tax, particularly as the Draft Referendum Principles will also allow the South Yorkshire Police and Crime Commissioner to increase his precept by up to £5.

- 3.21 It should also be stressed that Rotherham's Social Care Budget like others both nationally and locally is already under severe pressure from a range of factors including: demographic change, Deprivation of Liberty Safeguarding (DOLS) Regulations and implementing the National Living Wage.

**3.22 New Homes Bonus**

Rotherham's allocation for 2016/17 is £5.999m with estimated returned funding of £0.1m which is around £0.250m less than had been included in the Council's MTFS and reflects a smaller increase in the number of properties identified as qualifying for the bonus in October (when the government calculations are made).

- 3.23 The Council's MTFS currently assumes no change to the scheme going forwards, however the proposals would, if agreed, result in a reduction of up to 10% in Rotherham's allocations as the scheme is shortened to 4 years rather than 6. However, the actual allocation will depend on the number of new properties constructed in coming years and the proposals are still subject to consultation,

**Improved Better Care Fund**

- 3.24 One of the factors driving the proposed changes to New Homes Bonus is the creation of an improved Better Care Fund to complement the new 2% Social Care Council Tax precept (considered at section 3.20 above). Starting in

2017/18, this will provide additional funding, which by 2019/20, will be worth £1.5bn per annum and will take into account the amount that each authority can raise locally through a 2% increase in Council Tax (and assumes that authorities will use the flexibility allowed them), although it should be noted that this is not all new money.

3.25 There is to be a formal consultation on the allocation of this funding “in due course” but it is proposed that total allocations will be phased as follows:

- 2017/18 £105m
- 2018/19 £825m
- 2019/20 £1,500m.

### **Other Proposals and Factors**

3.26 Following the Autumn Statement the Provisional Settlement also indicated that the Government intended to devolve additional responsibilities to local authorities, empowering them to drive local economic growth and support their local community. These responsibilities are to include Attendance Allowance support for older people with care needs. Consultation on this proposal is planned for this year.

3.27 Also being considered is the transfer of responsibility for funding the administration of housing benefit for pensioners and consultation on options to transfer responsibility for funding Public Health.

3.28 With respect to Public Health funding, the Autumn Statement included the announcement of 3.9% real terms savings per year in local authority public health spending over the review period, although the ring-fence on spending will be maintained in 2016/17 and 2017/18.

3.29 Details of the proposed reductions nationally have been released in a letter to Local Authority Chief Executives from the Chief Executive of Public Health England and translate into a further cash reduction of 9.6% by 2020/21 in addition to the £200 million of savings that were announced earlier this year (Rotherham’s share of which was £1m). Also included in baseline for savings is funding for 0 to 5 years’ commissioning, which was transferred to Local Authorities during this financial year. The savings will be phased in at 2.2% in 2016/17, 2.5% in 2017/18, 2.6% in each of the two following years.

3.30 The implication of these proposals for individual local authorities are not currently known and will depend on decisions about the funding formula, on which the Department of Health has undertaken a consultation exercise, and political decisions on the pace of change. The grant is at present **estimated to be worth £18.5m for Rotherham in 2016/17**).

3.31 **Flexible Use of Capital Receipts** as part of the 2015 Spending Review the Government announced that it would introduce flexibility for the Spending Review period allowing local authorities to use capital receipts from the sale of non-housing assets to fund the revenue costs of service reform and transformation. The Provisional Local Government Finance Settlement included guidance on this flexibility.



- 3.32 Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of reform.
- 3.33 The flexibility can be used for expenditure in relation to up-front costs that will generate future ongoing savings and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years.

#### **4. Options considered and recommended proposals**

- 4.1 Commissioners and Cabinet Members are asked to note the contents of this report and the implications for the Council's 2016/17 Revenue Budget and Medium Term Financial Strategy in anticipation of the Final Settlement in February as well as the expected confirmation of grant allocations and the results of ongoing government consultation exercises.

#### **5. Consultation**

- 5.1 The release of the Final Local Government Settlement, confirmation of grant allocations and the conclusion of technical consultations will inform the Council's Revenue Budget process which is subject to further internal and external consultation.

#### **6. Timetable and Accountability for Implementing this Decision**

- 6.1 The Council is required to set its Council Tax in accordance with the Local Government Finance Act 1992 and in doing so set its 2016/17 budget, by no later than 11<sup>th</sup> March, 2016. It is scheduled to do so on 2<sup>nd</sup> March 2016.

#### **7. Financial and Procurement Implications**

- 7.1 These are set out in Section 3 above and the Council's Medium Term Financial Strategy will be revised in light of the Final settlement, specific grant allocations when they are known and decisions in relation to the Adult Social Care Precept and Council Tax increase.

#### **8. Legal Implications**

- 8.1 In preparing its MTFs and Budget, the Council must be mindful of the potential impact on service users. Section 149 of the Equality Act 2010 in particular imposes an obligation on Members to have due regard to protecting and promoting the welfare and interests of persons who share a relevant protected characteristic.

## **9. Human Resources Implications**

- 9.1 One of the consequences of the financial settlement will be its impact on the funding of services and staffing levels.

## **10. Implications for Children and Young People and Vulnerable Adults**

- 10.1 None directly from this report, although the implications of utilising the additional flexibility in relation to a Social Care Precept on the Council's Council Tax will be assessed should Members decide to implement this flexibility.

## **11 Equalities and Human Rights Implications**

- 11.1 None directly from this report.

## **12. Implications for Partners and Other Directorates**

- 12.1 There will be financial consequences for the Council and its partners of the levels of funding available. Consultation with partners is ongoing.

## **13. Risks and Mitigation**

- 13.1 It is stressed that at present the Settlement is provisional and subject to consultation. The allocations for later years are described as indicative and the Consultation paper makes clear that the "final determination of the local government finance settlement for any given year cannot be made until calculations are completed taking into account the business rates multiplier and that "future events such as the transfer of functions to local government from central government also need to be taken into account".
- 13.2 The level of income received by the Council from Business Rates, Council Tax and the New Homes Bonus is subject to local factors as well as national ones and the Council's MTFS reflects these local factors in its income projections. Assumptions in relation to Business Rates and Council Tax are subject to regular review and will continue to be monitored.
- 13.3 Details of some specific grants have yet been released and many proposals are still subject to consultation exercises, some of which will not be completed until the new financial year. This means that details of future years' funding streams are subject to significant uncertainty.

**14. Accountable Officer(s)**

**Stuart Booth – Acting Strategic Director of Finance and Corporate Services**

Approvals Obtained from:-

Acting Strategic Director of Finance and Corporate Services: - Stuart Booth

Interim Director of Legal Services:- Stuart Fletcher

Head of Procurement (if appropriate):- Not Applicable

This report is published on the Council's website or can be found at:-

<http://moderngov.rotherham.gov.uk/ieDocHome.aspx?Categories=>