

<b>1</b>	<b>Meeting:</b>	<b>CABINET</b>
<b>2</b>	<b>Date:</b>	<b>24<sup>th</sup> July 2013</b>
<b>3</b>	<b>Title:</b>	<b>The Implications of the 2013 Spending Round for the Council's Financial Projections</b>
<b>4</b>	<b>Directorate:</b>	<b>Resources</b>

## **5 Summary**

This report provides details of the implications for the Council of the 26<sup>th</sup> June Spending Round and subsequent announcements. It is intended to inform the Budget Process and the effect of the announcement will be reflected in a revision to the Council's Budget Gap for both 2014/15 and 2015/16.

We are still awaiting detailed information in respect of some aspects of the Spending Round to enable a full understanding of its implications for the Council's financial planning. These issues are identified in this report.

### **Recommendations**

**Cabinet is asked to note the contents of the report and its implications for the Council's 2014/15 and 2015/16 financial projections.**

## 7.1 Background

The 26<sup>th</sup> June Spending Round (SR) was the first since 2010 (which covered the 3 financial years 2012-2015) and provided details of spending plans for 2015/16, the additional year being required due to the timing of the next General Election which is likely to be in May 2015. Following this announcement, on the 27<sup>th</sup> June the Government announced its Infrastructure Plan including details of £100bn of infrastructure projects. Subsequent announcements are still releasing further details on the detailed settlement proposals - there are still many unknowns to resolve pending Government releasing further detailed information on its proposals to Councils.

The SR set out details of the £11.5bn cuts announced by the Treasury in March this year, as expected, protecting real terms spending on Health, Schools and Overseas Aid Development. This has meant substantial real terms reductions in other Government Departments with the DCLG and Local Government suffering one of the largest reductions of 10% equivalent to an 8.2% cash cut. This is in addition to the significant funding cuts experienced by local government since the Coalition Government was elected - which the Institute of Fiscal Studies (IFS) estimate will be over 35% in the five years from 2010. Rotherham Council has had to find cumulative savings of over £50m in 2011/12 and 2012/13 respectively plus a further £20.2m savings during the course of 2013/14 and before the SR the Council had a projected budget gap of 19.1m for 2014/15.

It is anticipated that a full SR covering a three or four year period will be announced by the next government around the autumn of 2015. Whatever the outcome of the next election, overall spending plans for 2015/16 will not change - Ed Milliband has stated “ *...our starting point for 2015/16 is that we won't be able to reverse the cuts in day to day current spending unless they are fully funded from savings elsewhere or extra revenue.*”

**7.2 2014/15 Spending Plans** – although spending plans for 2014/15 were not revised, details have emerged which require the revision of the Council's Budget projections for 2014/15. Rotherham Council was already facing a reduction of 9.1% in government grant and a budget gap of £19.120m in 2014/15. This is now increased by just under £1m to £20.088m. The changes are as follows:

	£'000
<b>Council Tax Reduction Scheme Transitional Grant</b> – original estimates projected that this grant of £468k per year would continue in both 2014/15 and 2015/16. In the absence of any information in the recent announcements this no longer seems likely and so resource projections have been scaled back accordingly.	+468
<b>Council Tax Freeze Grant</b> – this funding is to be extended for a further 2 years into 2014/15 and 2015/16 and whilst this had been anticipated in the Council's budget projections, the details of the announcement suggest that as in 2013/14 the grant will be based upon the Council's Tax base <b>before</b> taking account of the Council Tax Reduction Scheme. Using a larger tax base means that the grant is estimated to be worth an extra £184k in 2014/15	-184
<b>Education Support Grant</b> – changes to 2015/16 funding have led to pressures in 2014/15 being identified. As schools convert to academies the number of pupils in Council schools reduces and with it the grant received. It is currently estimated that some 13% of pupils will transfer in 2013/14 with a corresponding reduction in grant for 2014/15.	+644

<b>Settlement</b> – although the settlement for 2014/15 has not been revised, the updated impact of the 1% reduction in funding announced in the Chancellors March 2013 Budget Statement has slightly reduced the Council’s estimated resources.	+40
<b>Estimated Increase in 2014/15 Funding Gap</b>	<b>+968</b>

**7.3 Other announcements in the SR also have implications for 2014/15 in particular:**

- **A further 2 year cap of 1% on public sector pay awards** in 2014/15 and 2015/16 – this however does not impact on the Council’s funding gap as our MTFs already assumes that pay will rise by only 1% per annum for the next 2 years.
- **2% Council Tax Referendum Threshold** – although this is not new (it is the same as the current referendum trigger point) and given that the Budget assumption is currently no increase in Council tax in 2014/15 or 2015/16, there is no impact of this announcement on the current estimates. Nevertheless, it will be necessary to work through the new referenda rules (including changes to the treatment of levies) when published to ensure that there are no possible implications for Rotherham.

**7.4 Taking account of these changes the projected Budget Gap for 2014/15 has increased by £968k and now stands at £20.1m.** This revised funding gap excludes any Investment Proposals which may be approved by Members.

**7.5 2015/16 Spending Plans** - the Council had forecast a 7.6% reduction in its funding and an increase in the Budget Gap for 2015/16 of over £10m giving, in addition to the £19m gap in 2014/15, a total Budget shortfall of £29.3m over the two years 2014/15 to 2015/16. The 26<sup>th</sup> June announcement indicated a 10% cut in overall Local Government funding in 2015/16. Initial estimates, based on the limited information available, were that a 10% reduction in funding (rather than 7.6% previously included in the MTFs) would potentially increase the 2015/16 funding gap by a further £3.2m. This was composed as follows:

	£'000
Reduced Revenue Support Grant and Business Rates Funding - £2.5m. This is based on the national reduction of 10% and assuming business rates income increases in line with projected inflation but with no growth in the hereditament tax base. Assumptions prior to the SR were a 7.6% decrease in funding.	+2,537
<b>Council Tax Freeze</b> - the proposal is to extend this funding for 2014/15 and 2015/16 – our budget projections had assumed the extension would be announced, however the proposal uses a higher tax base than had been predicted, which in 2015/16 means the expected grant from the scheme will be greater than previously estimated.	-365
<b>Education Services Grant (ESG)</b> , although funding for schools was protected it was announced that the local authority element of ESG, which is paid to Local Authorities to support schools, improve standards and maintain assets, will be cut nationally by up to 25% in 2015/16. The Council’s ESG allocation for 2013/14 was around £5m and it is estimated, after allowing for the loss of ESG funding resulting from schools becoming an academy would be £1.1m.	+1,096
<b>2015/16 Estimated Funding Gap Increase as a result of Spending Review Announcements on 26<sup>th</sup> June</b>	<b>+3,268</b>

<b>Subsequently</b> – as further details were released, additional reductions in grant were identified:-	
<b>Council Tax Reduction Scheme Transitional Grant</b> – previously the Council had assumed that this grant would continue for 2 more years – there is a strong indication that this will not be the case	+468
<b>ESG and Academies</b> – this reflects the on-going loss of ESG resulting from schools becoming academies in 2013/14. Due to uncertainty about the number of schools which will convert in future years and the proportion of the pupils affected it is not possible to estimate the additional future loss of grant.	+644
<b>New Homes Bonus (NHB)</b> – on the 27 <sup>th</sup> June Government released details of its Infrastructure Statement - this included plans to increase funding for Local Economic Partnerships (LEPs) by £2.019b in 2015/16 to create a Single Local Growth Fund. Resources for the Growth Fund will include £400m taken from the New Homes Bonus. This is equivalent to 35% of the NHB pot for 2015/16 and although the Government has said that it will consult on the mechanism for taking this funding the effect is likely to be either a reduction in the NHB available to local authorities or further reductions in RSG. Council Budget projections had included increases in NHB resource - in light of these latest developments a prudent assumption would be a net reduction of £1.5m in NHB for 2015/16. NB this top-slicing of the NHB is not included in the overall reductions in funding (section 7.1 above).	+1,533
<b>Estimated Increase in 2015/16 Funding Gap</b>	<b>+5,913</b>

### 7.10 Indicative Funding Gap 2014/15 & 2015/16

On 4<sup>th</sup> June 2013 a Joint Cabinet/SLT meeting considered a presentation which set out an indicative funding gap of £19.12m for 2014/15 and £29.275m for 2015/16 (i.e. an increase of £10.155m from 2014/15 to 2015/16). This indicative funding gap excluded:

- The impact of the June SR announcements; and
- Any new investment proposals/requirements.

The effect of the 2013 Spending Round outlined above for 2014/15 and 2015/16 has changed the indicative funding gaps as follows:

<b>Estimated Funding Gap</b>	<b>Original £m</b>	<b>Revised £m</b>	<b>Change £m</b>
<b>2014/15</b>	19.120	20.088	+0.968
<b>2015/16</b>	10.155	15.100	+4.945
<b>Cumulative Impact of SR</b>	29.275	35.188	+5.913

**7.11** There remain several elements of the SR announcement for which details have not yet been released. Clarification of proposals are awaited in relation to:

- **£3.8bn of Health funding will be used for joint commissioning of social care by the NHS and Councils.** This includes:
  - £2bn in addition to the current £1bn commitment from Health to support Social Care, of this £1bn will be paid on results;
  - £200m from the NHS in 2014/15 to invest in new systems and ways of working and ensure the integration of Health and Social care can start immediately; and

- Local Authorities will receive £335m from 2015/16 to prepare for the cap on care costs that applies from April 2016.

The resources for this funding will come from the NHS (£1.1bn), Clinical Commissioning Groups £1.9bn, Department of Health (DoH) Capital, £0.3bn from the Re-ablement Budget and £0.1bn from Carers Break Funding. In light of the sources of the funding it is thought likely that allocations will be linked to key priorities and targets.

- **£200m is provided for the Troubled Families Initiative.**
- **£100m to enable efficiencies in collaborative service delivery.**
- **Schools' Funding** - a new "fair" national funding formula for schools will be developed for 2015. Local Authorities will be consulted on the changes and the impact on areas like Rotherham will not be known until details are released in coming months.
- **Business Rates** - Authorities have been promised reimbursement in respect of the extension of small business rates relief announced in the March 2013 Budget (and latterly in respect of the new empty properties). It is estimated that this is worth around £0.7m pa to the Council, which will be paid by grant in 2013/14. This income either as grant or rates has been included in the Council's Budget projections going forward, but no details have been released of the funding either in the current year or going forward.
- **Housing and Council Tax Benefit Admin Grant** – with the reform of Council Tax Benefit in the current financial year and as authorities migrate to the Universal Credit it is anticipated that this resource will be significantly reduced in future.

Even without the above information, it is clear that, as expected, the Spending Review has further significantly increased the pressure on Local Government Finance and Council Budgets like Rotherham. It has, also done nothing to address the concerns of organisations like SIGOMA, that the overall impact of the government's approach has disproportionately adversely affected authorities like Rotherham.

Details of individual authorities' funding for 2014/15 and provisional 2015/16 allocations will be released with the expected December (or January) Settlement.

## 8. Finance

The financial implications of the June Announcements are set out in section 7 above. The chief impact has been to increase the Council's projected funding shortfall for 2014/15 and 2015/16 as described in section 7.10. This position will continue to be monitored, revised as appropriate and reported through to SLT / Cabinet as further information is released.

## 9. Risks and Uncertainties

Failure of the Council to have in place an effective financial planning, monitoring and reporting process increases the Council's financial risk.

## **10. Policy and Performance Agenda Implications**

Achieving a balanced Revenue Budget and closing the funding gaps for forthcoming financial years is essential if the objectives of the Council's Policy agenda are to be achieved. Financial performance is a key element within the assessment of the Council's overall performance framework.

## **11. Background Papers and Consultation**

- Report to Cabinet General Fund: Budget Principles, 2014/15 and onwards, 2014/15: Proposed Budget Setting Timetable and 2013/14 - Reporting in year financial budget performance - 3<sup>rd</sup> July 2013.
- Spending Round 26<sup>th</sup> June 2013 and Infrastructure Announcement 27<sup>th</sup> June 2013
- Strategic Directors and Service Directors of the Council

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