

## Provisional Local Government Finance Settlement 2016/17

### Report by the Chief Finance Officer

#### Introduction

1. The provisional local government finance settlement was announced by the Secretary of State for Communities and Local Government on 17 December 2015. The announcement set out provisional allocations for 2016/17 as well as 2017/18 through to 2019/20. The publication of the Draft 2016/17 Local Government Finance Report marks the start of a consultation period ending on 15 January 2016. The final settlement is therefore not expected until the first week of February 2016 at the earliest.
2. This year's settlement is the fourth under the business rates retention scheme and the first of the current four year Spending Review period (2016/17 to 2019/20). The provisional settlement consultation sets out a number of technical changes the Government intends to make, which could not be consulted on over the summer due to the autumn Spending Review.

#### Core Spending Power

3. There has been a definitional change to revenue spending power compared with previous years. From 2016/17 onwards it will be known as "Core Spending Power" and is defined as the sum of:
  - Settlement Funding Assessment (comprising NNDR Baseline Funding Level and Revenue Support Grant)
  - Estimated Council Tax income
  - Potential additional Council Tax income from Adult Social Care flexibility
  - Proposed Improved Better Care Fund (from 2017/18 onwards)
  - New Homes Bonus
  - Rural Services Delivery Grant
4. The table below shows the breakdown of 'Core Spending Power' at the national level. Overall, spending power will decrease by just £0.2bn from £44.5bn to £44.3bn. However within this, the Settlement Funding Assessment will reduce by £6.8bn (32%) and New Homes Bonus by £0.3bn (25%), which is largely offset by the government's estimate of council tax increasing by £5.3bn (24%).
5. The council tax assumptions include both an increase in the charge each year based on CPI inflation forecasts and an estimate for an increase in the taxbase based on the average increase for each authority in 2014/15 and 2015/16.
6. As is often the case, when the Government includes a measure of Council Tax in its grant calculation, the result is that shire areas are adversely affected.

	Baseline	Estimates £bn (cash)				% change (15-16 to 19-20)	
	2015-16	2016-17	2017-18	2018-19	2019-20	Cash	Real
Council Tax*	22.0	23.1	24.4	25.8	27.3	24.0%	15.1%
SFA	21.2	18.6	16.6	15.5	14.5	-31.8%	-36.7%
<i>Of which:</i>							
Local Share of NNDR	11.3	11.4	11.6	12.0	12.4	9%	2%
Revenue Support Grant	9.9	7.2	5.0	3.6	2.3	-76%	-78%
Better Care Fund			0.1	0.8	1.5	n/a	n/a
New Homes Bonus	1.2	1.5	1.5	0.9	0.9	-25.0%	-30.4%
Rural Services Delivery Grant	0.0	0.0	0.0	0.1	0.1	319.4%	289.3%
<b>Core Spending Power</b>	<b>44.5</b>	<b>43.3</b>	<b>42.7</b>	<b>43.2</b>	<b>44.3</b>	<b>-0.5%</b>	<b>-7.6%</b>

\* Council tax figures includes adult social care and district councils increases

- Core funding for Oxfordshire is set out in the table below. This shows a total change in core spending power of 1.4% over the four year period to 2019/20. This does not however match the increase in demand and costs associated particularly with adult social care. It is estimated to meet the increase in demand and costs, core funding would need to increase by 19.4%.
- The government's assumptions on taxbase increases for Oxfordshire across the medium term reflect the higher growth seen particularly in the last two years, partly linked with the ambition in the City Deal to accelerate the delivery of 7,500 homes across the county by 2018. The general rate of house growth has gone up from around 1,700 in 2011/12 to 3,100 in 2015/16.

Oxfordshire	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment	130.8	105.2	85.8	75.0	65.1
Council Tax	288.3	296.7	306.9	317.7	329.2
Council Tax additional 2% for social care		5.9	12.2	19.1	26.6
New Homes Bonus	3.4	4.3	4.3	2.7	2.6
Better Care Fund				1.1	4.9
<b>TOTAL CORE SPENDING</b>	<b>422.4</b>	<b>412.0</b>	<b>409.2</b>	<b>415.6</b>	<b>428.4</b>
Annual change in core spending		-10.4	-2.8	6.4	12.8
Total change in core spending					6.0
Total change in core spending as %					1.4%

Council Tax increase assumption	£m	8.4	10.2	10.8	11.5
	%	2.92%	3.43%	3.53%	3.63%
Rate increase		1.00%	1.80%	1.90%	2.00%
Taxbase increase		1.92%	1.63%	1.63%	1.63%

## Revenue Support Grant

9. At the national level, Revenue Support Grant (RSG) for 2016/17 has been cut by 24% compared to 2015/16. However, the reduction for Oxfordshire is 37% or 40% adjusting for specific grants transferring into RSG.
10. In previous years, changes to RSG have been carried out by comparing the current year's RSG allocation to the previous year. However, for 2016/17 there is a new funding distribution methodology for RSG. This takes into account the wider resources available to councils including Council tax, locally retained business rates and RSG, i.e. the new core spending power referred to above. The new distribution methodology is designed to ensure that "local councils delivering similar services receive a similar percentage change in 'settlement core funding' for those services". Authorities with a greater proportion of their core funding coming from Council Tax receive less RSG. There is no proposed damping or scaling with the changes in distribution.
11. Furthermore, a number of specific grants received in 2015/16 have been 'rolled' into RSG from 2016/17. This means the allocation for RSG in 2016/17 includes funding for these grants. The grants 'rolled' in and their allocations are:

	2015/16	2016/17
	£m	£m
Care Act	3.042	3.092
Lead Local Flood Authority Grant	0.112	0.113
Sustainable Drainage Systems	0.018	0.019
	<u>3.172</u>	<u>3.224</u>

12. The County Council's RSG for 2015/16, adjusted for the specific grants transferring was £65.5m. In 2016/17 it will be £39.3m, a reduction of £26.1m or 40%.
13. RSG reduces to £0.9m by 2019/20 and in 2019/20 there is also a reduction in the share of business rates the authority is able to retain of £6.2m. Overall grant funding to the council reduces by £70.8m over the next four years to 2019/20.
14. The current MTFP had built in RSG reductions of £22.4m from 2015/16 up to 2017/18 and this was revised to £52.4m following the March and July 2015 budgets including year's up to 2019/20. The further reductions formed part of the additional £50m pressures, the savings options to meet this figure having just been consulted on.

## Four-Year Allocations

15. Unlike previous years the provisional settlement includes figures for four years (2016/17 to 2019/20). The Government presented this as an 'offer' to local government with the only clear proviso in the consultation being that any council accepting the offer will have to publish an efficiency plan. There are no details about what this would include or when councils will have to submit these plans, however it is indicated in the consultation, that Councils should use their multi-year settlements to "strengthen financial management and efficiency, including by maximising value in arrangements with suppliers and making strategic use of reserves in the interests of residents".

## **Council Tax Referendum Principles**

16. The Secretary of State confirmed as part of the settlement that trigger for a council tax referendum in 2016/17 would remain at 2.00%. However, there are a number of exceptions to this limit. Authorities with social care responsibilities are able to council tax up to 2% above the 2% principle (see below). In addition, 10 Police and Crime Commissioners with the lowest precepts are able to raise the Band D amount by up to £5 without triggering a referendum. Similarly, 51 district councils with the lowest precepts are able to increase the Band D amount by £5 per year.

## **Social Care Precept**

17. As announced in the Spending Review, all authorities with adult social care responsibilities will be able to increase council tax by up to 2% more than the general referendum limit (i.e. county councils will trigger a referendum if council tax is raised by 4% or above). If authorities use the 'additional council tax flexibility', the Chief Financial Officer will be required, within 7 days of the authority setting its budget and council tax, to provide information demonstrating that an amount equivalent to the additional council tax has been allocated to adult social care.
18. Chief Finance officers are also required to indicate to the Department for Communities and Local Government (DCLG by 15 January 2016 whether the authority is minded to take up the 2% flexibility (in full or in part), which is before the Cabinet's proposed budget is agreed.
19. Authorities will also be required to include information on the face of the council tax bill with 'a narrative statement highlighting any council tax increases attributable to the funding of adult social care, and signposting to further information'. In two-tier areas county councils will be expected to work with districts to arrange the necessary changes to bills; all authorities accepting the offer are expected to meet any additional costs associated with the billing process.

## **New Homes Bonus**

20. DCLG has published provisional allocations for 2016/17, the sixth year of the scheme. The provisional grant for the County Council including payments for the grant awarded in years one to five is £4.1m. There is no change to the current methodology in the 2016/17 allocations.
21. A consultation paper on options for reforms of the New Homes Bonus from 2017/18 has also been published. The consultation sets out a number of proposals including:
  - A reduction in the number of years' the bonus is paid from six down to four, there are also options for a reduction to three or two years too;
  - Only making payments when a local authority has published a Local Plan;
  - Reducing payments when planning permission for a development was only given on appeal;

- Setting a baseline and only rewarding growth above it.
22. There are no plans to change the 80:20 split between lower and upper tier authorities in two-tier areas.
  23. Unlike the consultation for changes in grant distribution, the consultation period on reforms of the New Homes Bonus will take place over 12 weeks and close on 10 March 2016.

### **Better Care Fund**

24. The Spending Review confirmed that the Better Care Fund will continue into 2016/17. NHS England is required to ring-fence £3.5bn within its allocation to Clinical Commissioning Groups (CCGs) as the NHS contribution to the Better Care Fund to be deployed locally on health and social care through pooled budget arrangements between local authorities and CCGs. There will be no additional funding for the Better Care Fund in 2016/17 above 2015/16 levels.
25. The Spending Review also announced that £1.5bn would be added to the ringfenced Better Care Fund progressively from 2017/18 reaching £1.5bn in 2019/20. In 2017/18 an additional £105m will be made available to local authorities for the Better Care Fund, increasing to £825m in 2018/19 and £1.5bn in 2019/20. The £1.5bn consists of £700m new money (reflected in local authorities RSG allocations) and £800m from savings from the New Homes Bonus programme.
26. The additional allocations will be used as a mechanism for equalising the distribution of additional social care funding, addressing the varying ability of councils to raise the 2% through the precept. It does however mean that a number of councils, including Oxfordshire will now gain much less than expected. Under previous distribution methodologies, Oxfordshire would expect around £15m from the £1.5bn national total. Under the revised distribution methodology, Oxfordshire will receive £5.0m.
27. The process for the development and assurance/approval of local Better Care Fund plans in 2016/17 will be more streamlined and better integrated into the business-as-usual planning processes for Health and Wellbeing Boards, CCGs and local authorities. Planning guidance will be issued directly to Councils in early January 2016. The deadline for submitting the first draft of Better Care Fund local plans is 8 February 2016 with final submissions, signed off by Health & Wellbeing Boards in April 2016. It is expected that the first draft submission will be high-level, focused around the finances and core principles, while providing sufficient detail to support Councils' budget setting processes.

### **Public Health**

28. The Public Health Grant will continue as a separate ring-fenced grant in 2016/17 and 2017/18, after which the expectation is that it will be transferred into RSG and then be included within the new Business Rates Retention Scheme from 2019/20. However, this is not shown in the four-year allocations published.

29. The Department of Health has confirmed that grant allocations for 2016/17 will not be announced until the New Year. A letter from Public Health England on 27 November 2015, indicated the overall amount for 2016/17 would be reduced by 2.2% from a 2015/16 baseline after taking into account the full year effect of the 0-5 funding (due to the transfer of responsibilities from October 2015) and the £200m in-year reduction during 2015/16.
30. Before applying a 2.2% reduction, Oxfordshire's expected 2016/17 allocation is in the region of £32.9m. A 2.2% reduction on this would be £0.7m.

### **Capitalisation Flexibilities**

31. DCLG has published draft guidance on the framework for flexible use of capital receipts, first announced as part of the Spending Review. Local authorities will be able use 100% of receipts from selling capital assets (excluding the Right to Buy) to fund 'the revenue costs of reform projects'. The guidance provides a list of the types of projects which would qualify for capitalisation. It states that 'the key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's...net service expenditure'.
32. The guidance recommends that councils should develop a strategy 'that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council'. The final signed directions outlining the approach to be taken will be issued alongside the final settlement in February 2016.

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

33. DSG allocations were also announced on 17 December 2015. The DSG continues to be set out in three notional blocks: the early years block, the schools block and the high needs block. Total DSG will be £40.2bn in 2016/17, an increase of £0.1bn from 2015/16.

#### Schools block

Per pupil units of funding will be the same as in 2015/16, with a slight adjustment for former non-recoupment academies. The minimum funding guarantee will continue to be set at -1.5% per pupil before the pupil premium is applied. The government will consult on proposals for a new national funding formula in the New Year.

#### High needs block

£92.5million of extra funding on top of the 2015/16 baseline has been provided for the high needs block, distributed using age 2-19 population projections for 2016.

#### Early years block

Early years per child rates are the same as in 2015/16. The amount per pupil for the early year's pupil premium will also remain the same.

Pupil premium

Pupil premium rates for 2016/17 will be the same as in 2015/16, with final allocations published in June 2016.

**Education Services Grant**

34. The overall ESG will be cut by 7.5% from £815m in 2015/16 to £750m in 2016/17. This is “a first step towards achieving the savings announced in the spending review” of £600m. The amount paid directly to local authorities will fall 8.8% from £564m in 2015/16 to £514m in 2016/17. The remainder is paid directly to academies, which will continue to receive protection against large falls in ESG. The table below outlines the per-pupil rates. The retained duties rate of £15 per pupil will be maintained, but general funding rates will be reduced by 11.5% across all school types.

	Per pupil rates		
	2015-16	2016-17	% Change
ESG General Funding Rate for mainstream schools	£87.00	£77.00	-11.5%
ESG General Funding Rate for special schools	£369.75	£327.25	-11.5%
ESG General Funding Rate for PRUs	£326.25	£288.75	-11.5%
ESG Retained Duties Funding Rate	£15.00	£15.00	0.0%

35. Taking into account the schools known to be converting into academies during 2016/17, the ESG for Oxfordshire is expected to reduce by £1.0m.

**Impact of the draft Local Government Finance settlement on the Council's Budget**

36. The report to Cabinet in December 2015 set out some of the implications from the Spending Review. These were however not reflected in the overall pressures and savings position as the full implications were not known. Even before taking account of any changes, there was a shortfall in 2016/17 of £8.8m and £1.1m by 2019/20.

37. The table below sets out the position now taking into account information from the draft Local Government Finance Settlement. The overall impact is a further increase in the pressures leaving a shortfall in 2016/17 of £17.3m and £22.0m by 2019/20.

Year	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total All £m
<b>TOTAL PRESSURES per December Cabinet Report</b>	<b>24.0</b>	<b>1.8</b>	<b>11.4</b>	<b>9.7</b>	<b>47.0</b>
<b>TOTAL SAVINGS per December Cabinet Report</b>	<b>-15.2</b>	<b>-10.3</b>	<b>-10.8</b>	<b>-9.6</b>	<b>-45.9</b>
<b>NET POSITION per December Cabinet Report</b>	<b>8.8</b>	<b>-8.5</b>	<b>0.6</b>	<b>0.1</b>	<b>1.1</b>
<b>Changes following SR and Prov Settlement</b>					
Apprenticeship Levy		1.4			<b>1.4</b>
Reduction in Education Services Grant & impact on central support services	1.0	3.0	1.0	0.5	<b>5.5</b>
Cost of National Living Wage for the Council		0.1	0.2	0.2	<b>0.4</b>
Cost of National Living Wage for Social Care (high end estimate is £10m per year)	5.9	6.4	6.9	7.5	<b>26.6</b>
Income from 2% Social Care Precept	-5.9	-6.4	-6.9	-7.5	<b>-26.6</b>
Additional Revenue Support Grant Cut	7.5	7.6	2.1	1.3	<b>18.5</b>
Additional Funding from Better Care Fund			-1.1	-3.8	<b>-4.9</b>
<b>ADDITIONAL Changes following Spending Review &amp; Settlement</b>	<b>17.3</b>	<b>3.6</b>	<b>2.8</b>	<b>-1.7</b>	<b>22.0</b>

LORNA BAXTER  
Chief Finance Officer  
24 December 2015