

Cabinet Meeting

18 January 2017

Report title	Provisional Local Government Finance Settlement Update	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All	
Accountable director	Keith Ireland, Managing Director	
Originating service	Strategic Finance	
Accountable employee(s)	Mark Taylor	Director of Finance
	Tel	01902 554410
	Email	mark.taylor@wolverhampton.gov.uk
Report to be/has been considered by	Not Applicable	

Recommendations for decision:

That Cabinet is recommended to approve:

1. The adoption of a minimum funding level for Adult Social Care as outlined in the report.

Recommendations for noting:

That Cabinet is asked to note:

1. The outcome of the 2017/18 provisional local government finance settlement.
2. The final budget report to Cabinet on 22 February 2017 will reflect the outcome of the budget consultation, for which the closing date is 14 January 2017. This report will also reflect the outcome of the scrutiny process as well as the detailed budget work for 2017/18, including a review of all savings and the risks associated with their delivery.

1.0 Purpose

- 1.1 The purpose of this report is to provide Cabinet with an update on the 2017/18 provisional local government finance settlement, which the Government announced on 15 December 2016.

2.0 Background and Summary

- 2.1 The 2016/17 Budget and Medium Term Financial Strategy (MTFS) 2016/17 - 2019/20 was presented to Full Council for approval on 2 March 2016. After updating the MTFS for changes in assumptions and the outcome of the Local Government Finance Settlement, the Council was able to set a balanced budget for 2016/17 without the use of General Fund reserves. However, it was projected that the Council would be faced with finding further estimated budget reductions totalling £54.6 million by 2019/20.
- 2.2 It is important to note that the projected deficit already assumes the achievement of previously agreed budget reduction and income generation proposals amounting to £37.4 million over the four year period to 2019/20. Having identified budget reductions in excess of £175 million over the last six financial years, the extent of the financial challenge over the medium term continues to represent the most significant that the Council has ever faced.
- 2.3 In March 2016, Full Council approved that work started immediately to identify opportunities to deliver the £22.2 million projected budget deficit in 2017/18, with an update on progress to be reported to Cabinet in July 2016.
- 2.4 At this point, it was also projected that a further £32.4 million of budget reduction and income generation opportunities needed to be identified, over and above the target for 2017/18, in order to address the projected budget deficit over the medium term to 2019/20. The 2016/17 Budget and Medium Term Financial Strategy 2016/17 – 2019/20 presented to Cabinet in February 2016, assured Councillors that a high level strategy for tackling the budget deficit over the medium term would be included in the July update report.
- 2.5 It should be noted that due to a range of external factors, budget assumptions remain subject to change. This could therefore result in alterations to the financial position faced by the Council.
- 2.6 Since the 2016/17 budget was set, detailed work has been in progress across all areas of the Council to identify budget reduction and income generation targets to deliver the £22.2 million budget deficit for 2017/18.
- 2.7 An update on budget reduction and income generation targets that had been identified during the first three months of this financial year was presented to Cabinet on 20 July 2016. The identified targets totalled £21.9 million for 2017/18. This represented significant progress towards identifying the projected £22.2 million budget deficit for 2017/18.

- 2.8 The projected target of £22.2 million at March 2016 was revised to £23.5 million. This was due to a number of proposals being reprofiled or removed. On 19 October 2016 Cabinet approved Budget Reduction and Income Generation proposals totalling £13.5 million to proceed to the formal consultation and scrutiny stages of the budget process. In addition, Financial Transactions and Base Budget Revisions totalling £10.0 million were approved. These can be implemented without reliance on the outcome of formal budget consultation.
- 2.9 On 15 December the Government announced the provisional local government finance settlement for 2017/18. This report analyses the impact of the announcement on the assumptions included in the Medium Term Financial Strategy.

3.0 Headlines

- 3.1 The main points from the Ministerial statement were as follows:

Four Year Settlement Offer

- 97% of local authorities have taken up the four year settlement offer where local authorities have published long term efficiency plans.
- The Provisional Settlement confirms years two to four of the four year settlement.
- There was confirmation of 100% Business Rates Retention by 2020 for all local authorities.
- Identification of a number of pilot areas which will run 100% Business Rates Retention from 2017/18 including the West Midlands.

New Homes Bonus

- A national baseline of 0.4% for housing growth will be introduced from 2017/18.
- Future years New Homes Bonus Grant will be withheld if housing growth is below 0.4%.
- The Government will consider withholding New Homes Bonus from 2018/19 for local authorities which are not planning effectively.
- The number of years for which this is paid will reduce from 6 years to 5 in 2017/18 (including prior years) and to 4 years from 2018/19.
- A new adult social care grant will be distributed, according to need, in 2017/18. The grant is expected to be in the region of £240 million and this will be funded as a result of reduced cost of New Homes Bonus.

Adult Social Care

- The Social Care Precept is currently at the maximum 2% of council tax and is spent on adult social care.
- Local authorities can now increase the precept to 3% each year for the next two years if they wish but have to justify the social care rises to their tax payers. They will need to show how this income will be spent on adult social care. It is however important to note that local authorities cannot exceed 6% in total over the three-year period.

- Whilst this provides negligible additional on-going funding benefit for adult social care there would be additional cash available during 2017/18 and 2018/19 for those authorities that opt for levying additional precept early.

4.0 Impact on Wolverhampton

4.1 The following table provides a comparison of the Medium Term Financial Strategy (MTFS) assumptions as at October 2016 and the provisional settlement.

Description	MTFS Assumption	Provisional Settlement	Variance Reduction / (Increase)	
	£M	£M	£M	%
Revenue Support Grant	(38.392)	(39.392)	-	0.00%
Top Up Grant	(36.910)	(39.416)	(2.506)	(6.79%)
New Homes Bonus	(4.154)	(3.504)	0.650	15.65%
Adult Social Care Grant	-	(1.383)	(1.383)	(100.00%)

4.2 The table above shows that Revenue Support Grant is in line with the assumptions in the Medium Term Financial Strategy.

4.3 It can be seen that the allocation for Top Up Grant is higher than previously anticipated due to a combination of the impact of the revaluation and changes in the calculation of the grant. However, it is likely that this will be offset to some extent by a reduction in Business Rates due to the revaluation process.

4.4 A separate report on this agenda considers the forecast business rates yield for 2017/18. As outlined in that report it is very difficult to arrive at an accurate forecast of the business rates for 2017/18 at this stage due to the following factors:

- 2017 Revaluation, the final figures are not expected until March 2017.
- Changes to the Small Business Rates Relief and associated transitional arrangements.
- The move towards the 100% business rates retention pilot.

4.5 The completion of business rates calculations will also determine the Section 31 Grant due to the Council. Section 31 Grant compensates the Council for an element of mandatory reliefs and the cap on inflationary increases on the business rates multiplier. The MTFS currently assumes Section 31 Grant of £2.0 million in 2017/18.

4.6 Whilst the Ministerial announcement confirmed the West Midlands pilot for 100% retained business rates the provisional settlement figures remain based on 50% retention. It is expected that the final settlement in early February will provide updated allocations based on the 100% retention model. At this point it is anticipated that Revenue Support Grant will be removed entirely and that Top Up Grant will be adjusted.

The updated information will be incorporated into the Final Budget report to Cabinet on 22 February.

- 4.7 As expected New Homes Bonus Grant has been reduced, reflecting the change from payments over 6 years to 5 years in 2017/18. However the reduction in New Homes Bonus is offset by a new one of grant in 2017/18 for Adult Social Care. The following section considers Adult Social Care Funding in more detail.

5.0 Adult Social Care

- 5.1 The Provisional Settlement includes new additional specific funding for Adult Social Care through a one off grant. In order that the Council can demonstrate to Government and other stakeholders that this grant, combined with the funds raised through the Adult Social Care Precept and the new Better Care Fund monies, have been fully passported to Adult Social Care it is proposed that a new concept of a minimum funding level for Adult Social Care is adopted.
- 5.2 The minimum funding level will use the 2015/16 Adult Social Care budget as the baseline year and will be adjusted incrementally for the following elements:
- A reduction to reflect a proportion of corporate budget challenges arising from both reductions in Corporate Resources and increasing Corporate Budget pressures, for costs such as Treasury Management. The proportion will be fixed based on the baseline year of 2015/16.
 - An increase to reflect 100% of the Adult Social Care funding from Adult Social Care Precept, Better Care Fund and the Adult Social Care grant.
- 5.3 The minimum funding level will be tracked from April 2016 onwards, 2016/17 therefore becomes the first year of implementation, to align with the first year of the Adult Social Care precept.
- 5.4 It should be noted that as a consequence of this approach it is likely to be necessary to slow the pace at which savings were planned to be introduced within Adult Social Care.
- 5.5 It is recommended that this new concept of a minimum funding level for Adult Social Care is approved, in order to confirm that the council uses its best endeavours to achieve this for the foreseeable future.

6.0 Detailed Budget Review

- 6.1 The report to Cabinet on 22 February 2017 will reflect the outcome of budget consultation, which is due to be complete on 14 January 2017. This report will also include the outcome of the scrutiny process and the detailed budget work for 2017/18 including a review of all savings and the risks associated with their delivery.

7.0 Budget Risk Management and Timetable

7.1 A summary of the 2017/18 budget setting process timetable is detailed in the table below:

Table 3 – Budget Timetable

Milestone	Deadline
Report to Cabinet following the Provisional Local Government Finance Settlement	18 January 2017
Report to Cabinet detailing the Outcome of Budget Consultation and Scrutiny	22 February 2017
Final Budget Report 2017/18 to Cabinet	22 February 2017
Full Council Approval of Final Budget 2017/18	1 March 2017

7.2 The overall level of risk associated with the Draft Budget and Medium Term Financial Strategy (MTFS) 2017/18 - 2019/20 is assessed as Amber. The following table provides a summary of the risks associated with the MTFS, using the corporate risk management methodology.

Table 4 - General Fund Budget Risks 2017/18 – 2019/20

Risk	Description	Level of Risk
Medium Term Forecasting	Risks that might materialise as a result of the impact of non-pay inflation and pay awards, uptake of pension auto enrolment, Equal Pay and National Living Wage.	Amber
Budget Management	Risks that might materialise as a result of the robustness of financial planning and management, in addition to the consideration made with regards to the loss of key personnel or loss of ICTS facilities	Green
Transformation Programme	Risks that might materialise as a result of not identifying budget reductions, not delivering the reductions incorporated into the budget and not having sufficient sums available to fund the upfront and one-off costs associated with delivering budget reductions and downsizing the workforce.	Amber
Income and Funding	Risks that might materialise as a result of income being below budgeted levels, claw back, reduction to government grant or increased levels of bad debts. The risk of successful appeals against business rates.	Amber
Service Demands	Risks that might materialise as a result of demands for services outstretching the available resources.	Amber
Third Parties	Risks that might materialise as a result of third parties and suppliers ceasing trading or withdrawing from the market.	Amber
Government Policy	Risks that might materialise as a result of changes to Government policy including changes in VAT and personal taxation rules, the impact of exiting the European Union and, in particular, from the Care Bill.	Red

8.0 Financial Implications

8.1 The financial implications are discussed in the body of the report.

[CN/06012017/L]

9.0 Legal Implications

- 9.1 The Council's revenue budgets make assumptions which must be based on realistic projections about available resources, the costs of pay, inflation and service priorities and the likelihood of achieving any savings proposals.
- 9.2 The legal duty to spend with propriety falls under S151 Local Government Act 1972 and arrangements for proper administration of their affairs is secured by the S151 Officer as Chief Financial Officer.
- 9.3 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to the Council when it is making the statutory calculations required to determine its council tax. The Council is required to take this report into account when making its budget decision. The Chief Financial Officer's report must deal with the robustness of the budget estimates and the adequacy of the reserves for which the budget provides. Both are connected with matters of risk and uncertainty. They are inter-dependent and need to be considered together. In particular, decisions on the appropriate level of Reserves should be guided by advice based upon an assessment of all the circumstances considered likely to affect the Council.
- 9.4 The relevant guidance concerning reserves is Local Authority Accounting Panel Bulletin 77, issued by CIPFA in November 2008. Whilst the Bulletin does not prescribe an appropriate level of reserves, leaving this to the discretion of individual authorities, it does set out a number of important principles in determining the adequacy of reserves. It emphasises that decisions on the level of reserves must be consistent with the Council's MTFS, and have regard to the level of risk in budget plans, and the Council's financial management arrangements (including strategies to address risk).
- 9.5 In addition, Section 114 of the Local Government Finance Act 1988 requires the Chief Financial Officer to '**...make a report ... if it appears to him that the Authority, a committee or officer of the Authority, or a joint committee on which the Authority is represented**':
- (a) has made or is about to make a decision which involves or would involve the Authority incurring expenditure which is unlawful,
 - (b) has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the Authority, or
 - (c) is about to enter an item of account the entry of which is unlawful.
- 9.6 The Chief Financial Officer of a relevant Authority shall make a report under this section if it appears to him that the expenditure of the Authority incurred (including expenditure it

proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.

- 9.7 These statutory requirements will have to be taken into account when making final recommendations on the budget and council tax requirement for 2015/16.
[RB/09012017/I]

10.0 Equalities implications

- 10.1 There are no new equalities implications as a result of this report.

11.0 Human resources implications

- 11.1 There are no new human resources implications as a result of this report.

12.0 Schedule of Background Papers

Draft Budget and Medium Term Financial Strategy 2017/18 – 2019/20, report to Cabinet, 19 October 2016.

Council Efficiency Strategy and Four Year Settlement, report to Full Council, 20 July 2016.

Draft Budget and Medium Term Financial Strategy 2017/18 – 2019/20, report to Cabinet, 20 July 2016.

2016/17 Budget and Medium Term Financial Strategy 2016/17 – 2019/20, report to Full Council, 2 March 2016.