

Name of meeting: Cabinet
Date: 17th January 2017

Title of report: Provisional Financial Settlement 2017-18; incorporating future year indicative amounts (multi-year settlement)

Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes
Is it in the Council's Forward Plan ?	Yes
Is it eligible for "call in" by Scrutiny ?	No
Date signed off by Director and name	Debbie Hogg, 3 January 2017
Is it signed off by Assistant Director – Financial Management, IT, Risk and Performance?	Debbie Hogg, 3 January 2017
Is it signed off by the Assistant Director – Legal, Governance & Monitoring?	Julie Muscroft, 3 January 2017
Cabinet member portfolio	Cllr Graham Turner – Asset Strategy, Resources & Creative Kirklees (Arts)

Electoral [wards](#) affected: All

Ward Councillors consulted: All

Public or private: Public

1. Purpose of the Report

The purpose of this report is to inform members of the key highlights from the National Government provisional settlement 2017-18, which sets out national funding allocations to each Local Authority for the forthcoming financial year (2017-18), including indicative allocations for the following 2 years.

2. Summary

- 2.1 The provisional financial settlement for 2017-18 was announced on 15th December 2016. The link to the relevant financial settlement consultation report and

accompanying settlement documentation is set out below:

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2017-to-2018>

- 2.2 The provisional financial settlement was subject to a consultation period which ran from 15th December 2016 to 13th January 2017. Final settlement confirmation is expected in February 2017.
- 2.3 The key highlights contained in the provisional financial settlement are summarised in the following paragraphs.

MULTI-YEAR SETTLEMENT 'DEAL'

- 2.4 An Efficiency Plan was appended to the Council's budget update report 2017-21 to full Council on 12 October 2016, and subsequently submitted to the Secretary of State for Local Government. This was a condition Government set to give reasonable certainty regarding individual Council provisional funding allocations over the 2017-20 period; referred to as a 'multi-year' settlement deal. In total, 97% of England Councils submitted Efficiency Plans. Government had indicated that Councils who did not submit an Efficiency Plan would not have the same reasonable certainty about future year funding.
- 2.5 For many Councils including Kirklees, the multi-year provisional settlement only gives 'reasonable certainty' regarding the scale of continuing and significant funding reductions already assumed in existing budget plans, to 2020.
- 2.6 The provisional settlement relaxes the referendum rules on Adult Social Care precept to allow Councils to rise to a 6% increase by 2019-20 in two 3% increases, rather than three 2% increases. The 3% option allows Councils to front load increases to earlier years to generate additional revenue resources in those years to fund adult social care pressures. The financial impact of these 2 options, and other key settlement changes, are set out in the following sections.

NEW HOMES BONUS (NHB)

- 2.7 The 2015 Government spending review announced that £800m was to be re-directed from existing national NHB un-ring-fenced grant allocation to support £1.5bn improved better care funding over the next 3 years; about £90m in 2017-18, increasing to about £900m by 2018-19, and £1.5bn by 2019-20.
- 2.8 Following this announcement, there was a Government consultation setting out options to re-shape the existing NHB approach, in particular with the intention to:
- reduce overall costs by reducing number of years payments are made, and
 - reform the grant to better reflect Council performance on housing growth
- 2.9 The consultation response by Government was released simultaneously to the provisional settlement announcement on 15 December 2016, which included the following changes to NHB grant:

- i) reduction in number of years for which legacy payments are made, from 6 to 5 years in 2017-18;
- ii) reduction in number of years for which legacy payments are made from 5 to 4 years from 2018-19 onwards;
- iii) introduction of a baseline for housing growth for 2017-18, set at an initial baseline of 0.4% of the council tax base for 2017. Housing growth below this level in each authority will not receive NHB allocations. Government will retain the option of making adjustments to the baseline in future years in the event of a significant increase in housing growth;
- iv) from 2018-19 Government will consider withholding NHB payments from Councils that are not planning effectively (i.e. aren't making positive decisions on planning applications and delivering housing growth), as well as withholding payments for homes that are built following an appeal.

2.10 Government has indicated that as a result of the NHB changes set out in i) and iii) above, this has effectively released £240m at a national level in 2017-18, which has been re-directed to fund a one-off adult social care grant in 2017-18.

2.11 The reduction in number of years for legacy payments to 4 years from 2018-19 onwards, was already anticipated in updated budget plans presented to full Council on 12 October 2016. However, the specific reduction in legacy payments from 6 to 5 years in 2017-18 was not anticipated; neither was a 0.4% national baseline for housing growth. The net impact of the latter two changes is summarised at Table 1 below :

Table 1 - revised NHB grant allocations 2017-20

	17-18 £000	18-19 £000	19-20 £000
budget update report to full Council, October 16	(9,100)	(5,700)	(5,500)
Impact of provisional settlement	1,940	809	1,149
Revised NHB grant allocations	(7,160)	(4,891)	(4,351)

ADULT SOCIAL CARE GRANT

2.12 This is a one-off grant to be allocated to individual authorities in 2017-18 only, funded by the reduction to the overall NHB grant allocation in 2017-18. The grant allocation is based on the social care relative needs formula. As per Table 1 above, the Council's NHB grant allocation in 2017-18 has reduced by £1.94m, with a corresponding adult social care grant allocation of £1.87m; **a net reduction here of £7k on the Council's bottom line.**

SCHOOLS FUNDING INCLUDING EDUCATION SERVICES GRANT

2.13 Government has re-affirmed its commitment to a review of national formula funding allocations, with a proposed implementation of revised funding formula from April 2018. There is a separate report on this Cabinet agenda which sets in more detail, schools funding allocations for 2017-18, including the detail of an overall net

reduction to Education Services Grant (ESG) funding. The financial impact for the Council from the ESG funding changes is summarised at Table 2 below:

Table 2 –Education Services Grant (ESG) – funding impact

	17-18 £000	18-19 £000	19-20 £000
Budget update report to full Council, October 2016 ; ESG funding allocation assumed in MTFP	(4,726)	(4,726)	(4,726)
CHANGES			
ESG fallout	3,429	4,726	4,726
Re-direct to dedicated schools grant (DSG)	(986)	(986)	(986)
Re-direct to schools improvement grant	(250)*	(400)	(400)
Net reduction in funding	2,193	3,340	3,340
Revised Funding allocation	(2,533)	(1,386)	(1,386)

*part-year effect (academic year from Sept)

- 2.14 ESG funding was previously meant to contribute towards a range of statutory and regulatory services that Councils are required to provide, both in relation to maintained schools, and academies. Government had previously indicated that it would review the existing statutory role of Councils in conjunction with its intended review of ESG funding in its current form.
- 2.15 As part of the overall settlement announcement on 15 December 2016, Government has re-affirmed that there will be no reduction in the number of statutory or regulatory Council functions with regard to schools, but there has been an overall reduction in Council funding for these functions, as noted in Table 2 above.

COUNCIL TAX

- 2.16 The provisional financial settlement re-affirms the threshold for a local referendum for 2017-18 at 2% or above annual council tax uplift. Government guidelines on this are set out at Appendix A attached.
- 2.17 Government has also relaxed the referendum rules on the adult social care precept, which is in addition to the above 2% threshold. Individual Councils now have the flexibility to uplift the adult social care precept either by 2% each year for the next 3 years, or 3% each year for the next 2 years.
- 2.18 The 3% option would raise additional revenue funding of **£1.6m in 2017-18**, and **£3.3m in year 2**; £4.9m in total, due to the front loading of year 3's 2% to years 1 and 2. This is acknowledged to be a short-term additional revenue raising option only, as by year 3, either precept option will have delivered 6% over the 3 year period.
- 2.19 Government has decided not to introduce referendum principles for town and parish Councils for 2017-18, but may review this for future years if town and country parish precept uplifts are not deemed to be exercised with restraint.

BUSINESS RATES RETENTION SCHEME

- 2.20 Government has re-affirmed its commitment to implementing 100% business rates retention by April 2020 for all precepting Councils, with some early pilots starting in 2017-18 (e.g. Greater Manchester, Liverpool, City Region, Greater London Authorities, Cornwall Council, combined authority areas of West of England and West Midlands). It means that by April 2020, the Council's general fund net budget plans will largely be funded locally, from a combination of council tax and business rates as the primary funding sources.
- 2.21 The 2017 business rates re-valuation is also factored into the indicative funding allocations from 2017-18, with appropriate adjustments reflect Government's commitment to ensuring that at an individual authority level, the financial impact of the re-valuation on each Council's bottom line, is 'fiscally neutral', as it is a change outside any individual Council's control.

COUNCIL SPENDING POWER (CSP)

- 2.22 Council spending power (CSP) is a government measure of individual Council funding available to support its net budget plans, and it takes into account a range of funding sources. It is then expressed as an amount per dwelling per each authority. The basis of the Government calculation has been updated for 2017-18 to take account of changes in the New Homes Bonus Grant (see also para 2.9 earlier) and the inclusion of a one-off Adult Social Care Support Grant in 2017-18. The government measure also assumes that Councils will uplift their council tax by the normal referendum limit of 2% each year, and a further 2% per annum for the adult social care precept.

Authority level Core Spending Power tables and explanatory notes can be found at:

<https://www.gov.uk/government/publications/core-spending-power-provisional-local-government-finance-settlement-2017-to-2018>

- 2.23 The Council's budget update report to full Council on 12 October 2016 expressed the Government CSP measure in terms of spending power per head of population, as an alternative measure of relative spending power (*source- Leicestershire County Council national benchmarking tool*). Expressed per head of population, the Council was the 2nd lowest funded of the 36 metropolitan Councils, and 8th lowest of all Councils, nationally. The updated Government CSP calculations have not materially altered the Council's relative funding position.

3. Information required to make a decision

- 3.1 The funding allocations for the Council as set out in the provisional financial settlement, will be incorporated into the forthcoming annual budget report to Cabinet on 31 January 2017 and full budget Council on 15 February 2017, and subject to member consideration of the 3% adult social care precept option.

4. Implications for the Council

- 4.1 The overall revenue funding implications from the provisional settlement are summarised at Table 3 below, which highlights key funding changes across years compared to current budgetary assumptions.

Table 3 – settlement funding changes compared to current budgetary assumptions

	Headline funding changes	Funding (Gain)/loss compared to current budgetary assumptions - cumulative			
		17-18 £000	18-19 £000	19-20 £000	Total across years £000
	Un-ring-fenced New Homes Bonus Grant	1,940	809	1,149	3,898
	Adult Social Care grant	(1,870)	nil	nil	(1,870)
	Un-ring-fenced Education Support Grant (net funding loss)	2,193	3,314	3,314	8,671
	Net funding loss	2,263	4,123	4,463	10,849
PRECEPT OPTION 1	3% adult social care precept each year for the next 2 years; no uplift in year 3	(1,600)	(3,300)	300	(4,600)
PRECEPT OPTION 2	2% adult social care precept each year for the next 3 years	nil	nil	nil	nil
PRECEPT OPTION 3	0% adult social care precept each year for the next 3 years	3,000	6,200	9,500	18,700

- 4.2 The 3% precept option would enable the Council to raise an additional £4.6m over a 3 year period to help fund adult social care pressures.

Condensing the 6% precept uplift from 3 years to 2 years results in a small reduction in precept income in year 3 compared to current MTFP figures. This is because two 3% uplifts increase the Band D council tax by marginally less than three 2% uplifts.

- 4.3 The 2% option is already factored into updated budget plans to fund the costs of Government national living wage uplifts which affect social care provider costs. There is no additional revenue funding gain to the Council from this option.
- 4.4 The 0% option is included for completeness, to illustrate the revenue funding loss to the Council compared to current budget assumptions. Councils have the flexibility not to raise a precept annually, or increase it by less than the referendum limit annually.

- 4.5 Table 3 above indicates that as a result of changes to other grants, in terms of the Council bottom line funding position, the £4.6m revenue funding gains from the 3% option are more than offset by £10.8m revenue funding losses from other provisional settlement changes, over the 2017-20 period.
- 4.6 The above should also be set alongside the extent of existing and emerging service pressures and risks previously highlighted in the current budget round; in particular with regard to adult social care, family and safeguarding and the Council's waste contract. The provisional settlement announcement re-affirms Government's assertion that local residents should be expected to pay for the rising costs of adult social care through additional precept flexibilities, but in the context of the above, and other settlement funding losses, at best are a short-term or temporary measure.

5. Consultees and their opinions

Leading Council members from the all the political groups received a same day briefing by senior officers on 15th December 2016, highlighting the key headlines from the provisional financial settlement announcement. Subsequent to this, an all-party deputation letter was forwarded to the secretary of state for local government, seeking an audience to discuss the tenability of the funding position for the Council going forward, which is one of the lowest funded in the country per head of population. The letter is attached at Appendix B.

6. Next Steps

The funding allocations set out in the provisional financial settlement will be incorporated into the annual budget report to Cabinet on 31 January 2017 and full Budget Council on 15 February 2017, subject to member consideration of the adult social precept flexibility option.

7. Officer recommendations and reasons

For members to:

- Note the contents of this report, and consider options for the adult social care precept flexibility, and
- Note that officers will feed the funding changes highlighted in the provisional settlement 2017-18, into the budget papers being prepared for Cabinet on 31 January 2017.

8. Cabinet Portfolio Holder Recommendation

For Cabinet to:

- Note the funding changes arising from the provisional funding settlement 2017-18 and implications and impact on the Council's funding position, and
- To support the Council's deputation letter to the Secretary of State for Communities and Local Government

9. Contact Officer and Relevant Papers

Debbie Hogg,	Assistant Director, Financial Management, IT, Risk and Performance	01484 221000
Eamonn Croston	Strategic Council Finance Manager	01484 221000
SarahM Hill	Finance Manager	01484 221000

Background Papers & History of decisions

- Local Government Provisional Finance Settlement 2017-18
- Medium Term Financial Plan (MTFP) Update Report 2017-21 to full Council
12 October 2016; see link below (Agenda Item 6):

[Agenda for Extraordinary Council on Wednesday 12th October 2016, 3.00 pm |
Kirklees Council](#)



**Department for
Communities and
Local Government**

Chris Megainey

Deputy Director, Local Taxation Division

**Department for Communities and Local
Government**

4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Adrian Lythgo
Chief Executive
Kirklees Council

Fax: 020 7828 4903

E-Mail: council.tax@communities.gsi.gov.uk

www.gov.uk/dclg

Our Ref: CT referendums 2017-18

Dear Chief Executive,

Proposed council tax referendum principles for 2017-18

I am writing to inform you that on 15 December 2016, the Government published a consultation document and made a Written Ministerial Statement on the provisional 2017-18 local government finance settlement, which sets out its proposals regarding council tax referendum principles for 2017-18.

Having carefully considered the responses to the technical consultation (published on 15 September), the Government has decided to continue to allow local authorities to increase their council tax by less than 2% without having to hold a referendum. As last year, it is also proposed that shire district councils and lower-quartile Police and Crime Commissioners have the flexibility to set increases of 2% or £5, whichever is the greater.

The Government has also announced an increase to the flexibility offered on the use of the Adult Social Care precept. The policy intention set out at the time of the 2016-17 Settlement was that this would be 2% per year up to 2019-20. In recognition of the particular pressures on adult social care services, especially in the next two years, social care authorities will now be able to introduce the rise sooner. They will have the freedom to increase by up to 3% in 2017-18 or 2018-19, but still cannot exceed 6% in total over the three-year period. This means that the total rise in bills should not be any greater.

To ensure that councils are using income from the precept for adult social care, councils will be required to publish a description of their plans, including changing levels of spend on adult social care and other services. This must be signed off by the Chief Finance Officer (Section 151 Officer). Councils wishing to use the extra freedom to raise their precept by 3% instead of 2% in 2017-18 must also show how they plan to use this extra money to improve social care. The Department will write to adult social care authorities with further details on the conditions of the scheme and how we propose to implement them early in the new year.

Following the increase in the average Band D council tax level of 6.1% set by parishes in 2016-17, the recent technical consultation proposed an extension of referendum principles to larger, higher-spending town and parish councils. Following careful consideration of responses, the Government has decided to defer the setting of referendum principles. However, the Government has issued a challenge to town and parish councils to demonstrate restraint when increasing precepts that are not a direct result of taking on additional responsibilities.

The consultation on the provisional 2017/18 local government finance settlement is open until 13 January 2017. The consultation document and individual local authority exemplifications are available to view at www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2017-to-2018.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'C' followed by a long horizontal stroke and a large loop.

CHRIS MEGAINY
Deputy Director
Local Taxation Division

APPENDIX B

Councillor David Sheard Leader of the Council

Leadership Office
1st Floor South
Civic Centre 3
High Street
Huddersfield
HD1 2TG



Tel: 01484 221780

david.sheard@kirklees.gov.uk
www.kirklees.gov.uk

Our ref: DS167/JBa

19 December 2016

The Right Honourable Sajid Javid MP
Secretary of State for Communities and
Local Government
House of Commons
London
SW1A 0AA

Dear Secretary of State

Local Government Finance Settlement – Kirklees Council

Following last week's Local Government settlement we, as the Group Leaders on Kirklees Council, would like to meet you in the representations period to highlight the impact of the settlement on Kirklees and, in particular, the very significant financial risks being carried by the Council because of our funding base.

This is based on the review of Core spending power per head of population, which indicates that Kirklees is the eighth lowest of all Local Authorities nationally, and the second lowest of the Metropolitan Authorities.

Consequently we have limited opportunity to address the very real pressures we face in adults and children's social care within the resources of the 4 year settlement.

We look forward to your early reply.

Yours sincerely

Councillor David Sheard
Leader of the Council

Councillor David Hall
Leader of the Conservative Group

Councillor Andrew Cooper
Leader of the Green Group

Councillor Nicola Turner
Leader of the Liberal Democrat Group

Councillor Charles Greaves
Leader of the Valley Independent Group