

<b>Meeting:</b>	<b>General overview and scrutiny committee</b>
<b>Meeting date:</b>	<b>5 September 2016</b>
<b>Title of report:</b>	<b>Four year financial settlement</b>
<b>Report by:</b>	<b>Head of corporate finance</b>

## **Classification**

Open

## **Key decision**

This is not an executive decision.

## **Wards affected**

County-wide

## **Purpose**

To seek the committee's views on the four year central government funding deal.

## **Recommendation**

**THAT:**

- (a) the committee determines whether to recommend to cabinet acceptance of the four year central government funding deal for 2016-17 through to 2019-20; and**
- (b) the committee determines whether there are any specific matters it wishes cabinet to consider in making its recommendation to full council.**

## **Alternative options**

- 1 It is open to the committee to recommend alternatives to accepting the four year deal. However, should not accepting the deal result in further funding reductions, compensatory savings proposals must be identified.

## **Reasons for recommendations**

- 2 The council's budget and policy framework rules require that cabinet has regard to

the views of overview and scrutiny in developing their recommendations to Council on budget and policy framework items.

## Key considerations

- 3 The four year financial settlement offer was made as part of the 2016/17 final central government funding settlement in February 2016. The offer, if accepted, will confirm Herefordshire's revenue support grant, rural services delivery grant and transitional grant funding up to and including 2019/20.
- 4 The Secretary of State wrote to all local authorities' leaders and chief executives in March 2016 with further details of the four year settlement offer, a copy of the letter and annex are provided at appendix 1 and 2. The offer requires an efficiency plan to be produced showing the benefits that will be gained from those that wish to accept it.
- 5 The offer excludes the current business rate income top up grant that Herefordshire receives (£6.9m in 2016/17). The offer letter goes on to say that for those that accept the four year offer there will be no changes to the business rate tariffs and top-ups will "not be altered for reasons related to the relative needs of local authorities". This implies that there may be changes as a result of the 2017 revaluation of business rates; new rateable values are due to be shared later in September 2016.

## Background

- 6 The council has seen significant funding reductions and budget pressures since 2010. The council has risen to this challenge by delivering £59m of savings in the financial years 2010-11 to 2015-16, and is targeting an additional £28m in the financial years 2016-17 through to 2019-20. This gives total savings for the financial period 2010-11 to 2019-20 of £87m.
- 7 The current savings plan is shown below; by accepting the funding offer this plan remains appropriate.

Directorate	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	Total 16-20 £m
Adults and wellbeing	4.1	2.3	1.8	1.7	9.9
Children's wellbeing	1.6	1.3	1.4	1.0	5.3
Economy, communities and corporate	5.2	3.4	2.3	2.3	13.2
<b>Total</b>	<b>10.9</b>	<b>7.0</b>	<b>5.5</b>	<b>5.0</b>	<b>28.4</b>

- 8 Successfully delivering savings of this scale requires longer term planning; knowing the grant element of longer term plans enables increased accuracy in targeting the financial challenges ahead.
- 9 If the offer were not accepted council funding would continue to be allocated under the current existing yearly process. The annual allocations could be subject to additional reductions to the current offer dependent on the fiscal climate and the need for central government to make further savings to reduce the national deficit. There is at this stage no indication of the potential levels of support which could be expected under such a system, and the council would be less able to rely on longer term plans. It is also possible, although currently not considered likely, that if national policy changed during the settlement period funding allocations could increase.

## The four year funding deal: 2016-17 to 2019-20

- 10 The four year funding offer is shown below. The offer excludes a number of significant grant funding streams but does provide a degree of increased funding certainty. The offer has been labelled as a guaranteed minimum grant funding envelope however central government reserves the right to change the settlement due to unforeseen circumstances.

	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000
Revenue Support Grant	17,470	10,090	5,370	620
Rural Services Delivery Grant	5,069	4,093	3,149	4,093
Transitional Grant	572	576	0	0
<b>Total</b>	<b>23,111</b>	<b>14,759</b>	<b>8,519</b>	<b>4,713</b>

## Efficiency statement and business rate retention

- 11 The funding offer is conditional on the publication of an efficiency statement. There are no mandatory requirements for the efficiency statement however the published plan must demonstrate increased efficiency over the four year period.
- 12 The draft efficiency statement is included at appendix 3 and is based on the current medium term financial strategy (MTFS) approved by Council in February 2016, <https://www.herefordshire.gov.uk/media/4506617/medium-term-financial-strategy-2016-20.pdf>.
- 13 The efficiency statement supports the council's journey to self-sufficiency; from 2019-20 it is intended that all councils will be funded locally from council tax and full business rate retention. The exact detail of how this funding mechanism will be implemented is yet to be shared and the council is currently preparing a response to the open consultation process. The intended timetable in respect of moving to full local business rate retention is as shown below:

<b>Summer 2016</b>	Consultation on the approach to 100% retention
<b>Autumn 2016</b>	Further technical consultation on the specific workings of the reformed system
<b>Early 2017</b>	Legislation introduced
<b>April 2017</b>	Pilots of the new approach
<b>Before May 2020</b>	100% business rates implemented

## Implications of not accepting the offer

- 14 The funding offer confirms the implications of not accepting the offer as follows:

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Further information on the subject of this report is available from Josie Rushgrove, head of corporate finance tel (01432) 261867

*“Those councils that chose not to accept the offer, or do not qualify, will be subject to the existing yearly process for determining the local government finance settlement. Allocations could be subject to additional reductions dependent on the fiscal climate and the need to make further savings to reduce the deficit. At present we do not expect any further multi-year settlements to be offered over the course of this parliament”.*

## **Timeline**

- 15 The offer must be accepted before 14 October, with this in mind the following timetable has been set:

<b>Date</b>	<b>Action</b>
5 September 2016	General overview and scrutiny committee
19 September 2016	Cabinet
30 September 2016	Council
14 October 2016	Deadline

## **Community impact**

- 16 The MTFS, associated budget and funding demonstrates how the council is using its financial resources to deliver the priorities within the agreed corporate plan.

## **Equality duty**

- 17 The Public Sector Equality Duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying “due regard” in our decision making in the design of policies and in the delivery of services. This funding offer is in line with our current MTFS therefore there would be no additional adverse impact on different protected characteristics if the offer is accepted.

## **Financial implications**

- 18 As set out in the report.

## **Legal implications**

- 19 There is no requirement to accept the four year settlement. If the council chooses not to accept the offer, or does not qualify, we will be subject to the existing yearly process for determining the local government finance settlement. The only legal requirement under the Local Government Finance Act 1992 requires a council to set a balanced budget which should be possible under either settlement process however accepting the offer provides increased longer term certainty and improved planning opportunities.

## **Risk management**

- 20 By accepting a longer term funding offer, the risk of unbudgeted spend is decreased. The most substantial risks have been assessed as part of the budget setting process

and reasonable mitigation has been made. Risks will continue to be monitored through the year and reported to cabinet as part of the budget setting and monitoring process.

## Consultation

- 21 Consultation on the budget proposals for 2017/18, based on the indicative funding allocations within the funding offer, has commenced and the outcome of the consultation will be used to guide decisions within a balanced budget. A link to the live consultation can be found here

<http://newsroom.herefordshire.gov.uk/2016/july/council-launches-budget-consultation.aspx>

and the 2017/18 budget setting timetable is shown below:

Date	Action
29 July to 7 October	Budget consultation open
14 November 2016	Both scrutiny committees
1 December 2016	Cabinet – capital budget
16 December 2016	Council – capital budget
19 January 2017	Cabinet – budget, MTFS & Treasury Management Strategy
3 February 2017	Council – budget, MTFS & Treasury Management Strategy
3 March 2017	Council – council tax setting

## Appendices

Appendix 1 – letter from secretary of state to council leaders – 10 March 2016 – multi-year settlements and efficiency plans

Appendix 2 – annex to letter from secretary of state to council leaders

Appendix 3 – draft efficiency statement

## Background papers

- None identified.