

Report for: Overview and Scrutiny 17th December 2015

Item number:

Title: Spending Review - update

Report

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Lead Officer: Neville Murton – Lead Finance Officer.

Ward(s) affected: ALL

Report for Key/

Non Key Decision: Non Key.

1. Describe the issue under consideration

1.1. The Chancellor, George Osborne, made his Autumn Statement and Spending Review 2015 announcements on 25th November 2015 this report updates members of the committee on the main issues raised in that statement and in particular those affecting Local Government.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. The committee are asked:

- to note the outcomes arising from the government's Autumn Statement and Spending Review 2015.

4. Reasons for decision

4.1. In February 2015 the Council approved its 2015/16 budget and a Medium Term Financial Strategy (MTFS) covering the period 2015 - 18. The MTFS included around £70m of approved saving proposals in order to deliver a balanced budget position in each of the three years' covered by the MTFS (2015 – 18).

4.2. Previous government Spending Reviews have provided information covering the financial years up to and including 2015/16; projections beyond that point have been made on assumptions based on national data provided by the Office for Budget Responsibility (OBR).

4.3. Following the General Election in May 2015 a new Spending Review has been necessary and in line with previous reviews it has provided summary financial data for the period up to 2020.

4.4. This is the first opportunity to review the assumptions and estimates provided in support of the 2016/17 budget and future years' of the existing MTFS.

However, at this stage the financial data provided is at a summary (national) level and it is still only possible to draw broad conclusions based on this data.

- 4.5. In mid December the Department for Communities and Local Government (DCLG) will provide the authority level detail necessary to update the information required to finalise the 2016/17 budget.

5. Alternative options considered

- 5.1. None at this stage; at the time of the provisional Local Government finance settlement the Council will be in a position to determine the detailed effect on its current financial assumptions. A further detailed report updating members on the changes and in particular their impact on the budget for 2016/17 will be brought to the Cabinet in January 2016.

6. Background information

- 6.1. The Chancellor of the Exchequer published the government's joint Spending Review 2015 and Autumn Statement on 25 November 2015, setting out public expenditure plans for the period 2016/17 to 2019/20.

The UK economy and public finances

- 6.2. The changes to the underlying OBR forecasts since July 2015 show a £27 billion improvement in the level of public finances. The underlying forecast for tax receipts is stronger and debt interest is lower.
- 6.3. The government intends that the welfare cap it introduced is met by 2019/20, and has said that it will retain the welfare cap at the current level.
- 6.4. Overall the country's economic growth is stronger than previously predicted allowing some scope for changes in the government's priority areas. The Local Government settlement includes reductions to local government grant of £6.1 billion by 2019-20, although given forecast increases to other sources of local government income (e.g. Business Rates) overall local government spending is claimed to be higher in cash terms by 2019-20 than in 2015-16.

Local Government Revenue Funding

- 6.5. The government has presented local government funding across two funding sources. This is summarised in Table 1 below and reflects:

(i) DCLG Local Government DEL

The 2015/16 Baseline for the DCLG RDEL is £11.5bn. It is believed to include:

- Revenue Support Grant £9.5bn
- New Homes Bonus £1.0bn
- Other DCLG supported Grants £1.0bn

(ii) Locally Financed Expenditure

- The 2015/16 Baseline for this is £28.8bn.

We understand this to be total council tax income, plus growth in business rates (RPI plus taxbase increase).

Table 1 – Local Government Funding per SR15

	2015/16 £bn	2016/17 £bn	2017/18 £bn	2018/19 £bn	2019/20 £bn
DCLG Local Government DEL	11.5	9.6	7.4	6.1	5.4
DCLG Local Government DEL % change		-16.5%	-22.9%	-17.6%	-11.5%
Locally Financed Expenditure	28.8	29.0	31.5	33.6	35.1
Locally Financed Expenditure % change		0.7%	8.6%	6.7%	4.5%

Note 1- The £6.1bn reduction to Local Government funding between 2015/16 can be seen in the top line of the table above.

Note 2- The overall cash increase referred to, can be seen by comparing LGDEL plus locally financed expenditure in 2015/16 with 2019/20 (£40.3bn versus ££40.5bn)

6.6. A reduction in funding of £6.1bn in LGDEL over the period equates to a 53% reduction in funding. In order to put that into perspective, it is necessary to consider in the context of current Settlement Funding Assessment (SFA) levels [SFA comprises Business Rates, Top-Up and RSG]. For 2015/16, total funding from SFA is £22.2bn. Therefore, a reduction of £6.1bn over the Spending Review period would represent a reduction of 27.5%.

6.7. However, what is unclear from the figures is the extent to which allowances have been made for the RPI growth in business rates. If the funding amounts remain as indicated in Table 1 above, it would mean that part of the £6.1bn would be offset by the RPI growth in business rates of £0.8bn i.e. a £5.3bn cut (so a 23.9%, rather than a 27.5% cut). Table 2 below gives both scenarios (i.e. taking off RPI increases from future funding amounts and assuming that local government keep the RPI increase on top.

Table 2 - Forecast SFA Equivalent Funding 2016/17 to 2019/20

	2015/16 £bn	2016/17 £bn	2017/18 £bn	2018/19 £bn	2019/20 £bn
2015/16 Baseline	22.2	22.2	22.2	22.2	22.2
Cumulative Cut to be applied		-1.9	-4.1	-5.4	-6.1
Funding Level	22.2	20.3	18.1	16.8	16.1
Cumulative % change		-8.6%	-18.5%	-24.3%	-27.5%
Funding Level (from above)	22.2	20.3	18.1	16.8	16.1
Forecast RPI growth in NDR Baseline		0.1	0.3	0.6	0.8
Revised Funding Level	22.2	20.4	18.4	17.4	16.9
Cumulative % change		-8.1%	-17.0%	-21.8%	-23.9%

6.8. In the absence of any Spending Review data other than that provided by the OBR, the Council's previous modelling assumed a 9% per annum reduction to

SFA over the period 2016/17 to 2018/19 (i.e. 27% reduction in total over three years). Depending on the approach adopted by the government the above shows that a reduction of between 23.9% and 27.5% over the period to 2020 is now estimated (i.e. over four years)

6.9. This suggests our current estimates are broadly based on correct assumptions although it does need to be viewed with some significant degree of caution as other changes e.g. to the level of Business Rates in the light of appeals or the New Homes Bonus might have a further impact not currently reflected in the modelling.

Health and Social Care

6.10. The Spending Review:

- gives local councils the power to increase social care funding through a new 2% Council Tax precept (see 6.12)
- lays out a local-led plan to create an integrated health and social care system by 2020, backed by an extra £1.5 billion in the Better Care Fund through local authorities

6.11. The government also said that it will make savings in local authority public health spending with 3.9% average real terms saving per annum over the next five years and will also consult on options to fully fund local authorities' public health spending from their retained business rates receipts, as part of the move towards 100% business rate retention. The ring-fence on public health spending will be maintained in 2016-17 and 2017.

Adult social care

6.12. The Spending Review creates a social care precept to give local authorities who are responsible for social care the ability to raise new funding to spend exclusively on adult social care. The precept will work by giving local authorities the flexibility to raise council tax in their area by up to 2% above the existing threshold for holding a referendum. ***For Haringey a 2% precept would raise c£1.7m.***

6.13. From 2017 the Spending Review makes available social care funds for local government, rising to £1.5 billion by 2019-20, to be included in an improved Better Care Fund and greater NHS and Social care integration. Every part of the country must have a plan for this in 2017, implemented by 2020. Areas will be able to graduate from the existing Better Care Fund programme management once they can demonstrate that they have moved beyond its requirements, meeting the government's key criteria for devolution.

6.14. The Spending Review includes over £500 million by 2019-20 for the Disabled Facilities Grant, which will fund around 85,000 home adaptations that year.

6.15. The government confirmed its commitment to introducing the Dilnot reforms to social care, with funding provided in 2019-20 to cover the costs of

local authorities preparing for these changes. The cap on reasonable care costs and extension of means tested support will then be introduced and funded from April 2020.

Opportunity and security for families

6.16. The Spending Review and Autumn Statement:

- sets out a five point plan for housing, including delivering 400,000 affordable housing starts by 2020-21, focussed on low cost home ownership and reforms to the planning system to free up land for homes

6.17. The government has already announced significant changes to Housing Benefit at the Summer Budget. As part of the Spending Review and Autumn Statement the government has announced that it will:

- Cap the amount of rent that Housing Benefit will cover in the social sector to the relevant Local Housing Allowance.
- Limit Housing Benefit payments to 4 weeks for claimants who are outside Great Britain, from April 2016.
- Make available additional Discretionary Housing Payment funding to local authorities to protect the most vulnerable including those in supported accommodation. The amount is unknown at present.

Homelessness

6.18. The government announced increased funding to invest in innovative ways of preventing and reducing homelessness, including:

- protecting Department for Communities and Local Government (DCLG) funding for targeted homelessness intervention
- devolving an increased level of funding (£10m) to local authorities while ending the current management fee for temporary accommodation. There is a risk however that there will be distributional changes to this funding and the risk of future increases has also passed to Local Authorities.

Investing in Britain's future

6.19. The Spending Review and Autumn Statement announced:

- Protection for schools funding in real terms, including the national based rate per student for 16 to 19 year olds.
- Protection for the Pupil Premium at current rates.
- The introduction of a new national funding formula for schools and early years funding from 2017.
- Continuation of free school meals for all infants.
- The doubling of the free childcare entitlement from 15 hours to 30 hours a week for working families with three and four year olds from September 2017.
- From 2017-18 investment of £300 million to increase the average hourly rate that childcare providers receive.
- At least £50m of capital funding to create additional places in nurseries

- That an apprenticeship levy will be introduced in April 2017 at a rate of 0.5% of an employer's payroll.
- The maintenance in cash terms of the Department for Education's central children's services budget to help drive up social care workforce standards to improve support for vulnerable children.
- Investment of £23 billion in school buildings, opening 500 new free schools, creating 600,000 school places, rebuilding and refurbishing over 500 schools and addressing essential maintenance needs.
- Increases transport investment by 50% to £61 billion over the Parliament – including starting construction on High Speed 2, spending £13.4 billion on the Roads Investment Strategy and over £5 billion on roads maintenance.
- Sixth Form Colleges in England will also be given the opportunity to become academies, allowing them to recover their non-business VAT costs

6.20. The government has made it clear in the Spending Review and Autumn Statement that this represents the next step towards the government's goal of ending local authorities' role in running schools and all schools becoming an academy.

Proposed changes to Local Government funding

6.21. The Spending Review and Autumn Statement confirmed the government's intention to enable Local Government to be financially self-sufficient.

6.22. DCLG will shortly consult on changes to the local government finance system to pave the way for the implementation of 100% business rate retention by the end of the Parliament. The consultation will take into account the main resources currently available to councils, including council tax and business rates.

6.23. As part of these reforms, the main local government grant will be phased out and additional responsibilities devolved to local authorities. For example, the government will consider transferring responsibility for funding the administration of Housing Benefit for pensioners and Transport for London's capital projects to local government and will also consult on options to transfer responsibility for funding public health. The government will consult on these and other additional responsibilities in 2016.

6.24. As part of that process councils will be given the power to cut business rates to boost growth and elected city-wide mayors will have the power to levy a business rates premium for local infrastructure projects. The system of top-ups and tariffs which redistributes revenues between local authorities will be retained.

6.25. The government has also said it will consult on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from 6

years to 4 years. This review will include a preferred option for savings of at least £800 million, which can be used for social care.

- 6.26. Also announced was the extension of the doubling of small business rate relief (SBRR) in England for 12 months to April 2017. The government is undertaking a review of business rates. The review will be fiscally neutral and will report at Budget 2016

Local Government Efficiency

- 6.27. The government has also said it will issue new guidance to local authorities to encourage them to rein in excessive salaries and do more to drive efficiencies for local taxpayers. The government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects the detail of which will be set out by DCLG alongside the Local Government settlement in December.
- 6.28. The government will consult on further cross-public sector action on exit payment terms, to reduce the costs of redundancy payouts and ensure greater consistency between workforces and review sickness absence in public sector workforces. As announced at Summer Budget, the Spending Review funds public sector workforces for an average pay award of 1% for 4 years from 2016-17.

7. Contribution to strategic outcomes

- 7.1. The Council's Medium Term Financial Strategy underpins delivery of all of the Council's priority outcomes set out in the Corporate Plan.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

- 8.1. This report is primarily financial in nature and no additional comments are necessary at this stage.

9. Use of Appendices

None

10. Local Government (Access to Information) Act 1985

- 10.1. For access to the background papers or any further information please contact Neville Murton – Lead Finance Officer