

# Local Authority Funding Update Scrutiny Committee 21<sup>st</sup> July 2017

# The County Council's Budget

- On 9<sup>th</sup> February 2017 the County Council set a net budget of £724.821m for 2017/18

This includes the following:

- Expenditure – £1,396m
  - Income – (£567m)
  - Net contribution from reserves – (£104m)
  - Net Budget - £725m
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- Please note - a specific contribution from reserves of £57.106m (included within the figures above) is needed to fill the identified funding gap and balance the budget.
  - There is still a funding gap of £88.040m in 2018/19 so there is an urgent need to identify proposals for additional savings early in 2017/18 that can be delivered in 2018/19

# The Funding Gap

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
<b>Spending Gap as reported to Cabinet December 2016</b>	60.350	26.497	31.032	28.254	<b>146.133</b>
Add change to forecast of spending:					
Pay and Pensions	0.000	0.000	0.000	0.000	<b>0.000</b>
Price Inflation and Cost Changes	0.502	0.179	0.009	0.115	<b>0.805</b>
Service Demand and Volume Pressures	-0.606	-0.536	-0.140	0.030	<b>-1.252</b>
Adjustments to Savings Programme	-0.414	0.000	0.000	0.000	<b>-0.414</b>
<b>Total change to forecast of spending</b>	<b>-0.518</b>	<b>-0.357</b>	<b>-0.131</b>	<b>0.145</b>	<b>-0.861</b>
Funding	-5.787	4.977	-0.671	9.598	<b>8.117</b>
<b>Total change to forecast of resources</b>	<b>-5.787</b>	<b>4.977</b>	<b>-0.671</b>	<b>9.598</b>	<b>8.117</b>
<b>Revised funding gap reported to Cabinet 19<sup>th</sup> January 2017</b>	<b>54.045</b>	<b>31.117</b>	<b>30.230</b>	<b>37.997</b>	<b>153.389</b>
Funding – change to Council Tax Base	-3.644	-0.183	-0.193	-0.121	<b>-4.141</b>
Loss of specific grant	6.705	0.000	0.000	0.000	<b>6.705</b>
<b>Revised funding gap</b>	<b>57.106</b>	<b>30.934</b>	<b>30.037</b>	<b>37.876</b>	<b>155.953</b>

## Cumulative Funding Gap

If savings are not made each year to reduce the gap and balance the budget, by 2020/21 the funding gap will be £155.953m

					<b>Total £m</b>
<b>2017/18 (£m)</b>	57.106	57.106	57.106	57.106	<b>228.424</b>
<b>2018/19 (£m)</b>		30.934	30.934	30.934	<b>92.802</b>
<b>2019/20 (£m)</b>			30.037	30.037	<b>60.074</b>
<b>2020/21 (£m)</b>				37.876	<b>37.876</b>
<b>Total</b>	<b>57.106</b>	<b>88.040</b>	<b>118.077</b>	<b>155.953</b>	<b>419.176</b>

# Funding

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Revenue Support Grant	81.508	56.979	32.894	26.928
Business Rates	181.391	186.747	193.323	198.540
Council Tax	434.271	456.115	479.056	493.475
New Homes Bonus	5.244	3.679	3.530	3.530
Better Care Fund	3.210	22.656	40.014	40.014
Adult Care Support Grant	5.543	0.000	0.000	0.000
Transitional Grant	1.154	0.000	0.000	0.000
Capital receipts	12.500	5.000	0.000	0.000
<b>Total</b>	<b>724.821</b>	<b>731.176</b>	<b>748.817</b>	<b>762.487</b>

# Funding – Improved Better Care Fund

- At the 2017-18 Budget announcement a total of £2.021bn was announced as supplementary funding to the improved Better Care Fund (iBCF). This was to recognise that all local authorities face pressure on the provision of adult social care.
  - This resulted in Lancashire County Council receiving the following allocations:
    - 2017/18 – £24.886m
    - 2018/19 - £15.736m
    - 2019/20 - £7.799m
- \*Please note that this is non-recurrent funding
- This funding has not yet been built into the County Council's budget as discussions are ongoing with NHS colleagues as to how the additional amount shall be spent.

# Local Government Financial Settlement

- The Secretary of State announced the Provisional Local Government Finance Settlement on 15<sup>th</sup> December 2016. It is important to note that the Settlement only covers the period up to 2019/20.
- It is currently anticipated that a new system of local government finance will be in place in 2020/21 which involves local government retaining all of the business rates and the impact of a review of the funding formula. (However, details of the scheme and the impact on Lancashire are not known.)

# Core Spending Power

- Core spending power measures the core revenue funding available for local authority services, including Council Tax and locally retained business rates.
- The core spending power details published by the Government includes items such as the Settlement Funding Assessment (SFA), Council Tax, New Homes Bonus, Improved Better Care Fund and the Transitional Grant.

# Core Spending Power

- The average core spending per dwelling in 2017/18 was £1,804.8 across England.

£	
2017-18	
<b>Lancashire / Unitary Comparison</b>	
Lancashire Total**	1673.5
Blackburn**	1958.9
Blackpool**	1812.8
(**includes Lancashire Fire)	
England	1804.8
<b>Lancashire Variation from England</b>	<b>131.3</b>
<b>Total resource gap using England average</b>	<b>70,651,729.8</b>

NB: Lancashire Total includes both county and district spending power per dwelling (average £278.8)– table shows like for like comparison

# Settlement Funding Assessment

- The Secretary of State announces a Settlement Funding Assessment (SFA) for each authority.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment (SFA)	292.249	258.456	239.621	222.032
<b>Funded by:</b>				
Revenue Support Grant		81.508	56.979	32.894
Business Rate Baseline		176.948	182.642	189.138
<b>Total</b>		<b>258.456</b>	<b>239.621</b>	<b>222.032</b>
Reduction in SFA		-33.793	-18.835	-17.589

# Settlement Funding Assessment

- The County Council chose not to accept the four year funding settlement offered by the Government as analysis indicates there are insufficient resources to cover statutory services in later years. Therefore the following funding figures may be subject to change
- Although the Revenue Support Grant has been confirmed for 2017/18 the decision not to take the four year settlement could result in future years grant being subject to change. As part of this forecast Revenue Support Grant is assumed to reduce each year until ultimately it is phased out completely by April 2021 at the latest.

# Settlement Funding Assessment

The business rates budget consists of:

- Business rate top up grant
- Business rate income from District Councils
- Section 31 grants
- In addition, Lancashire has a pooled business rates arrangement which has resulted in an additional £0.400m income being included within financial forecasts.

# Council Tax

- Local Authorities can raise Council Tax by a maximum of 1.99% annually, a higher increase would result in a required referendum.
- In addition upper tier Authorities are able to increase council tax further from to support Adult Social Care budgets (with a cap of 3% rather than the previously announced 2% each year) but can only increase Council Tax by a maximum of 6% over the financial years 2017/18 – 2019/20. The settlement also announced that there would be no Adult Social Care Precept in 2020/21.
- The County Council's Medium Term Financial Strategy (MTFS) currently contains an Adult Social Care precept increase of 2% for 2017/18, 2018/19 and 2019/20.

# Council Tax

- In recent benchmarking information completed by PwC comparator analysis with the other 26 County Councils demonstrated that Council Tax income was the 3<sup>rd</sup> lowest nationally based on income per head population. (Appendix A shows the Council Tax yield comparisons)
- The findings also indicated that the composition of the Council Tax base in Lancashire plays a key role in the relatively low level of Council Tax income.
- The band D Council Tax rate for Lancashire was found to be 13<sup>th</sup> highest out of 27 Counties but the number of Band D equivalent properties per head of population is relatively low in comparison to other County Councils.

# New Homes Bonus and Transitional Grant

- The New Homes Bonus (NHB) was introduced to encourage Local Authorities to grant planning permissions for building new homes in return for additional revenue.
- As part of the provisional settlement announced in December 2016 the Secretary of State announced that payments would be received for 5 years from 2017/18 and 4 years in future years. In addition no NHB will be given for the first 0.4% of growth. These changes were made to wholly fund the 2017/18 Adult Care Support Grant which has resulted in a new gain for Lancashire overall (County Council, District Council and Unitary Councils) benefitting by £4.033m.
- Transitional Grant relates to 2 year additional funding announced by the Secretary of State to support the transition to a lower level of Revenue Support Grant in 2016/17 and 2017/18

# Capital Receipts

- In previous years the use of capital receipts (income derived from the sale of long term assets) has been restricted to funding capital expenditure or the repayment of debt.
- However, from 1st April 2016 the Government introduced the flexibility for capital receipts to be used to fund revenue expenditure which meets certain criteria.
- To meet the qualifying criteria the revenue expenditure needs to relate to activity which is designed to generate ongoing revenue savings or to transform a service which results in revenue savings or improvements in the quality of provision.

# Capital Receipts

- In 2016/17 £5.000m of capital receipts were used to support the revenue budget
- In addition, based on estimates of the capital receipts that can be generated, and utilised in supporting revenue expenditure (and therefore built into the MTFS), are as follows:

	2017/18 £m	2018/19 £m	Total £m
<b>Capital receipts generated</b>	12.500	5.000	17.500

# Adult Care Support Grant & Better Care Fund

- A key announcement by the Secretary of State as part of the provisional settlement in December 2016 was a new £240m Adult Care Support Grant for 2017/18 only with Lancashire County Council's allocation being £5.543m. This has been wholly funded by the changes that the Secretary of State announced in relation to New Homes Bonus allocations.
- Last year the Government announced a new Better Care Fund with an additional £1.5bn being provided by 2019/20 to support the cost of social care. The first allocation was due in 2017/18 with allocations increasing up to 2019/20.

# Improved Better Care Fund (iBCF)

- At the 2017-18 Budget announcement a total of £2.021 was announced as supplementary funding to the improved Better Care Fund (iBCF) nationally. This is to be distributed as £1.01 billion in 2017-18, £674 million in 2018-19 and £337 million in 2019-20.
- This determination may be used only for the purposes of meeting adult social care needs; reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported.
- Discussions are ongoing with NHS colleagues across Lancashire to determine the appropriate use of the additional funding.

# 100% Business Rates Retention and Funding Formula Review

- In 2015 the Chancellor announced that local government as a whole would be able to keep 100% of business rates by 2020.
- There is currently a system of redistribution (top-ups and tariffs) to reflect there are councils with relatively higher needs but lower income from business rates and vice versa.
- The Secretary of State for Communities and Local Government has also announced a full review of needs and redistribution which will be used as the starting point for the new system when it comes into force.
- The County Council currently receives a top-up grant, primarily as a result of having Adult Social Care responsibilities, and there is insufficient information currently, although work is progressing nationally with a number of complete and planned consultations regarding the changes, to model what the financial impact of the changes will be and the financial impact on the County Council.

# 100% Business Rates Retention and Funding Formula Review

- Although the recent General Election may have caused some delays in progressing the scheduled timetable surrounding 100% business rates retention and funding formula review a representative from DCLG recently stated that:

“Ministers remain committed to local government taking greater control of their income, as outlined in the Manifesto. We [DCLG] are engaging Ministers on the options for future reform without an immediate Bill and we will be touch once we are in a position to resume working with you on the future of local government finance reform”.