

## Scrutiny Committee Briefing: Settlement Update

**26 January 2017**

On 15 December 2016 the Provisional Local Government Finance Settlement was announced. The main high level features of the Settlement were:

- the four-year funding allocations that were offered in the 2016/17 settlement have been confirmed. The following funding streams are included: Revenue Support Grant (RSG), Business rates tariff and top up payments, (which will not change for reasons relating to the relative needs of local authorities), Rural Services Delivery Grant, and Transition Grant;
- 97% of local authorities including Swale accepted the Four Year deal on offer;
- Core Spending Power is published by the Government to show the overall impact on local authorities of changes in funding allocations and locally-raised council tax (this does not, therefore, included locally raised sums through, for example fees and charges or investment income). At a national level it shows that overall spending power is expected to reduce by only 1.14% in 2017/18. This is driven by a reduction of 12.46% in the Settlement Funding Assessment (primarily the significant cut in RSG), which is partially offset by an expected increase in Council Tax (5.60%). It is really important to reinforce that in their funding assumptions Government assumes maximum increases in Council Tax, and they also take into account some growth in the Council Tax base, thus continuing the change introduced in 2016/17 when the previous policy of encouraging Council Tax to be held was abandoned;
- the main issue in the media before the Settlement was speculation over increased funding for adult social care. The Settlement allows councils with adult social care statutory responsibilities a maximum 6% increase in Council Tax over the next three years, with a maximum increase in any one year of 3%; and
- the Government is also reducing New Homes Bonus funding by £240m in 2017/18, to fund an Adult Social Care Grant.

By far and away the biggest issue for the Council from the Settlement is the long awaited changes to how the New Homes Bonus system operates. The Government consultation on New Homes Bonus was completed in March 2016, and no announcements on this were made until the Settlement. In the Settlement it was announced that grant in 2017/18 will be paid for five years (rather than the previous six years) and from 2018/19 the basis of the award will fall further, to four years. The Government also introduces the concept of baseline growth in the housing stock. For 2017/18 they have assumed 0.4% (as opposed to the 0.2% consulted on). From 2018/19 further unspecified additional conditions will be introduced subject to consultation in the new year.

The financial impact on the Council is set out in the table overleaf.

|                 | <b>2017/18</b><br><b>£</b> | <b>2018/19</b><br><b>£</b> | <b>2019/20</b><br><b>£</b> |
|-----------------|----------------------------|----------------------------|----------------------------|
| Total forecast  | 3,097,000                  | 2,273,000                  | 2,272,000                  |
| Amount budgeted | 2,860,000                  | 2,273,000                  | 2,272,000                  |
| New allocation  | 2,743,000                  | 2,089,000                  | 2,005,000                  |
| Reduction       | 117,000                    | 184,000                    | 267,000                    |

Note: in 2016/17 the Council took £2,860,000 of New Homes Bonus into the base budget.

The reduction for 2017/18 in the total funding for New Homes Bonus is clearly very disadvantageous to the Council, and we have made strong representations back to Government on the proposed change. This is compounded by the longer term changes to New Homes Bonus which significantly reduces the incentive effect of NHB on housing delivery.

Overall, the Settlement sees the Council's Spending Power reduce by -6.84% in 2017/18, compared with a shire district average reduction of -5.2%. The Council was already budgeting for a further 41% (£848,000) reduction in RSG. The spending power calculation by Government builds in an expected £5 increase in Council Tax and unspecified growth in the Council Tax base.

The 1 February 2017 budget report to Cabinet will set out the proposals for balancing the 2017/18 budget in light of the Settlement.

Nick Vickers  
Head of Finance  
10 January 2017