

**Budget 2016/17
Report of the County Treasurer**

Please note that the following recommendations are subject to consideration and determination by the Cabinet (and confirmation under the provisions of the Council's Constitution) before taking effect.

Recommendations:

It is recommended that:-

- (i) the Provisional Finance Settlement is noted;**
- (ii) the revenue spending targets as set out in this report are approved; and**
- (iii) the County Treasurer is authorised to write to government by January 15th to indicate that the Council is minded to raise the precept by 2% to help fund Adult Social Care.**

1. Introduction

1.1. The Secretary of State for Communities and Local Government announced the Provisional Local Government Finance Settlement for 2016/17 on 17th December 2015. This was a day earlier than last year, but unlike previous years, the Autumn Spending Review gave little indication as to the size of the settlement or even how many years it would cover.

2. Impact of the Provisional Finance Settlement

2.1. This is the first year of a new Government with new intentions towards funding Local Government. The Provisional Finance Settlement is the first signal of those intentions. It was widely anticipated that the Settlement would provide figures for one year only and would be followed by a consultation on changes to grant distribution methodology. This has not happened. Instead the Government has gone ahead with some radical changes to grant distribution but also provided grant figures for individual Authorities over a four year period from 2016/17 to 2019/20.

2.2. The impact of this revised grant distribution methodology is that Shire Counties have collectively lost funding in 2016/17 of just over £160.6 millions. Conversely, Metropolitan Districts and Inner London Authorities have gained funding of £92.6 millions and £53.4 millions respectively. Within the allocation to County Councils and Upper Tier Authorities there has been a further re-distribution so that funding has flowed from Councils with a higher tax base to Councils with a lower tax base. It is thought that this is to try to compensate those Authorities dealing with Adult Social Care pressures who would raise less income from a 2% precept.

2.3. For Devon County Council this means that in 2016/17 government funding (core funding) will reduce from £179.8 millions in 2015/16 to £151.6 millions in 2016/17. This is a reduction of £28.2 millions, nearly 15.7%. This is slightly higher than the average reduction for SCT (Society of County Treasurers) member authorities which is 14.6%. In 2016/17 some specific grants have been included in the funding base of £151.6 millions. If these are excluded to give a more accurate, like for like comparison, then the reduction is 17.4% for Devon compared with an average of 16.6% for Shire Counties.

2.4. In addition to core funding the County Council receives a number of specific grants. At the time of compiling this report the following grant notifications have been received with others expected in the coming weeks:

	2015/16	2016/17
Grant	£000	£000
New Homes Bonus	4,264	5,370
New Homes Bonus Adjustment Grant	308	230
Dedicated Schools Grant	460,401	465,639
Education Services Grant (subject to in year adjustment for new academies)	7,020	6,291
Care Act Implementation	5,843	0
Rural Services Delivery Grant (new)	0	1,841

2.5. Councils have been told that they will not be notified of their Public Health grant figures until mid-January. The above table includes a new grant – the Rural Services Delivery Grant which is to help rural Councils deliver services in sparsely populated areas. The Government has also announced a new grant for Lead Local Flood Authorities. It is thought that the Council will be eligible for this funding but as yet the size of the grant is not known.

3. Implications for Budget-setting

3.1. As indicated in section 2.3 of this report this has not been a good settlement for Devon County Council specifically or Shire Counties in general. The scale of the reduction is unprecedented. However, the 2016/17 budget planning assumptions had been pessimistic and had assumed a reduction of 14.3%. This means that our core funding is £2.5 millions less than anticipated. This gap is reduced by the new Rural services Delivery Grant of £1.8 millions. This is sufficiently close, so that it is not necessary to find further savings to “balance the books”. Some Councils are in a more difficult position and now find themselves having to find further significant reductions at a very late stage of the budget process.

3.2. The proposed service spending targets are set out in the table below. Budgets will be set within these targets and scrutinised accordingly.

	2015/16 Adjusted Budget*	Inflation	Pressures	Reductions/ Savings	2016/17 Target Budget	Change
	£000	£000	£000	£000	£000	%
People Services	299,942	6,135	29,917	(19,876)	316,118	5.4%
Place Services	97,329	2,626	3,485	(9,506)	93,934	-3.5%
Corporate Services	36,716	955	750	(4,935)	33,486	-8.8%
	433,987	9,716	34,152	(34,317)	443,538	2.2%

* Adjusted for permanent virements

- 3.3. The budget monitoring report elsewhere on the agenda refers to an opportunity that exists to change our Treasury Management Strategy and account for Capital Financing Charges in a more appropriate way linked to asset life. Details of the proposal will be contained within the Treasury Management report to Corporate Services Scrutiny Committee on January 22nd. This change, if approved, will give rise to a stream of revenue savings that will benefit the Authority both in 2015/16, 2016/17 and several years into the future. The 2016/17 targets have assumed a benefit of just over £8.7 millions from this change.
- 3.4. The settlement confirmed the ability of Authorities to raise Council Tax by 2% to help cope with the costs of adult social care. It also confirmed that this will be in addition to the 2% increase that can be levied before triggering a referendum. So it will be possible for upper-tier Authorities to increase Council Tax next year by up to 3.99%. In terms of the 2% Adult Social Care precept the Government has placed the responsibility on Section 151 officers to notify it by 5pm on January 15th if the Council is mindful to take advantage in whole or in part of the flexibility to raise a 2% precept for Adult Social Care. It is estimated that in 2016/17 the Council will raise just under £6.5 millions from a 2% rise in the precept. Next year the cost of the national Living Wage will be over £7 millions. The majority of this cost relates to those that care for vulnerable adults. An increase in the precept will help the Council deal with the funding pressures linked to an aging population. So it is recommended that the County Treasurer is authorised to notify government that Devon County Council is minded to increase the precept by an additional 2% to help fund adult Social Care.
- 3.5. In terms of next year's budget there are still a number of uncertainties. District Councils will not confirm their tax bases or that part of the Business Rate yield that will come to the County Council until late January. The Provisional Finance Settlement is subject to a period of consultation and the Final Finance Settlement is not expected until late January or early February.

4. Beyond 2016/17

- 4.1. This report has very much concentrated on 2016/17. As previously stated indicative figures have been received for the four financial years from 2016/17 to 2019/20. This is very welcome and means that the Council will be able to have a meaningful four year financial plan that is not based on "guesstimates" of the Government's funding intentions. Over the four year period Government funding is reduced as Revenue Support Grant reduces. So in 2016/17 we will receive £151.64 millions; this reduces to £128.24 millions in 2017/18; £114.91 millions in 2018/19 and £102.31 millions in 2018/19 – by which time Revenue Support Grant will have reduced to just £540,000. However, the Government has indicated that, to secure this funding, Councils will have to issue an efficiency plan for each one of these years demonstrating how it aims to become more efficient and save money. As yet there is no further detail as to what this means or the form it will take.

5. Conclusion

- 5.1. The Provisional Finance Settlement contains significant reductions in funding, was received late, and is complicated in its detail. The reductions to grant funding are greater than even the most pessimistic would have anticipated. A new funding methodology has been adopted without consultation. However, it has heralded a new era in Local Government Finance. Some flexibilities, such as the ability to raise Council Tax, have been granted even if only for a specific purpose and hedged around with many bureaucratic rules. Despite that, at the end of the four year period the Council will be less reliant on Central Government funding and may have more control over its financial destiny – that could be viewed as a good opportunity even if the journey to greater self determination is very bumpy and the road not clearly marked.

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Electoral Divisions: All

Cabinet Member: Councillor John Clatworthy

Local Government Act 1972: List of Background Papers

DCLG Provisional Local Government Settlement and related announcements

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