Committee:	**Date:**
Finance Committee	31 January 2017
Subject: Provisional Settlements for Local Government and Police 2017/18	**Public**
Report of: The Chamberlain	**For Information**
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Summary

The provisional settlement is as expected for local government. The one area of growth in income compared to the previous forecast is for additional retained business rates, where the substantial additional income projected, as a result of business rate growth, has been included in the updated forecast and provides the headroom to fund the investment strategy for example improved security and the ‘bow wave’ of maintenance costs.

For Police, The core grant element was marginally (£0.7m) lower than anticipated.

Overall there are no issues that are so unique and/or disadvantageous relative to other councils/ forces which would require representations to be made.

Medium term financial forecasts for all four funds will be reported to Finance Committee in February.

Recommendation

Members are asked to note the report.

Main Report

Background

1. On 15 December 2016, the Secretary of State for Communities and Local Government (DCLG) announced the provisional 2017/18 Local Government Finance Settlement. The Settlement outlines provisional core funding allocations for local authorities for the three year period 2017/18 to 2019/20. On the same day the Home Secretary issued the settlement for Police.

Provisional Local Government Finance Settlement 2017-18

2. For our non-Police services, this year’s settlement is the second of the current four year Spending Review period (2016/17 to 2019/20). As the City's Efficiency Plan has been accepted, we have been promised some certainty on the figures published for the lifetime of this Parliament (i.e. three years up to 2019/20. The provisional settlement includes figures for three years (2017/18 to 2019/20) and is largely as expected, confirming the funding cuts set out in the four year settlement. The three year horizon reveals a gradual

rate of reduction in Revenue Support Grant with the grant dropping from its current level of £10.6m in 2016/17 in stepped amounts to £6.2m in 2019/20. If the business rates retention scheme were to be introduced in 2018/19 grant income would be reduced to zero and we would need the shortfall to be made up from additional retained rates.

3. The Council Tax referendum threshold will effectively be 5% for the City Corporation, including 3% to spend on social care. It will be up to councils to choose whether to exercise their discretion to increase the Social Care Precept up to 3% in 2017/18 and 2018/19, but increases cannot exceed 6% over the three years to 2019/20. Councils wishing to use the extra freedom to raise their precept by 3% instead of 2% in 2017/18 must also show how they plan to use this extra money to improve social care.

4. Local authorities are invited to offer their views on its operation and requested to indicate whether their authority is minded to take up the 3% flexibility by 5pm on 13 January 2017. For the City, an additional 3% on Council Tax would only generate £150,000 and given the improved financial position for 2017/18, the Resource Allocation Sub and Efficiency and Performance Sub Committees with Committee Chairmen on the 19 January 2017 agreed that the City should not take up the additional flexibility.

5. There has been significant change to the business rates retention scheme as a result of the adjustments for the 2017 Revaluation, which alter both tariff and top ups and business rates baselines for individual authorities. This has resulted in London Boroughs' changing from being an overall £14 million top up in 2016/17 to now paying an overall tariff in 2017/18 of £223 million. However, the business rates revaluation adjustment ensures, as far as is practicable, that an authority's retained income is the same after revaluation as immediately before. The City Corporation remains a 'tariff' authority and there is little change- our share has increased in line with inflation.

6. The Secretary of State for CLG again restated the Government's intentions to reform the business rates retention system and move to 100 per cent retention by 2020. He announced that the Local Government Finance Bill would enter parliament early in the new year, and that pilots would begin in 6 areas of the country in April 2017, London being one of the six. The only notable changes in 2017/18 in London will be to the GLA's retained share of business rates, as TfL capital grant and the GLA's RSG will be funded from the central share of rates.

7. Other key highlights of the provisional local government settlement are as expected from the Autumn Statement:

- There will be a new one off Adult Social Care Support Grant of £241.1 million (£37.3 million London) in 2017/18. This is funded by reducing New Homes Bonus by £241.1 million (£48.0 million London) as a result of moving from six to five year rolling scheme (this will reduce again to four years from 2018-19). At the overall level, London Council's estimate is that London will lose out by £10.6 million from this switch in funding, however the impact varies across London with 12 boroughs gaining slightly while 21 are worse off. The City Corporation is one of the 21 that lose out as a result of the change. Our NHB reduces from £1.8m in 2016/17 to £1.5m in 2017/18 and £1.1m p.a. thereafter, our adult social care grant for 2017/18 is £49,000.

- It was confirmed that London boroughs will receive £665 million in Public Health Grant (£3.3 billion England) in 2017-18. The City Corporation will receive £1.7m in 2017/18.

- Schools: Alongside the settlement, Government published the second round of its consultation into the National Funding Formula. Initial analysis suggests that the overall impact on London will be less severe than expected because of the introduction of at least £200 million additional funding to the schools block in 2018/19, along with a funding floor that permanently limits school-level funding reductions to 3%. However, 70% of schools in London will still experience a cash reduction in funding as a result of the new schools funding formula, including 97% of schools in inner London. The City has met with the Department for Education who have recognised that the City of London is unique and agreed that, like the Isles of Scilly, the national funding formula will not be applied here going forward. However, detailed discussions on how funding for the City should vary from the national model have yet to take place and it is still likely that funding will be reduced.

8. London Councils will be submitting a detailed response to CLG and are likely to highlight the following key themes:

   - Expressing disappointment that the Government has failed to find new money for Adult Social Care - the Social Care precept passes the buck back to local council tax payers and doesn't cover the funding gap in the period up to 2020.

   - Strongly opposing the cutting of NHB, especially given the housing crisis in London.

   - Disproportionate level of cuts to local government.

Police settlement

9. The Police core grant settlement was marginally worse than anticipated at £51.4m, some £0.7m lower than anticipated. The Government's stated intention is that the shortfall should be met from an increase in the precept (in the City's case, the business rate premium). In response to the deteriorating financial position a Medium Term Financial Plan for the Police was submitted to the December committee cycle. This detailed some immediate steps to stabilise the position which included the Police adopting a cashable savings target; the utilisation of the remaining Police reserves (agreed by the Court in January) and the City funding some additional costs for IT and employers pension contribution directly. It also involved the City funding the revenue

contribution to Police capital schemes already in the budget (£1.4m in 2017/18 and £1m in 2018/19) and the City funding the future Police capital programme. The latter will be subject to a further report but could be of the order of £11m over the planning period

10. The settlement included an allocation for 2017/18 of £4.5m for National and International Capital City grant, no change from 2016/17. Details of a number of ring-fenced grants are not expected until January- March 2017.

Mayoral precept

11. The Mayor of London has published his draft 2017/18 revenue budget and capital spending plan for consultation. For the current financial year, 2016/17, the City's Council tax is £857.31, expressed at band D and excluding the GLA precept of £73.89. The budget proposes an increase in the GLA precept of £4.02, but unchanged for the City at £73.89 because City has its own police force. The entire GLA precept increase is for the Metropolitan Police.

Next steps

12. Overall there are no issues that are so unique and/or disadvantageous relative to other councils/ forces which would require representations to be made.

13. The medium term financial forecasts policy for all four funds will be reported to Finance Committee in February.

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