

**Local Government Finance Settlement for 2017/18****Policy Context**

1. The MTFS is the mechanism for supporting the direction of resources to deliver Vision 2030 and the Council Plan. It also ensures a sustainable Gateshead through the best use of resources to deliver value for money services and long term financial sustainability.

**Background**

2. The Government has invited responses to a consultation on proposals for the Local Government Finance Settlement for 2017/18 by 28 October 2016. The consultation sets out proposals for distributing central resources in 2017/18 to build on the four year offer announced in the 2016/17 local government finance settlement. These proposals are intended to give councils long term certainty, earlier in the year, over more sources of funding. This will aid financial planning as the Council is moved towards self-sufficiency.
3. Councils are facing further, unprecedented cuts in central government support although there is a lack of clarity around the actual cuts facing councils and areas of additional responsibilities as well as ambiguity in respect of timing. The reliance on local business rate income as a main source of funding of local services brings many risks and volatilities alongside the long term opportunities. By 2020 it is the intention that local government will retain 100% of taxes raised locally. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities, and some central grants will be phased out.
4. The move towards self-sufficiency and away from dependence on central government represents a fundamental change in the role of local government and the way it is funded. Revenue support grant the main central government grant funding to local authorities has been and will continue to fall significantly year on year in the move to retaining 100% of rates collected. It is still uncertain what other specific grants will disappear as a result of the new funding reforms (and this is subject to another consultation process) but recent announcements suggest public health grant will be removed with responsibilities delivered via rates funding.
5. The 2016/17 financial settlement confirmed the continuation of the Better Care Fund (BCF) and additional funding for adult social care through the BCF worth £1.5 billion by 2019/2020. The targeted increase is welcome however indicative figures show this will not be fully in place until the end of this decade whilst social care demand pressures continue to build. It will be important to assess the cost of any responsibility transfers as well as the future of receiving other grants outside of the central funding alongside additional cost pressures and burdens the authority will need to absorb such as implementing the National Living Wage, changes to employers national insurance contributions and paying the new apprenticeship levy.
6. The consultation also sets out proposals that would have implications for local resources such as the council tax referendum principles for 2017/18 and the approach to adjusting for the impact of the 2017 business rate revaluation.

**Alternative Options**

7. There are no alternative options.

## Implications of Recommended Option

### 8. Resources

- a. **Financial Implications** - The Strategic Director, Corporate Resources confirms that any financial implications are subject to the outcome of the consultation and the results will be the subject of future budget reports and Medium Term Financial Strategy (MTFS) reviews
- b. **Human Resource Implications** – the MTFS recognises the need to support Council employees as much as possible through changes arising from the consequences of the funding position. Any HR implications of budget proposals will be the subject of future public consultation reports
- c. **Property Implications** - Any property implications as a consequence of the outcome of this consultation and impact on funding and subsequent budget proposals will be the subject of future public consultation reports

9. **Risk Management Implication** – the risk implications are consistent with those outlined in the MTFS. Whilst the Government has outlined that the move to 100% business rates retention will be fiscally neutral on local government financing, there is a significant risk facing individual authorities in particular the perceived fairness of the needs assessment and the eventual baseline funding level at day one of the system.
10. **Equality and Diversity Implications** – an equality impact framework has been developed to assess budget proposals will be the subject of future public consultation reports
11. **Crime and Disorder Implications** – Nil arising from responding to the consultation
12. **Health Implications** - Nil arising from responding to the consultation
13. **Sustainability Implications** – the MTFS provides a framework for ensuring a sustainable financial position over the medium term.
14. **Human Rights Implications** – Nil arising from responding to the consultation
15. **Area and Ward Implications** – Nil arising from responding to the consultation. All areas of the Borough are covered by the principles set out in the MTFS strategy

## ANNEX

### **Consultation Response to Department for Communities and Local Government – Proposals for the Local Government Finance Settlement for 2017/18**

The Council welcomes the opportunity to respond to the consultation on proposals for the Local Government Finance Settlement for 2017/18

The Council is committed to reform and more clarity earlier in the year, over more sources of funding is certainly welcome. It is essential however that the balance of funding is fair and reflects the demands and burdens of an area and the ability of that area to match this with local sources of income. The outcome of the separate consultations around Business Rates reforms will be pivotal to ensuring a fair approach across local government.

#### **Question 1: What other, additional grants, beyond those set out in para 2.2.2, should the Government consider including in the multi-year offer?**

Gateshead currently receives circa £29m in other Government grants not included in future settlement figures. All grants of a significant material value should be included as additions to the multi-year offer as this allows for greater certainty in financial planning. In particular the main grants the Council would look to include are;

- Public Health Grant
- Better Care Fund (Including new BCF)
- Education Services Grant
- Local Reform & Community Voices
- Council Tax and Housing Benefit Admin Subsidy
- Independent Living Fund ILF

In the past different Government departments have published grant allocations at different times and this has in specific cases been only a matter of days before the point at which the Council must set its budget in February to allow time for council tax bill notifications. This can make budget setting and financial planning extremely difficult. It would be useful if allocations even notional levels could be given on at least a three year basis within the main settlement within early to mid-December.

#### **Question 2: Do you agree with the proposed methodology for allocating funding for the improved Better Care Fund as outlined in paragraph 2.3.4?**

Yes the Council welcomes the method that links allocation of funding to the maximum amounts a Council can raise through the adult social care precept. In Gateshead a 2% precept only raised £1.5m in 2016 which is not enough to cover the rising costs and demands within this area that are expected to total around £45million over the next five years.

More clarification from Government on how the improved Better Care Fund allocation will work in practice would be welcome. (For example will this be paid directly to CCGs, directly to LAs or pooled in some way, what will be the main conditions of grant). The funding is likely to be pooled for partnership working with Health and if the funding is a redirection of health funding rather than additional to the overall funding for health and social care then this could be subject to significant demand pressures. As such the Council considers the IBCF as not suitable for funding from retained business rates and has responded as such in the separate consultation reviewing fair funding reforms of business rates.

**Question 3: Do you agree with the council tax referendum principles for 2017-18 proposed in paragraphs 3.2.1 to 3.2.2 for principal local authorities?**

- Yes to a continuation of the Adult Social Care precept of an additional 2%.

The new adult social care precept worth 2% for authorities with responsibility for adult social care for the remainder of the Parliament will contribute much needed funding towards costs in this area. A point to note is that differing council tax bases results in varying amounts that this can raise across local government and does not correlate to the demands of an area. Hopefully this will be addressed via the point raised in question 2. The needs to a particular area will hopefully also heavily factor into the current fair funding review linked to the move towards 100% rate retention.

Clarification as to what is meant by “subject to consideration of the use made of the Adult Social Care precept in the previous year” is requested. The potential amount raised falls well short of the increasing demand in this area.

- Yes to a core principle of 2%.

The government refer to this being in addition to a core 2% without triggering a local referendum. The wording of the referendum is important as in 2016/17 a referendum was triggered by 4% and above and therefore in reality the core increase could be a maximum 1.99%. Whilst the Council is supportive of the 2% level continuing it fundamentally believes that the level of Council Tax should be a matter of local discretion.

- No comment- Shire district councils will be allowed increases of less than 2% or up to and including £5, whichever is higher
- No comment - Police and Crime Commissioners in the lowest quartile will be allowed increases of less than 2% or up to and including £5, whichever is higher.

**Question 4: Do you agree that referendum principles should be extended to larger, higher-spending town and parish councils in 2017/18 as set out in paragraphs 3.3.3 to 3.3.4?**

This does not apply to Gateshead but the Council is not supportive of the referendum principles (see above).

**Question 5: Do you agree with the proposed approach to take account of the transfer of responsibilities to town and parish councils as outlined in paragraph 3.3.5?**

As above

**Question 6: Do you agree with the suggestion that referendum principles may be extended to all local precepting authorities as set out in paragraph 3.3.6? If so what level of principle should be set?**

The extension of the referendum principles may mean that the local needs of the parish are not considered.

The parishioners have a degree of protection as the usual general administrative law principles will apply to the Parish Council's decision regarding the budget and therefore they must act reasonably and take the decision based on all material considerations, discarding

immaterial considerations and the incurring of expenditure must be relevant to the needs of the Parish as well as being in accordance with their own financial rules. The Principal Council could challenge a precept that it felt was unlawful on this basis.

**Question 7: Do you have views on the practical implications of a possible extension of referendum principles to all local precepting authorities as set out in paragraph 3.3.7?**

No comment other than it should be noted that the same percentage applied can mean hugely differing values in funding terms due to the size of the parish.

**Question 8: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.4.1 to 3.4.8?**

Base income levels should not be affected by revaluations as they are outside of local authority control. If the overall impact of the revaluation is to be revenue neutral for LA's then we concur that this proxy method appears to be the only way in doing the adjustment. What is being lost though is recognition of growth which the local retention of business rates is intended to reward. Potential increased income from a revaluation is not purely due to changes in rental values. LA's could state their growth element in the NNDR form.

There is a potential for this process to add uncertainty and delay to budget setting as the provisional adjusted tariff/top-up will likely not be available until the final settlement in February after the submission of the NNDR1 at the end of January. The Council needs to set a balanced budget within the necessary timescales to gain Council agreement in February therefore the timing of this information is crucial.

**Question 9: Do you agree that the methodology as outlined in paragraphs 3.5.5 to 3.5.13, for calculating changes to the local share of business rates and tariff and top up payments is correct and does not adversely affect non-pilot areas?**

The Council agrees the method which ensures any costs to the system for pilots will not impact upon non-pilot authorities, is fair. The intention of the business rates financing was to make the model simpler but there is straight away a reference to 'grants' as an option or a percentage share of business rates. As in Q8 how is growth accounted for in this? It is unclear how the Section 31 funding will factor into this model.

**Question 10: Are you considering a voluntary transfer of funding between the Combined Authority and constituent authorities?**

Not applicable

**Question 11: Do you have any comments on the impact of the proposals for the 2017-18 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments**

Whilst the Council welcomes the ability to raise additional revenue for Adult social care through the application of the precept and the proposed consideration to be given to the way in which income can be raised through this in the distribution of the Better Care Fund the level of income that can be raised in this way is not even sufficient to meet the additional cost pressures associated with the National Living wage. This also moves funding for

essential Council services from government funding to local residents assuming they are willing and able to pay uplifts of 4% year on year. Adult social care represents 31% of the Council's budget which is the single largest area of spend. If this is considered in the context of the Council's controllable expenditure it increases to 42%. Given this position and the overall funding gap of the Council it will be necessary for Adult social care to make significant contributions to the savings targets. This comes at a time of rising demand and rising provider costs from the introduction of the national living wage and the impact of welfare reform. There is likely therefore to be some impact upon those people with protected characteristics where services may need to be reduced, reshaped or reprovided.

Evidence from the Joint Strategic Needs Assessment (JSNA) demonstrates that around 52,679 people (1 in 4) in Gateshead have one or more long term conditions. Over 8,000 of these have three or more long term conditions. The gap in the employment rate between those with a LTC and the overall employment rate is around 11% in Gateshead compared to an England average gap of around 8.5%. It also shows the older age groups population is growing at a faster rate than that of the working age population. It is clear therefore that the impact of Government funding reductions on persons who share a protected characteristic will continue to need to be closely monitored.