

**REPORT OF: FINANCIAL SERVICES MANAGER**

**TO: EXECUTIVE**

**DATES: 22<sup>nd</sup> SEPTEMBER 2016**

**Contact Details:** Vince Green  
**Tel. No:** 01282 661867  
**E-mail:** vince.green@pendle.gov.uk

## **Local Government Finance Settlement and Related Matters**

### **PURPOSE OF REPORT**

1. The purpose of this report is to recommend acceptance of the Government's offer of a four year funding settlement and authorise officers to notify the Department for Communities and Local Government (DCLG) accordingly by the deadline of 14<sup>th</sup> October. In addition, this report outlines the following matters:
  - (i) the requirement for an Efficiency Plan in support of the offer of a 4 year funding settlement;
  - (ii) proposals for the flexible use of capital receipts in the period 2016/17 to 2018/19;
  - (iii) a draft consultation response for submission to DCLG linked to the Government's proposals for the 100% 'local' retention of business rates and fair funding reforms.

### **RECOMMENDATIONS**

2. The Executive is recommended to approve/endorse the following:
  - a) to accept the Government's offer of a four year funding settlement covering the period from 2016/17 to 2019/20 and authorise officers to formally notify DCLG by the deadline of 5pm on the 14<sup>th</sup> October 2016;
  - b) the requirement for an Efficiency Plan to be submitted to DCLG when taking up the offer of a four year settlement and provide delegated authority to the Strategic Director to submit this on behalf of the Council in consultation with both the Leader and Finance Portfolio Holder;
  - c) the intention to develop a capital receipts strategy as part of the next update of the Medium-Term Financial Plan to enable the Council to benefit from the flexible use of capital receipts in the period 2016/17 to 2018/19;
  - d) the draft consultation response as set out in [Appendix C](#) and that this be submitted to DCLG by the closing deadline of 26th September 2016.

## REASONS FOR RECOMMENDATION

3. To respond formally to the Government's offer of a four year funding settlement for local government and address other related matters arising from the local government finance settlement as announced earlier this year when the final settlement for 2016/17 was announced.

### **Background**

#### *The offer of a 4 year funding settlement*

4. The Executive will recall that at the time of announcing the Local Government Finance Settlement for this year, the Government also outlined the 'offer' of a four year funding settlement covering the period 2016/17 to 2019/20. It is for individual local authorities to decide whether to take up the offer. The offer covers Revenue Support Grant (RSG), Transitional Grant and Rural Services Delivery Grant. Of these funding streams it is only RSG which this Council receives.
5. The funding allocations announced for Pendle over the four year period are as set out below:

Revenue Support Grant	£'000	
- 2015/16	3,904	(for comparison only)
- 2016/17	3,013	
- 2017/18	2,210	
- 2018/19	1,707	
- 2019/20	1,145	

6. From the above it can be seen that the forecast sets out on-going reductions in RSG. If the above figures are confirmed RSG will have fallen over the period by 71% from 2015/16. This reflects both the Government's focus nationally on the deficit reduction impacting on non-protected areas of public sector expenditure combined with a shift in policy whereby by the end of this Parliament the Government aims to move to a locally funded model of local government rather than one reliant on central government grants.
7. However, the allocations set out over the 4 year period remain subject to confirmation each year as illustrated by the following extract reproduced from the Government's initial consultation document:

*In practice, the final determination of the local government finance settlement for any given year cannot be made until calculations are completed taking account of the business rates multiplier, which is based on the Retail Price Index in September each year. The Government will also need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year.*

The above was largely mirrored in a letter from Greg Clarke, the then Secretary of State for Communities and Local Government, sent to all authorities in March 2016. For information, a copy of this letter is provided at [Appendix A](#).

8. The extent to which the recent 'Brexit' vote might represent an 'exceptional circumstance' impacting on government plans and funding allocations remains unclear. Whilst the Chancellor's Autumn Statement may provide an indication of the direction of travel this will not be announced until the 23<sup>rd</sup> November which is too late to inform the Council's decision on whether to accept the 4 year settlement.

9. With regard to the offer of a four-year settlement the Council could choose either to:

- *Accept the offer*

Barring exceptional circumstances the Government appears committed to the allocations outlined above. These have been built in to the Council's medium-term financial plan and offer greater certainty. There seems little prospect of the position getting better. As a result, and on balance, the risks are considered to be to the downside and hence your officers would recommend acceptance of the offer.

- *Not accept the offer*

In his letter the Secretary of State makes it clear that it is entirely optional and that it is open to any council to continue to work on a year to year basis. However, the letter also says that he cannot guarantee future levels of funding to those who prefer not to take up the four year settlement. This would suggest a greater degree of uncertainty at a time when the council is already faced with a significant savings requirement to 2019/20 on current funding projections. This increased uncertainty will be compounded by other developments such as 100% business rates retention, the emerging combined authority and the reforms of new homes bonus. Hence, this option is not recommended by your officers.

10. To accept the offer, councils must notify DCLG by 5pm on the 14<sup>th</sup> October. They must also include a link to a published Efficiency Plan. Work is currently underway on developing this Plan and the Executive is requested to grant delegated authority to the Strategic Director to conclude the plan in consultation with the Leader and Portfolio Holder for Finance. Once the plan has been approved a copy will be provided to all Councillors.

#### *The flexible use of capital receipts*

11. In addition to the 4 year settlement offer, the Government also announced proposals to allow councils to use capital receipts flexibly. Normally, capital receipts (i.e. those receipts of more than £10k resulting from the disposal of plant, property and equipment) can only be used to fund capital expenditure. However, under the flexibility proposed by government, councils will be able to use capital receipts to fund '*qualifying expenditure*' on a project where incurring up-front costs will generate ongoing savings.

12. Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

13. The guidance published by DCLG in March includes the following examples of qualifying expenditure whilst stressing this is not a prescriptive list:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief-Executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;

- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
  - Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
  - Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others).
14. For each financial year, a local authority should ensure it prepares at least one Flexible use of Capital Receipts Strategy. This Strategy does not need to be a separate document, and the requirement can be satisfied by including relevant documents within the Annual Budget documents, as part of the Medium-Term Financial Plan (or equivalent), or where appropriate, as part of the Efficiency Plan that local authorities who sign up to four year settlement deals will be required to produce.
  15. As a minimum, the Strategy should list each project that plans to make use of the capital receipts flexibility and that on a project by project basis details of the expected savings/service transformation are provided. The Strategy should report the impact on the local authority's Prudential Indicators for the forthcoming year and subsequent years.
  16. From the 2017-18 Strategy and in each future year, the Strategy should contain details on projects approved in previous years, including a commentary on whether the planned savings or service transformation have been/are being realised in line with the initial analysis.
  17. The Strategy should be presented to full council for approval. The flexibility only applies to new capital receipts arising from 1<sup>st</sup> April 2016 until 31<sup>st</sup> March 2019. Capital receipts in hand as at 31<sup>st</sup> March 2016 cannot be used for this purpose.
  18. The intention is to develop specific proposals as part of the next update of the medium-term financial plan and present this to the Executive in the November/December cycle of meetings prior to submission to Council for approval. In the current year the most significant capital receipt is expected to be that arising from the disposal of land at Red Lane, Colne subject to the developer obtaining planning permission. A report on the disposal of this land was considered by the Executive at its last meeting in August.

#### *Consultation on 100% business rates retention and fair funding reforms*

19. The Executive will be aware of the Government's intentions to reform the current system of local government finance, a key element of which is the move to 100% retention of business rates by local government by the end of this Parliament. Currently under business rates retention the central / local share is 50:50. The central share is redistributed to councils in the form of revenue support and other grants. The local share is retained by councils but is partly redistributed between councils through a system of tariffs and top-ups. These are set by reference to each council's share of local business rates income compared with its assessed needs.
20. In July, the Government launched a consultation on how the proposed reforms should work with a closing date for responses of the 26<sup>th</sup> September 2016.

21. In parallel with the above, the government is also undertaking a Fair Funding Review of councils' relative needs and resources. The government believes that many councils feel too much time has passed since the last fundamental review of assessing relative need, with demographic pressures affecting areas differently. The assessment of the relative needs of local councils is a fundamental part of the reform of business rates and the government has issued a '*Call for evidence on Needs and Redistribution*'. The closing date for responses is also the 26th September.
22. More information on the 2 matters outlined above is provided in [Appendix B](#) which is a copy of a report presented to the Budget Working Group when it last met on 30<sup>th</sup> August.
23. A draft response to the consultations has been prepared and is presented at [Appendix C](#). The Executive is requested to endorse this for submission to DCLG on behalf of the Council.

## **IMPLICATIONS**

### **Policy**

24. There are no new policy implications arising from this report.

### **Financial**

25. The financial implications are generally as set out in the report.

### **Legal**

26. There are no legal implications arising directly from this report.

### **Risk Management**

27. The recommendation to accept the offer of a 4 year settlement is largely driven by the assumption that this will minimise the 'uncertainty' risk of not taking up the offer.

### **Health and Safety**

28. There are no health and safety implications arising directly from this report.

### **Sustainability**

29. There are no sustainability implications arising directly from this report.

### **Community Safety**

30. There are no community safety issues arising directly from the contents of this report.

### **Equality and Diversity**

31. No specific issues arise from this review.

## **APPENDICES**

[Appendix A](#) – Letter from Secretary of State re the 4 year settlement offer

[Appendix B](#) – Report to Budget Working Group 30<sup>th</sup> August 2016

[Appendix C](#) – Draft response to DCLG consultation (100% rates retention and funding reforms)