Medium Term Financial Strategy and Plan – Four Year Settlement

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Purpose of the Report

1. To advise members of the outcome of the meeting with Marcus Jones MP – the Parliamentary Under Secretary of State (Minister for Local Government) and recommend to full Council the Efficiency Plan.

Forward Plan

2. This report was included on the District Executive Forward Plan with an anticipated Committee date of October 2016.

Public Interest

3. This report outlines the advantages and disadvantages of accepting a fixed grant over the next three years.

Recommendations

4. That the District Executive decides whether or not to recommend to full Council the acceptance of the 4-year settlement deal offered by the Department for Communities and Local Government and the publishing of the Efficiency Plan attached at Appendix A.

Background

5. This is an update to follow the report made to District Executive in September on the Medium Term Financial Strategy following the meeting with the Department for Communities and Local Government.

Introduction

6. The Medium Term Financial Strategy (MTFS) and the Medium Term Financial Plan (MTFP) were presented to District Executive in September 2016. The decision as to whether to request approval to full Council to accept the Government's 4 year settlement was deferred pending a meeting with Marcus Jones MP – the Parliamentary Under Secretary of State (Minister for Local Government). The decision to utilise capital receipts for revenue purposes was therefore also deferred to enable both to be considered by full Council at the same time.

The Current Position

7. Currently the MTFP shows a projected budget gap for each year of the plan. The figures include all estimates for pay awards, council tax, government grant, and inflation. The plan currently shows a shortfall in funding of £2.8 million over the five years of the plan.

This is after the expected £2 million for Transformation has been delivered. The plan is based on the figures outlined in the 4-year settlement.

Efficiency Plan

8. In addition local authorities were also invited to accept a multi-year settlement by the 14th October 2016 so long as they had a published Efficiency Plan. The Efficiency Plan must show how the authority will benefit from the four year settlement and must have reference to the Council Plan, the Medium Term Financial Strategy, the Asset management Plan and any devolution bid.

9. In effect this would fix the following grants and provide some certainty in funding:-

	Revenue Support Grant (RSG) £'m	**Rural Services Delivery Grant £'m**
2016/17	1.675	165.3
2017/18	0.803	133.4
2018/19	0.269	102.6
2019/20	-0.330	133.4

10. In addition, tariffs and top-ups in 2017-18, 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities, but in the final year may be subject to the implementation of 100% business rates retention. Any increase in tariff reduces the amount of business rates an authority can retain in a particular year.

11. SSDC Members were particularly concerned about the "negative" RSG in year four. The way in which RSG has been reduced has been by adding together Council Tax income and the overall grant settlement and then using a scaling factor to calculate the reduction in grant. This would mean in effect that £330k from local taxation would be returned to central Government to be redistributed to other authorities (the equivalent of a 3.7% increase in Council Tax). The DCLG had already removed any negative RSG from the settlement for 2017/18 and 2018/19. Of the 168 authorities affected 146 are shire districts and the "negative" RSG redistributes £152.9 million of some authorities funding to other local authorities.

12. Correspondence with the DCLG had made clear that all four years must be accepted and that under no circumstances will any authority be better off by not accepting the offer. After further correspondence outlining SSDC's concerns, Marcus Jones, the Parliamentary Under Secretary of State (Minister for Local Government) offered SSDC a meeting on the 6th September to answer questions about the offer. The Leader, Finance and Legal Portfolio Holder, the shadow Finance and Legal Portfolio Holder, and the Assistant Director Finance and Corporate Services attended. The discussion outlined the following:-

    - The Minister outlined that he would want as many authorities to accept the offer as possible as the DCLG required it to ensure that settlement discussions could not be renegotiated by the Treasury. He also expected the take up to be high amongst local authorities;

- Although they had removed the negative RSG for 2017/18 and 2018/19 they did not have sufficient funding to remove it for 2019/20, the year in which SSDC becomes affected by the change;

- He outlined that it was likely that the introduction of 100% retention of business rates and the funding review would change how local authorities were funded in 2019/20. He urged SSDC to respond the consultations on 100% Retention of Business Rates and the Fairer Funding Review;

- The Minister reiterated that authorities not accepting the offer could have their funding reduced;

- The minister outlined that he was hoping to add more to the offer for those that accepted;

- He responded no to a question regarding whether he would consider delaying the offer until after the Autumn Statement;

- He noted that South Somerset currently receive lower per capita funding from central government than neighbouring authorities where urban service delivery costs are lower, but where taxpayer wages are typically much higher than those in a rural area. The minister responded by asking if SSDC had utilised the ability to raise Council Tax by £5 had been taken up for 2016/17.

13. Members may also wish to consider whether in reality further cuts could be made if only a small number of authorities decide not to accept.

Conclusion

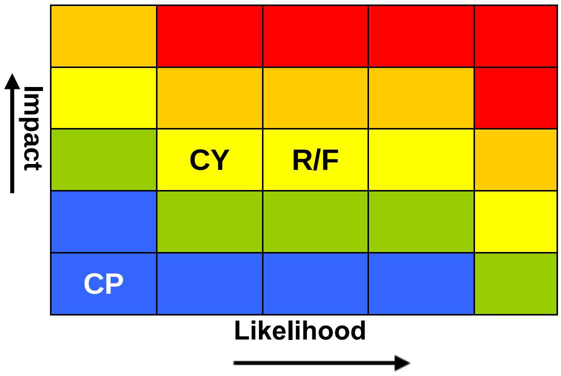
14. The overall sum involved is £11.6 million over the next three years, around 26% of SSDC's income next year and 20% in year 3. Although the current offer is not a "good deal" for South Somerset my advice is to accept the offer to give SSDC certainty and some stability to the Medium Term Financial Plan. Turning down the offer will not give SSDC the ability to negotiate settlements over the next three years nor to fix the inequalities in the current funding system.

15. Members may also wish to consider accepting the offer given the uncertainty caused by the UK exiting the EU, the financial pressures on other tiers of local authorities, and the Treasury perhaps seeking further savings from Government Departments (although the deficit target reduction has been removed). Year four may be amended in any case if the 100% Retention of Business Rates is introduced in 2019/20.

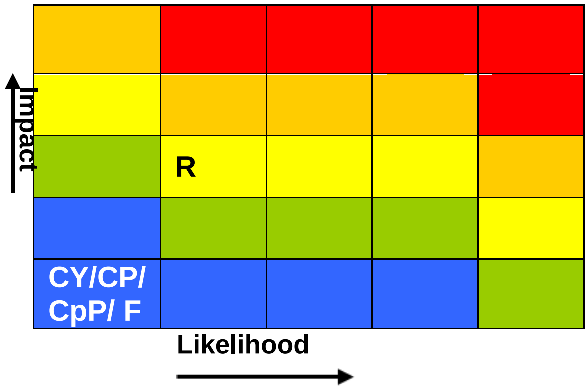
16. If members wish to accept the offer it must publish the attached Efficiency Plan at Appendix A and submit it to the DCLG by the 14th October 2016.

Risk Matrix

Risk Profile before officer recommendations



Risk Profile after officer recommendations



Key

Categories			**Colours** *(for further detail please refer to Risk management strategy)*		
R	=	Reputation	Red	=	High impact and high probability
CpP	=	Corporate Plan Priorities	Orange	=	Major impact and major probability
CP	=	Community Priorities	Yellow	=	Moderate impact and moderate probability
CY	=	Capacity	Green	=	Minor impact and minor probability
F	=	Financial	Blue	=	Insignificant impact and insignificant probability

Council Plan Implications

17. As outlined in the body of the report.

Carbon Emissions and Climate Change Implications

18. Not applicable.

Equality and Diversity Implications

19. None as a result of the recommendation.

Background Papers

20. District Executive, September 2016