

Report to: Cabinet

Date of meeting: 15 December 2015

By: Chief Executive

Title: Reconciling Policy, Performance and Resources: Spending Review 2015 (SR15) and Autumn Statement update

Purpose: To provide a summary of the Spending Review 2015 and Autumn Statement.

RECOMMENDATION

Cabinet is recommended to:

- 1. note that there is no change to the Medium Term Financial Plan (MTFP) resulting from current announcements;**
 - 2. note the uncertainty that will remain until the Local Government settlement announcement; and**
 - 3. agree that more detailed work is carried out to develop the detailed draft plan for 2016/17 and the following two years.**
-

1 Background

1.1 The County Council's position was last reported to Cabinet on 13th October. The report took into account our existing plans, the estimated loss of central Government funding, growth in demand for services due to demographic and legislative changes and set out a Medium Term Financial Plan (MTFP) which indicated a gap of £70million to £90million for 2016/17 to 2018/19. Work continues to provide firmer estimates, particularly on council tax, business rates and the national living wage, which impacts on the County Council's pay structure as well as that of its contractors. In addition since the summer we have seen in year cuts to the Public Health Grant of £1.7million and our Youth Justice Grant of £50,600.

1.2 The Chancellor of the Exchequer announced his Spending Review 2015 and Autumn Statement to the House of Commons on 25 November 2015. The Spending Review sets budgets for government departments and the devolved administrations for each financial year from 2016/17 to 2019/20. Full details can be found on the HM Treasury website: <https://www.gov.uk/government/organisations/hm-treasury>

1.3 There is still considerable speculation regarding the level of cuts that will impact on local government. It is important to note that the Spending Review is predicated on an economic scenario of Gross Domestic Product growth. If that level of economic growth is not achieved it is possible that, in order for the target of the Government deficit to be eliminated by 2019/20, there will be further pressures on local government funding through the period of the Medium Term Financial Plan.

1.4 In addition, we are expecting a rebalancing of local authority funding as part of the Provisional Settlement, which was set out in the Autumn Statement. The Statement referred to the scope being council tax and business rates, with a rebalance to those authorities with adult social care functions. Due to the complexities within local government funding, it is not possible, with the information currently provided, to be clear if that will have a positive or negative impact on the County.

1.5 Until more detail emerges alongside the announcement of the provisional settlement in December, there remains considerable uncertainty about the level of resources available to us for future years. (The provisional settlement is expected the week before Christmas

and the final settlement in early February 2016). At this point, there is no reason or basis to change the Medium Term Financial Plan.

2. Key Points

2.1 **100% Business Rates Retention** – DCLG will shortly consult on changes to the local government finance system to pave the way for the implementation of 100% business rate retention by the end of the Parliament. The consultation will take into account the main resources currently available to councils, including council tax and business rates. As part of these reforms, the main local government grant will be phased out and additional responsibilities devolved to local authorities. This will be a fundamental change in local government funding. The change will be effective in the 3rd year of the MTFP but it is not currently possible to estimate the impact of this on the Council until further detail is provided.

Social Care Funding

2.2 **Social Care precept** - Authorities with social care responsibilities will have the ability to raise an additional 2% levy through council tax each and every year over and above the referendum threshold where they need additional money to address social care demand and cost issues. The referendum threshold for 2016/17 is still to be announced. For the County Council, a 2% increase in council tax from 2016/17 will cumulatively raise in the region of £15m by 2018/19 (for 2016/17 this is estimated at £4.6m, however, pressures are estimated to be significantly more than this). It is likely that further details will be released regarding how this will be applied in the provisional settlement.

2.3 **“Rebalancing” local authority funding** - The Government will also shortly consult on changes to the local government finance system to rebalance support including to those authorities with social care responsibilities by taking into account the main resources available to councils, including council tax and business rates. The impact of this on the Council is unknown.

2.4 **Better Care Fund** - Additional funding through the Better Care Fund from 2017/18 may be included in the local government settlement. The Government have indicated that the funding will ‘come on tap’ from 2017/18, rising to £1.5bn by 2019/20.

2.5 **Public Health** - The Government will make savings in local authority public health spending averaging annual real terms savings of 3.9 per cent over the next five years. It will also consult on options to fully fund local authorities’ public health spending from their retained business rates receipts, as part of the move towards 100 per cent business rate retention. The ring fence on public health spending will be maintained in 2016/17 and 2017/18.

2.6 **Care Act** - The deferred full implementation of the Care Act will take place in the next Parliament, with a commitment to allocate funding in 2019/20 for local authorities to prepare for implementation. At this stage, it is unclear what this will mean for the Council beyond 2020, although this sits outside the next MTFP period.

2.7 **Integration** – Local plans for integration of Adult Social Care and Health will be expected to be set out by 2017 and implemented by 2020. The County Council remains fully committed to East Sussex Better Together our local transformation programme.

Education

2.8 A number of statutory duties on local authorities in relation to schools will be removed and the Government’s aim is that every secondary school will become an academy. Sixth form colleges will also be allowed to become academies. A consultation on policy and

funding proposals will be published in 2016. At this stage, it is not clear what this will mean for the Council.

2.9 Education Services Grant - The Education Services Grant will be reduced by around £600million, including phasing out the additional funding schools receive through the grant. This could have a significant impact as it is possible that the existing grant to the Council of £4.8 million will be phased out.

2.10 Schools' Funding Capital funding of £23bn will be made available over the Spending Review period to support the creation of 600,000 school places, the opening of 500 new free schools, and the rebuilding and refurbishing of over 500 schools, as well as addressing essential maintenance needs. The majority of this had been previously announced and although it is not yet known how it will be distributed is likely to be directed at academies and free schools. A new funding system for schools will also be introduced from 2017-18. A detailed consultation on the proposed new system will be published in early 2016. It is likely to impact on East Sussex's small rural schools.

2.11 Apprenticeship levy - The government will introduce the apprenticeship levy in April 2017. It will be set at a rate of 0.5% of an employer's pay bill and will be paid through PAYE, to deliver 3 million apprenticeship starts by 2020. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means that the levy will only be paid on any pay bill in excess of £3 million. The impact of this for the County is being assessed.

2.12 New Homes Bonus - The government will also consult on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from 6 years to 4 years.

2.13 Local investment - The Government is creating new Enterprise Zones (EZ) including Newhaven. The Newhaven EZ could enable new or improved employment floor space with the potential to accommodate up to 2,000 new jobs.

2.14 Other - There are a number of other changes announced including local government pay and the disposal of surplus assets. The Government has also signalled its intention to "encourage" local authorities to review reserves and keep balances lower than current levels.

3. Conclusion and next steps

3.1 A number of the announcements will be subject to further Government announcements and consultation and consideration. The Comprehensive Spending Review has confirmed a significant change not just to the way local government is financed but to the services for which it is responsible at a strategic level. The effect of this on the County Council will be felt immediately in 2016/17, but the longer term future will only become clearer over the course of the next year.

3.2 The next steps in the RPPR process are for the Scrutiny Boards to continue their discussions about the proposals agreed by Cabinet in October and to also receive the findings from the consultation work that has been completed by the time the Scrutiny Boards meet. All Scrutiny Boards will receive the report from the council wide consultation and the partners' consultation. Consultation on the Adult Social Care proposals and with specific partners including businesses and the trade unions are still continuing. In January Cabinet will receive the outcome of all the consultation and the impact of the provisional settlement on the MTFP. Cabinet will then make recommendations for full Council to consider in February.

3.3 All possible lobbying routes are being used to ensure the potential impact on East Sussex of some of the options that are being considered and will be consulted on are understood. Vehicles include the LGA, CCN, the East Sussex MPs and discussions with civil servants.

Becky Shaw
Chief Executive

Contact Officers:

Marion Kelly, Chief Finance Officer - 01273 335078

Jane Mackney, Head of Policy and Performance - 01273 484146