Mendip District Council Paper

Cabinet - 13 February 2017

Appendix A

2016/17 to 2019/20 Provisional Local Government Finance Settlement

1. On 17 December 2015, the Secretary of State for Communities and Local Government Minister Greg Clark announced the Provisional 2016/17 Local Government Finance Settlement. It stated the Government would ‘offer a guaranteed budget to every council which desires one and which can demonstrate efficiency savings – for next year, and for every year of this Parliament’ and ‘barring exceptional circumstances and subject to the normal statutory consultation process for the…settlement, the Government expects these to be the amounts presented to Parliament each year’. Therefore the settlement set out provisional allocations for the 4-years 2016/17 to 2019/20.

2. The ‘offer’ itself currently only includes Revenue Support Grant (RSG), Transitional Funding and the Rural Services Delivery Grant. For Mendip District Council, this equates to the following funding allocations:

	2016/17	2017/18	2018/19	2019/20
	£	£	£	£
Revenue Support Grant	£1,403,343	£772,169	£381,709	-£54,443
Transitional Funding	£20,434	£20,349		
Rural Services Delivery Grant	£241,772	£195,220	£150,169	£195,220
TOTAL	**£1,665,549**	**£987,737**	**£531,878**	**£140,777**

3. When put into context, the 2016/17 guarantee represents approximately 13% of the 2016/17 Net Budget. By 2019/20, the offer is negligible.

4. In line with the prescribed requirements, the Council accepted this settlement, although strongly outlined the unfairness of the negative RSG in 2019/20. Mendip’s acceptance was agreed by Government and through the 2017 Local Government Finance Settlement these figures were confirmed, “barring exceptional circumstance” in future years.

5. **Core Spending Power**
   The Government use ‘Core Spending Power’ as their subjective measure of movement in funding. For Mendip, it comprises of:

   - Settlement Funding Assessment (SFA)
   - Assumptions around the Council Tax Requirement;
   - New Homes Bonus;
   - Transitional Funding; and
   - Rural Services Delivery Grant.

However, for upper tier councils, it also includes the Improved Better Care Fund which is increasing significantly and the Adult Social Care Grant (funded from the reductions in New Homes Bonus). Therefore, overall, this shows the national movement over this 4-year settlement period as increasing by £177m or 0.4%. For Mendip the position is quite different as shown in the table below. :

2015-16	Core Spending Power Compenent	2016-17	2017-18	2018-19	2019-20
£		£	£	£	£
4,830,220	**Settlement Funding Assessment***	**4,063,254**	**3,486,385**	**3,183,249**	**2,846,748**
5,603,077	**Council Tax of which;**	**5,840,414**	**6,143,896**	**6,456,553**	**6,778,618**
5,603,077	Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	5,789,735	6,013,941	6,246,830	6,488,738
-	Potential additional Council Tax from £5 referendum principle for all Districts	50,680	129,955	209,722	289,880
2,504,372	**New Homes Bonus**	**3,263,155**	**2,697,928**	**2,057,529**	**1,974,175**
46,552	**Rural Services Delivery Grant**	**241,772**	**195,220**	**150,169**	**195,220**
-	**Transition Grant**	**20,434**	**20,349**	**-**	**-**
12,984,221	**Core Spending Power**	**13,429,030**	**12,543,778**	**11,847,499**	**11,794,760**
	Change over the Spending Review period (£)	444,809	- 885,252	- 696,279	- 52,739
	Change over the Spending Review period (%)	3.4%	-6.6%	-5.6%	-0.4%
	Overall movement across the 4-year period				**- 1,189,461**
					-9.2%

The overall funding for the Council in the base budget for 2017/18 is some £0.885m or (6.6%) below 2016/17 and that this is without taking into account the impact of inflation which will make the overall real terms reduction even greater (making it nearer 10%).

Each individual element is explained in more detail below:

6. Settlement Funding Assessment (SFA)

The Settlement Funding Assessment (SFA) is made up of Revenue Support Grant [RSG] and local authorities' Business Rates Baseline Funding Level within the Business Rates Retention scheme. Indicative allocations have been announced for the 4-years 2016/17 to 2019/20 as follows.

2015/16 Adjusted	SFA Components	2016/17	2017/18	2018/19	2019/20
£		£	£	£	£
2,192,291	**Revenue Support Grant**	**1,403,343**	**772,169**	**381,709**	**- 54,443**
	Movement in RSG	- 788,948	- 631,174	- 390,460	- 436,152
		-36.0%	-45.0%	-50.6%	-114.3%
2,637,929	**Business Rates Baseline**	**2,659,911**	**2,714,216**	**2,801,540**	**2,901,191**
	Movement in Baseline	21,982	54,305	87,323	99,651
		0.8%	2.0%	3.2%	3.6%
4,830,220	**TOTAL SFA**	**4,063,254**	**3,486,385**	**3,183,249**	**2,846,748**
	Movement in SFA	- 766,966	- 576,869	- 303,136	- 336,501
		-15.9%	-14.2%	-8.7%	-10.6%

7. **Revenue Support Grant**

Revenue Support Grant is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The funding available is allocated using complex formulae based on population and other local data to meet the demand for each local service (known as need) having taken into consideration the amount of local resources an authority could raise through Council Tax. This correlation has reduced significantly through the government's austerity measures.

In previous years, changes to RSG have been carried out by comparing the current and previous year's RSG allocations. Therefore, the same proportionate cut was applied to each authority. For example, if overall the total available RSG reduced by 10%, all authorities would funding would reduce by 10%. However, for 2016/17, the Government proposed RSG allocations are calculated by reducing Local Authority's core funding. In order to "address the particular pressure experienced by councils which provide adult social care and children's services', the DCLG now allocate RSG to ensure the same reduction in Core Funding for each service tier (upper, lower, fire and GLA other services). The table below outlines the scaling factors for each service tier that will be used to apply the relevant cut.

	2016/17		2017/18		2018/19		2019/20	
Service tier	Scaling Factor (rounded)	Equates to a cut to "Core Funding" of…	Scaling Factor (rounded)	Equates to a cut to "Core Funding" of…	Scaling Factor (rounded)	Equates to a cut to "Core Funding" of…	Scaling Factor (rounded)	Equates to a cut to "Core Funding" of…
Upper-tier	0.936	-6.4%	0.950	-5.0%	0.970	-3.0%	0.971	-2.9%
Lower-tier	**0.926**	**-7.4%**	**0.940**	**-6.0%**	**0.966**	**-3.4%**	**0.960**	**-4.0%**
Fire & Rescue	0.967	-3.3%	0.958	-4.2%	0.981	-1.9%	0.992	-0.8%
GLA - other services	0.999	-0.1%	0.999	-0.1%	0.999	-0.1%	0.999	-0.1%

This clearly shows that Districts suffer the largest reduction in core spending power. Given that Districts have a significant proportion of their Core Funding through Council Tax (for MDC it was 39% in 2015/16), its inclusion within the methodology for applying cuts further penalises the authority.

8. **Business Rates**

The Business Rates Baseline Funding level is the proportion of the business rates collected in their area under the Business Rates Retention Scheme. The scheme splits the funds raise equally between central government and local areas. Of the local share, 80% is allocated to lower tier authorities, 18% to upper tier authorities and 2% to Fire authorities. However, this over funds lower tier authorities and under funds upper tier authorities, therefore there is a tariff and top-up mechanism, whereby funds (approximately 80%) are top-sliced from lower tier authorities to ensure upper tier authorities areas have sufficient funding.

The 2016/17 Business Rates Baseline Funding level has been increased by the September RPI figure which is applied to the small business rates multiplier, resulting in a 0.83% increase in each authority's baseline funding level. The baseline funding level for future years will be dependent on the business rates multiplier, based on the September RPI figure in the year prior to each settlement. The government have forecast this figure as follows:

Date	RPI	Increase
September 2015	259.6	
September 2016	264.9	**2.0%**
September 2017	272.7	**3.2%**
September 2018	282.4	**3.6%**

The settlement figures will be adjusted according to whatever the actual inflation movements are.

Although these are the government's figures, they are based upon out of date information. Therefore, local information has been used within the budget which are higher, reflecting the growth experience over the past years of the current scheme as shown below:

Reference	Net Rates Payable less costs	Total mandatory reliefs (inc SBRR)	Appeals provision (movement)
NNDR3 2013/14	£30,718,170	£6,480,109	£1,700,000
NNDR3 2014/15	£31,851,134	£5,364,182	£1,688,874
NNDR3 2015/16	£32,147,806	£5,503,199	£1,521,962
NNDR1 2016/17	£32,848,311	£5,344,295	£2,564,372
NNDR1 2017/18	?	?	?

However the amount Mendip retains is significantly less than this as broadly illustrated below:

Net Rates Payable less costs	**£33.7m**
50:50 Central / Local share	£16.8m to central government, £16.8m retained by local Govt
Of the local share, Mendip's element is 40%	£13.6m
Tariff (-70%)	-£ 9.6m
Retained Income	**£4m**

9. **Somerset Business Rates Pool**

Within the Business Rates Retention Scheme, there is the opportunity for local authorities to pool together and reduce the amount due to Government, retaining it locally. Pooling business rates will therefore help to mitigate local demographic and service pressures.

From 2015/16, Mendip joined forces to form a pool with North Somerset Council, Bath and North East Somerset Council (B&NES), Somerset County Council, Sedgemoor and South Somerset District Councils and Taunton Deane Borough Council. This arrangement allowed member councils to share to any benefits from economic growth taking place outside its geographical boundary, including the growth in construction businesses and suppliers associated with the major development at Hinkley Point and the expansion of Bristol Airport, as well as investment in large-scale distribution centres in the region and development at key junctions on the M5 corridor. In addition, the pool will provide improved opportunities for co-ordination across the region, further re-investment in transport links in the area and will build on the other joint working already taking place. In 2015/16 Mendip benefitted by £232k and is forecast to benefit by a similar figure in 2016/17.

In 2017/18 the pool has been revised and will only consist on Mendip (acting as Lead Authority), Sedgemoor District Council and Somerset County Council. North Somerset Council, South Somerset District Council and Taunton Deane Borough Council pulled out of the pool due to fears surrounding the risk of NHS Mandatory Relief status. This does not affect Mendip or Sedgemoor to the same degree as those authorities. Bath and North East Somerset Council (B&NES) withdrew from the pool as they will be a pilot authority for the new 100% retention scheme. We will continue to work closely with B&NES to ensure we learn from their experiences.

Due to the implications of these changes, the expected gain from the pool is likely to be higher than those received through the current pool.

10. **Council Tax**

In the 2016/17 Final Settlement, the trigger for a council tax referendum for District Councils was increased to the larger of £5 or 2%. DCLG stated that 'assuming all councils make use of the new precept the average bill in 2019 to 2020 will still be lower in real terms than it was in 2009 to 2010'. As shown in the tables above, the funding reductions as based on the premise that councils will increase Council Tax by £5 where possible, therefore, increasing by any less than that value further reduces the funding available.

The Council Tax Taxbase has increased by 2.0% in 2016/17 and this increases the amount of Council Tax precept which can be raised in 2016/17 by over £110k. Future increases in the taxbase are forecast in line with the planned increases in the agreed local plan.

In addition, the Band D charge is proposed to be increased by 1.99%, raising the charge to £146.61 and an additional £110k for the authority.

11. **Somerset Rivers Authority**

In addition to the Council Tax raised for Mendip, the authority is also raising additional funding for the Somerset Rivers Authority.

The Somerset Rivers Authority ("SRA") was established in January 2015 after the prolonged flooding in the county during winter 2013/14. The SRA is an association of local authorities and statutory bodies, with a board operating under a constitution and local memorandum of understanding. The membership of the

SRA Board currently comprises representatives of the Somerset local authorities, two Internal Drainage Boards, the Environment Agency and Natural England. The SRA coordinates and drives flood risk management in Somerset and carries out additional flood risk management work that would otherwise not occur.

In 2016/17 Mendip (along with the Local Authorities in Somerset) were given powers to precept on behalf of the Shadow Somerset Rivers Authority up to the value of 1.25% its 2015/16 council tax charge. This arrangement continues in 2017/18.

Ministers' policy is to facilitate an interim funding arrangement through council tax without this affecting the local authorities' ability to raise council tax for spending on matters other than the work of the SRA. It is calculated that a 1.25% increase on the 2015/16 Band D council tax for all the local authorities in Somerset would allow them to raise £2.7m for the further work of the SRA, the same level of funding as was received in 2015/16. Specifically within Mendip, the 1.25% represents £1.84 per annum and raises £72k for the SRA.

12. **New Homes Bonus [NHB]**

The New Homes Bonus is an unring-fenced grant equivalent to the national average for the Council Tax band of each new home built in a local authority area, initially paid for six years for each additional property. In two tier areas the scheme will pay the bonus 80% to lower tier authorities and 20% to the upper tier.

Alongside the 2016/17 settlement, the government published a consultation paper on options for reforms, setting out a number of proposals. Within the 2017/18 settlement, the government announced which of these proposals would be implemented, as indicated in red as follows:

a) Withholding the Bonus from areas where an authority does not have a Local Plan in place (this will not be implemented)
b) Abating the Bonus in circumstances where planning permission for a new development has only been granted on appeal (to be implemented from 2018/19)
c) Adjusting the Bonus to reflect estimates of deadweight (the level of growth that would have occurred without any additional bonus – proposed at 0.25%) (A baseline of 0.4% was been implemented in 2017/18)
d) A reduction in the number of years for which the Bonus is paid from the current 6 years to 4 years, potentially with a phased reduction to 5-years in 2017/18. (The phased reduction has been implemented from 2017/18)

As a result of these changes, the funding has reduced from 6 years to 5, and then only starts and counts for growth above 0.4%. The funding reduction associated with these changes is £828k (£493k for the loss of 1 year and £335k for the inclusion of the baseline). This funding has been redirected to fund the Adult Social Care Grant for upper tier authorities.

For Mendip, the allocations under the original scheme were:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Payments for Year 1	504,175	504,175	504,175	504,175	504,175	504,175
Payments for Year 2		492,609	492,609	492,609	492,609	492,609
Payments for Year 3			517,449	517,449	517,449	517,449
Payments for Year 4				484,406	484,406	484,406
Payments for Year 5					497,063	497,063
Payments for Year 6						761,315
Cumulative Payments	**504,175**	**996,784**	**1,514,233**	**1,998,639**	**2,495,702**	**3,257,017**

Under the new scheme, future allocations will be (with local forecasting shown in red).

NHB Forecast Updated based on dwelling increase				**Taxbase increase:**	**420**
	Year 7	**Year 8**	**Year 9**	**Year 10**	**Year 11**
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Payment for Year 3	£517,449				
Payment for Year 4	£484,406				
Payment for Year 5	£497,063	£497,063			
Payment for Year 6	£761,315	£761,315	£761,315		
Payment for Year 7	£431,065	£431,065	£431,065	£431,065	
Payment for Year 8		£259,637	£259,637	£259,637	£259,637
Payment for Year 9			£259,637	£259,637	£259,637
Payment for Year 10				£259,637	£259,637
Payment for Year 11					£259,637
Cumulative Payments	**2,691,299**	**1,949,080**	**1,711,654**	**1,209,976**	**1,038,548**

13. **Transition Grant**

Following successful lobbying, the government announced within the 2016/17 Final Settlement announced on 8 February 2016 £150m additional Transition funding “for councils with the sharpest reductions in Revenue Support Grant”. As a result, Mendip was allocated £20k in both 2016/17 and 2017/18. This funding ceases in 2018/19.

14. **Rural Services Delivery Grant**

Similarly, the 2016/17 Final Settlement announced increases in the Rural Services Delivery Grant. Nationally, the allocations are £80.5m in 2016/17 compared to £15.5m in 2015/16, £65m in 2017/18, £50m in 2018/19 and £65m in 2019/20. This funding is distributed to the top-quartile of authorities ranked by super-sparsity, as per the distributional methodology for the Rural Services Delivery Grant indicator in 2015/16. As a result, Mendip received £181k in 2016/17 and £90k in 2017/18.

15. **100% Business Rates Retention**

Following the previous announcement that by 2020 local government ‘will be 100% funded by Council Tax, business rates and other local revenues’ there has been little in the way of detailed progress. Work has been ongoing to develop the system and a technical consultation took place over the summer to which Mendip replied. In the New Year the Government will publish the bill to support the move to 100% rates retention.

As previously outlined, Local Authorities are expected to gain additional responsibilities as part of this change in funding and therefore will not result in additional funding.

16. **Business Revaluation**

The next business rates revaluation takes effect from 1 April 2017 and will update rateable values to reflect the market as at 1 April 2015. This will ensure business rate bills more closely reflect the property market and that all businesses are getting a fair deal.

The revaluation will not raise any more or less tax. In September the Government announced the multiplier would reduce to ensure the revaluation does not raise any more in rates. Using the latest data on the revaluation the government will now reduce the small business non-domestic multiplier for 2017/18 from 48.4p to 46.6p. The national non-domestic multiplier will fall from 49.7p to 47.9p. A 4.5% appeals adjustment has been included in the calculation of the multiplier to help mitigate the increasing cost of appeals.

The Government is putting in place, the same transitional relief to small and medium businesses. For the small minority of businesses who face an increase in the bills, any rise will be capped at 5% in the first year for small properties, with a dedicated system of transitional relief to help business owners adjust to the new bills.

The transitional arrangements are self-funding. Therefore, the cost of the relief for those ratepayers facing increases must be funded from other ratepayers. The following approach will be applied:

Transitional Arrangements 2017 revaluation (before inflation) funded by 3 caps on reductions

	Property Size	2017/18	2018/19	2019/20	2020/21	2021/22
Upwards Cap	Small	5.0%	7.5%	10.0%	15.0%	15.0%
	Medium	12.5%	17.5%	20.0%	25.0%	25.0%
	Large	42.0%	32.0%	49.0%	16.0%	6.0%
Downwards Cap	Small	20.0%	30.0%	35.0%	55.0%	55.0%
	Medium	10.0%	15.0%	20.0%	25.0%	25.0%
	Large	4.1%	4.6%	5.9%	5.8%	4.8%

Note: these are year on year caps on increases. For instance, the maximum increase for small properties over 5 years would be 64%. But a small property with an increase of 7% would reach their full bill in year 2. Medium is above £28,000 rateable value in London and £20,000 elsewhere. Large above £100,000.

Within Mendip, it is estimated there to be approximately 2,200 accounts which will be subject to transitional arrangements (600 winners and 1,600 losers). Therefore there will be some substantial fluctuations in charges. This relief is fully funded through Section 31 grants.

In order to ensure that the revaluation remains broadly "cost neutral", the tariff (the amount redistributed from those authorities that collect more than they 'need') is adjusted so that Mendip retains broadly the same level of income as it previously did. As Mendip has shown to be a net loser, the tariff for Mendip has reduced by just over £400k.

However, the largest impact for Mendip is the changes to the Small Business Rate Relief (SBRR) (exemption up to £12K Rateable Value and tapered relief to £15K Rateable Value). It is estimated that approximately 1,800 accounts will have no rates to pay and will cost nearly £4.2m. Again, this is fully funded through Section 31 grants and actually provides greater resilience to movements in business rates.

Including the 2017 Revaluation and Small Business Rate Relief (SBRR) criteria across the south west, net charges (i.e. rates bills) are estimated to fall by 6% from April 2017 although nationally the changes are broadly "cost neutral". However Mendip shows a modest increase in net charges.

17. **Capitalisation Flexibilities**

Within the four-year settlement, guidance was been published by DCLG on a framework for the flexible use of capital receipts, first announced as part of the Spending Review. Local authorities will be able use 100% of receipts from selling capital assets (excluding the Right to Buy) to fund 'the revenue costs of reform projects'. The guidance states that 'the key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate on-going savings to an authority's…net service expenditure'. Mendip is reviewing the opportunities available as a result of these flexibilities.