

Full Council – 17 December 2015

Finance Portfolio - Update

This update concentrates solely on the Finance area of my portfolio and in particular on the announcements made on 25 November in the Autumn Statement. It gave some insight into the future direction of Government funding. However, as expected it did not contain the detail necessary to enable the Council to form a firm opinion on the funding available for the forthcoming four years.

The overall cut being applied to the Local Government Departmental Expenditure Limit (DEL) is 46% in cash terms (equivalent to 56% in real terms), but when business rates is added in at the retention target the cut is roughly equal to 21% cash or 31% real.

Once council tax is added in as well the Treasury is forecasting that local government spending will be higher in cash terms in 2019-20 than it is in the current financial year (albeit only by £0.2bn). This prediction is based on the assumption that council tax is increased by the maximum in every authority and there is 0.75% p.a. underlying growth.

The impact on district councils looks to be particularly severe and they are likely to be the main losers from the announcements made so far, unless there is some mitigation in coming settlements. Overall, there is a shift in funding from our tier of local government towards social care and upper tier authorities.

New Homes Bonus

There are proposals to reduce the funding for New Homes Bonus by £800m, which is a cut of about two-thirds. The current allocation of NHB is about £1.2bn. The Government is going to be consulting on reform, and we will get further detail in a consultation alongside the Settlement in December. As this council has had significant benefit from NHB over the last few years it is likely that we will be one of the hardest hit by the changes. We will of course respond to the consultation when it is published.

At the moment we are assuming that the cuts to NHB will start in 2017-18 though this is not certain. It is suggested that the savings arising from the reduction in NHB will be used to fund social care.

It is currently not clear how a reformed NHB might work. For instance, paragraph 1.242 of the announcement states that the Government is considering “reducing the length of payments from 6 years to 4 years”. Whilst this might imply a reduction of only one-third, it may be that the allocation for each new dwelling is reduced (or “sharpened”), thus enabling the Government to achieve the £800m reduction in the total amount.

According to commentary on the changes published by the Chartered Institute of Public Finance and Accountancy, *'The NHB change sees shire districts losing 39% over the period with fire losing 32% and others closely matched in the 25% to 28% range. The largest cut is 51% (Uttlesford in Essex).'*

What this looks like in terms of funding from 2015/16 to 2020/21 **could** be a freeze in 2016/17 and a two thirds reduction in current NHB from 2017/18:

£,000	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	714	714				
	534	534	534			
	794	794	794	794		
	835	835	835	835	835	
	721	721	721	721	721	721
		690	690	690	690	690
			622	622	622	622
				989	989	989
					1,295	1,295
						1,308
Current	3,598	4,288	4,196	4,651	5,152	5,625
Possible	3,598	3,598	1,199	1,199	1,199	1,199
Deficit	0	690	2,997	3,452	3,953	4,426

Business Rates

The proposal that councils can retain 100% business rates was previously announced and this was confirmed in the Autumn Statement and there will be a consultation next year. There was an indication of some of the services that could be transferred over to local government in return for 100% retention. The main one of these for Uttlesford is expected to be the potential for funding of Housing Benefit for pensioners to be transferred to the Council. On balance it seems reasonable to assume we will not be significantly better off under the new Business Rates retentionscheme.

Reserves

The possible proposals to tax reserves or force authorities to use their reserves have not materialised. Instead authorities are being "encouraged" to use their reserves to manage change.

Next steps

1. The local government finance settlement provisional announcement will be made around the 16th to 18th December and that will set out funding for 2016/17. This will also start the consultation on changes to NHB. It may also have more information around the consultation on Business Rates retention.
2. A member briefing will be held on the evening of 11 January 2016 which I would invite you all to attend.
3. The budget strategy for 2016/17 will be presented to Cabinet on 12 January 2016.