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**Report to:** Cabinet  
Council

**Date of Meeting:** 1 September 2016  
22 September 2016

**Subject:** Four Year Financial Settlement

**Report of:** Head of Corporate Resources      **Wards Affected:** All

**Is this a Key Decision?** Yes      **Is it included in the Forward Plan?** Yes

**Exempt/Confidential**      No

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### **Purpose/Summary**

To inform Cabinet of the Government's offer of a four year financial settlement up to 2019/20. Should the Authority wish to accept the offer, an efficiency plan for the period has to be prepared and approved by Council.

### **Recommendation(s)**

#### **Cabinet:**

1. Cabinet note that the Council needs to formally accept the proposed four-year financial settlement by 14 October 2016; and
2. Cabinet recommend to Council that the four-year settlement be accepted and that the production of an appropriate efficiency plan be delegated to the Chief Executive in consultation with the Head of Corporate Resources as the Chief Financial Officer (s151 Officer).

#### **Council:**

That the four-year funding settlement for the period 2016/17 to 2019/20 be accepted and that the production of an appropriate efficiency plan be delegated to the Chief Executive in consultation with the Head of Corporate Resources as the Chief Financial Officer (s151 Officer).

### **How does the decision contribute to the Council's Corporate Objectives?**

	<b><u>Corporate Objective</u></b>	<b><u>Positive Impact</u></b>	<b><u>Neutral Impact</u></b>	<b><u>Negative Impact</u></b>
1	Creating a Learning Community		✓	
2	Jobs and Prosperity		✓	
3	Environmental Sustainability		✓	
4	Health and Well-Being		✓	
5	Children and Young People		✓	

6	Creating Safe Communities		✓	
7	Creating Inclusive Communities		✓	
8	Improving the Quality of Council Services and Strengthening Local Democracy		✓	

**Reasons for the Recommendation:**

To ensure Cabinet is informed of the four year financial settlement offer and to consider whether it wishes to recommend acceptance of the offer to Council.

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

There are no revenue costs. Acceptance of the Government's offer will provide greater clarity of financial resources that are to be provided by the Government for the next three financial years. It will also assist in the determination of the overall budget gap up to 2019/20.

**(B) Capital Costs**

None

**Implications:**

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

<b>Legal</b>		
<b>Human Resources</b>		
<b>Equality</b>		
1.	No Equality Implication	<input checked="" type="checkbox"/>
2.	Equality Implications identified and mitigated	<input type="checkbox"/>
3.	Equality Implication identified and risk remains	<input type="checkbox"/>

**Impact on Service Delivery:**

The certainty of future resources from Government would assist in the planning of the budget up to 2019/20 and would enable part achievement of the existing budget gap.

**What consultations have taken place on the proposals and when?**

The Head of Corporate Resources (FD4262/16) and Head of Regulation and Compliance (LD3545/16) have been consulted and any comments have been incorporated into the report.

**Are there any other options available for consideration?**

The offer of a four year settlement could be rejected. However, this would create a significant amount of financial uncertainty as to the available resources that the Council would have to balance the budget for the period from 2017/18 – 2019/20.

**Implementation Date for the Decision**

Following the expiry of the “call-in” period for the Minutes of the Cabinet and the subsequent approval by Council.

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**Background Papers:**

There are no background papers available for inspection.

## **1.0 Introduction**

- 1.1 Members will be aware that the approach to Local Government Finance is currently the subject of review. At present this is focussed on 2 primary areas, the offer of 4 year funding certainty (2016/17 to 2019/20) and the development of a system for 100% Business Rates Retention that will be piloted from 2017/18 and introduced nationally before the end of this parliament in 2020.
- 1.2 Through the Liverpool City Region (LCR), the Council has agreed to engage and take the opportunity to work with Central Government Departments on developing the pilot for the 100% Business Rates Retention Scheme.
- 1.3 Whilst this work continues a decision is required as to whether the Council wishes to accept the offer of a 4 year funding settlement for the period 2016/17 to 2019/20.

## **2.0 Current position with regard to 100% Business Rates Retention**

- 2.1 As previously reported to Members, Central Government policy is to introduce a national 100% business rates retention scheme before the end of this parliament in 2020, which will result in a fundamental change in the way that local government is financed. This introduction will coincide with the termination of the Revenue Support Grant (RSG) once the new 100% business rates retention system is introduced.
- 2.2 In the 2016 Budget, it was announced that Government would pilot approaches to 100% business rates retention in the LCR and Greater Manchester. By engaging in this process, it was considered that Councils and the City Region would have the opportunity to have a more direct involvement in the development of both the pilot scheme that is proposed from April 2017 and ultimately the national scheme.
- 2.3 Work and engagement with representatives of the Department for Communities and Local Government (DCLG) is continuing at this time and this engagement is based upon the following principles:-
  - The pilot should be used to establish how a stable funding mechanism could be established, including an appropriate re-distribution mechanism that is focussed on need;
  - Those Councils that are engaged in a pilot should not be placed in an adverse financial position to that which would have been experienced had they not participated;
  - The new system must ensure genuine localism, i.e. genuine local responsibility and control across the whole of local government funding with risks retained at the appropriate level;
  - Any transfer of responsibilities to local government should not simply be a transfer of risk or of administrative savings or burdens;
  - Any transfer of grants must be fully reflected in the revised baseline funding for individual authorities, and without any pre-conditions for use or spending;
  - The new system must deal with the risk arising from the appeals system and determine at what level appeals should be administered; and
  - What additional incentives could be provided to stimulate growth

- 2.4 With the current austerity programme, the largest contribution to the Government's national deficit reduction plan has already come from local government. The impact of these cuts across local authorities has varied, however the disproportionate impact that they have had makes it crucial that as part of the engagement local authorities seek to have adequate and appropriate powers devolved to them so that they are able to mitigate the impact as far as possible.
- 2.5 With regard to the current timetable for the development of the pilot scheme the following is anticipated:

September 2016	DCLG to agree with HM Treasury funding arrangements for pilot options
December 2016	Pilot funding proposals published as part of the consultation on the Provisional Local Government Finance Settlement
January 2016	Liverpool City Region responds to proposals in the Provisional Local Government Finance Settlement
February 2017	Final Local Government Finance Settlement approved by Parliament

- 2.6 Whilst this timetable provides an indicative framework, it currently lacks the specific detail that will determine when local decisions will be required to be made. It is likely however that this will come through between September and November and appropriate reports will be developed for Members at that point in time.

### **3.0 Consideration of the Government's four year revenue funding offer to local authorities**

- 3.1 Alongside proposals for the development of a 100% Business Rates Retention Scheme, on 10 March 2016, the Secretary of State for Communities and Local Government wrote to Councils to confirm his offer of a 4 year settlement (2016/17 to 2019/20) in order to help Councils strengthen financial management and assist in planning service reform.
- 3.2 In order to be eligible for this security and flexibility, Councils have been invited to accept the 4 year settlement by 5pm on 14 October 2016 and must provide a link to their published efficiency plan.

#### Efficiency Plan

- 3.3 The requirement to publish an efficiency plan is intended to be simple and straightforward and can be linked to the Council's Medium Term Financial Plan. However, the Secretary of State has said that the plan should show how this greater certainty can bring opportunities for further savings. The plan should cover the full 4 year period and be open and transparent about the benefits that greater funding certainty will bring to both the Council and its community. Councils should collaborate with local neighbours and public sector partners and link into devolution deals where appropriate.

## Potential Impact of the 4 year settlement

3.4 As discussed, Sefton is engaged with DCLG on the development of the Business rates retention pilot, and in the event that it agrees to participate, this will supersede the requirement to accept the 4 year settlement. This reflects the principle that participating authorities cannot be in an adverse position as a result of engagement in the pilot process. At this stage however, the timelines for considering the impact of the pilot scheme and accepting the 4 year offer are not yet aligned, therefore it is considered prudent to make a decision on the 4 year offer pending final details being available in regards of the pilot.

3.5 The indicative figures for the 4 year settlement have been built into the Councils Medium Term Financial Plan (MTFP). The impact of this together with other pressures has resulted in the estimate that the Council faces a funding gap of £64m from 2017/18 to 2019/20.

3.6 The Offer includes Revenue Support Grant, Transitional Grant, and Rural Services Delivery Grant allocations and is shown in the Table below:

Sefton Council	Actual	Multi-Year Settlement		
	2016/17 £000	2017/8 £000	2018/19 £000	2019/20 £000
Revenue Support Grant	-38.577	-27.059	-19.440	-11.762
Transition Grant	0	0	0	0
Rural Services Deliver Grant	0	0	0	0

3.7 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, and in the final year may be subject to the implementation of 100% business rates retention.

Sefton Council	Actual	Multi-Year Settlement		
	2016/17 £000	2017/8 £000	2018/19 £000	2019/20 £000
Tariff	0	0	0	0
Top-Up Grant	- 24.464	-24.945	-25.681	-26.502

It should be noted that the 4 year offer does not include a number of significant funding streams including Business Rates Local Share, Public Health Grant, Education Services Grant, Better Care Fund, and New Homes Bonus.

3.8 In determining whether to accept the 4 year settlement the key consideration is therefore does the Council consider that this will be the most advantageous financial option over that period or is there the potential for Central Government to offer more support in future years to those Councils that do not accept this offer.

3.9 The assessment of the 2 options is made inherently difficult due to the absence of any statistical information as to what the impact will be for Councils who do not accept the offer, as such it is more of an assessment of risk. Consideration could therefore be given to the following in order that an informed decision can be made:-

- To what extent would the acceptance of the offer support long term strategic planning for the Council and the development of a sustainable financial plan?;
- Does the flexibility offered re Council Tax and the Adult Social Care precept support the Council in meeting its operational and financial objectives?;
- To what extent does the offer remove the uncertainty currently associated with the annual Local Government Finance Settlement?;
- Is it envisaged that current Government policy with regard to the management of the public finances will change over the next 3 years and additional resources could be allocated to Councils?; and
- Is it envisaged that based upon forecast economic performance additional funding will be available at a national level and this could lead to increased funding for local government and individual Councils?

3.10 It can be seen from the above that a true financial assessment of the impact of not accepting the offer is not possible as there is insufficient information available. For example, following the recent Brexit vote, it is suggested that national growth will be limited thus placing greater pressure on the national finances, however following the recent Prime Ministerial changes the objective that public finances should be in surplus by the end of the current Parliament appears to have changed.

3.11 It should be noted however that despite these developments, there has been no indication that the political policy re the four year offer will be changed or that additional funding will be allocated to public services. Likewise it is currently not anticipated that there will be an emergency budget or significant policy changes with regard to public finances before the deadline for accepting the offer (14 October 2016). Any such developments would likely take place in the autumn statement and inform the Financial Settlement in December although this could be the subject of change.

3.12 Sefton is therefore in a similar position to all local authorities in terms of the issues it needs to consider with regard to the offer.

3.13 Whilst an assessment of future policy cannot be made, in the event that the offer is accepted, it will provide certainty with regard to future funding which will in turn aid the strategic planning of the Council. Such an approach will therefore remove the pressure that arises and the discretion that can be applied by Central Government to annual settlements.

3.14 In addition, this offer will also confirm the flexibility available to the Council through its Council Tax strategy. The approach to Council Tax policy nationally has been the subject of great debate and since 2010 a number of policies have been applied including the introduction of a Council tax cap, incentives around 'freezes' and latterly the opportunity to raise additional income locally to support Adult Social Care. The 4 year offer therefore provides an opportunity to remove this uncertainty and risk of national influence and provide maximum flexibility to local authorities in developing their own approaches that align with their local needs and priorities.

3.15 At this stage it is not known how many local authorities will accept the offer available however the initial indications are that a number are welcoming the option as it supports sustainable financial planning, removes uncertainty and

provides maximum flexibility with regard to future Council Tax strategy. This approach is consistent with the other local authorities in the City Region.

Councils that do not take up the offer

- 3.16 Those councils that choose not to accept the offer, or do not qualify, will be subject to the existing yearly process for determining the local government finance settlement. As a result allocations could be subject to additional reductions dependant on the fiscal climate and the need to make further savings to reduce the deficit. In addition the government do not expect any further multi-year settlements to be offered over the course of this parliament.