

Agenda Item No.7 (b)

DERBYSHIRE COUNTY COUNCIL

CABINET

15 December 2015

Report of the Chief Executive and Director of Finance

COMPREHENSIVE SPENDING REVIEW 2015
(STRATEGIC POLICY, ECONOMIC DEVELOPMENT AND BUDGET)

1 Purpose of the Report

To provide Members with details of the Comprehensive Spending Review 2015 (CSR15).

2 Information and Analysis

On 25 November 2015, the Government announced details of the Spending Review 2015. It sets out the spending settlements for each Government department over the next four years, 2016-17 to 2019-20.

As part of the announcement, the Government also delivered the Autumn Statement 2015, alongside the Office for Budget Responsibility's (OBR) Economic and Fiscal Outlook. The announcement by the Chancellor builds on the emergency budget which took place in July 2015.

The Government continues to plan for a public spending surplus in 2019-20. The planned surplus stands at £10 billion, this is no different to that planned at the time of the July 2015 Budget. However, public finances are expected to be £27bn better than forecast at the time of the July budget due to a combination of higher economic growth forecasts from 2016-17 onwards and lower debt interest payments. Some of this windfall will be used to lower overall government borrowing; the majority will be used on capital projects; whilst the balance will be used to offset some of the planned cuts.

Based on analysis undertaken by the Local Government Association, Government funding to local authorities will fall by 24% in real terms over the Spending Review period. When taking into account OBR forecasts of income raised locally by councils, the overall position is a 6.7% real terms reduction.

The key decisions relevant to local government are highlighted below.

Adult Social Care

Local authorities with upper-tier responsibilities will be able to raise Council Tax by up to 2% per year to help fund adult social care. This will be an

additional 2% flexibility on top of the current Council Tax referendum threshold, which is expected to be set at 2%, but will not be confirmed until the Provisional Local Government Finance Settlement 2016-17 is announced later this month. A 2% increase will raise additional income of approximately £5m per annum for the Council. The option to raise this additional income is welcome, but does not cover the full costs of the financial pressures of demographic growth which are estimated to be £12m-£15m per annum over the medium term and is insufficient to even meet the additional costs of the National Living Wage which were announced by the Chancellor as part of the emergency budget in July. It is anticipated that the additional flexibility, whilst welcome, will only meet around 25% of the additional annual costs/pressures incurred by Adult Care. Perversely, the flexibility most benefits wealthier parts of the country where Adult Care pressures are likely to be lower than in Derbyshire.

Better Care Fund

The Better Care Fund will continue and will rise to £1.5bn by 2019-20. This funding will be paid directly to local authorities. Areas will be able to graduate from the existing Better Care Fund programme management once they can demonstrate that they have moved beyond its requirements, meeting the Government's key criteria for devolution.

Disabled Facilities Grant

There will be total funding of £500m for Disabled Facilities Grants by 2019-20 which is currently part of the Better Care Fund. Current funding totals £220m in 2015-16.

Care Act

The Government has previously announced a delay in the introduction of a cap on care costs until April 2020. The Government have confirmed their commitment that the cap on reasonable care costs and extension of means tested support will be introduced and funded. Local authorities will receive funding in 2019-20 to cover the costs of preparing for these changes.

Public Health

The Government will make reductions in public health grants to local authorities averaging real terms cuts of 3.9% 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% business rates retention. Until this change is introduced, the ringfencing of the Public Health Grant will continue in both 2016-17 and 2017-18.

Business Rates Retention

There was confirmation of the previous announcement made by Government in October regarding a move towards 100% business rates retention for local authorities including an end to the national multiplier and the ability for the

multiplier to be varied. Government will consult with local authorities next year in respect of the additional responsibilities to be given to local authorities as part of the revised scheme. There are no guarantees that this changed funding approach will benefit the Council.

Capital Assets

Local authorities will be able to use 100% of receipts from selling capital assets to fund the revenue costs of reform projects, however this flexibility will be subject to various conditions and qualifying criteria. At present the County Council can use 100% of capital receipts to fund other capital spend or reduce debt.

The Right to Contest will be strengthened. Local communities will now be able to challenge use of land and property that is in use by local authorities, as well as under-used or empty property.

Funding of £31m will be made available for the One Public Estate programme to support local authorities to design more efficient asset management strategies. The Government will publish details of successful local authorities' bids for the third phase of One Public Estate shortly.

Education and Children's Services

Free childcare for working parents of 3-4 year olds will be doubled from 15 to 30 hours per week from September 2017. An increase in funding per year by 2019-20 to support the extension of free childcare places for 2, 3 and 4 year olds will be made available.

Capital funding of at least £50m will be made available to create additional places in nurseries.

Over £300m a year will be made available to increase the average hourly rate paid to childcare providers.

The per-pupil rate for the Dedicated Schools Grant will be protected in cash terms and the Pupil Premium will be maintained at current rates.

The Education Services Grant (ESG) will be reduced by around £600m including phasing out the additional funding schools receive through the ESG. The Government will reduce the local authority role in running schools and remove a number of statutory duties. The Government will consult on policy and funding proposals. The Council currently receives around £9m per year from this source.

The current national base rate per student for 16-19 year olds in school sixth forms, sixth form colleges and further education colleges will be protected in cash terms for the Spending Review period.

Sixth Form colleges will be able to become academies, allowing them to recover their non-business VAT costs.

Capital funding of £23bn will be made available over the Spending Review period to support the creation of school places, the opening of new free schools and refurbishing and rebuilding schools.

A new funding system for schools will be introduced from 2017-18. A detailed consultation will be launched in 2016.

The government will publish details in 2016 of specific actions to deliver £1bn a year in procurement savings from schools by the end of the Spending Review.

New Homes Bonus

The Government will consult on reforms to the New Homes Bonus which include: sharpening the incentive to reward communities for additional homes; reducing the length of bonus payments for new homes from six years to four years; preferred options for savings of at least £800m, which can then be allocated to meet costs for social care. Details of these reforms will be set out alongside the Local Government Finance Settlement in December 2016 and will include consideration of proposals to introduce a floor to ensure that no authority loses out disproportionately.

Pothole Fund

There will be additional funding of £250m over the next five years to tackle potholes, on top of the nearly £5bn of funding for roads maintenance previously announced.

Apprenticeship Levy

The apprenticeship levy will be introduced in April 2017 at a rate of 0.5% of an employer's pay bill, to deliver 3 million apprenticeship starts by 2020. The cost to the Council is estimated to be approximately £1m per annum.

Senior Officers Pay

The Government will publish new guidance to local authorities to encourage them to rein in excessive salaries and do more to drive efficiencies for local taxpayers.

Local Government Pension Scheme (LGPS) Reforms

In October 2015, the Government announced that LGPS funds would be expected to pool assets to create up to six British Wealth Funds, each containing at least £25bn of assets. The Government has now published guidance on the criteria for which LGPS funds are expected to meet when developing proposals for pooling assets.

Local Growth Fund

The Government will deliver its commitment to a £12bn Local Growth Fund between 2015-16 and 2020-21 and has therefore confirmed the indicative

allocations that were made through Growth Deals and that Local Enterprise Partnerships will continue to receive core funding from Government, matched by local areas.

Summary

The decision to allow local authorities to raise Council Tax by up to 2% above the referendum threshold and the additional funding for the Better Care Fund will help to bridge the funding gap for social care, but does not meet the full costs of demographic growth. In addition to this, there are further cost pressures such as those associated with implementing the National Living Wage. The introduction of the apprenticeship levy in 2017 is also an additional cost burden that many local authorities will have to absorb.

The proposal to allow local authorities to retain 100% of their business rates is potentially a welcome move, but the Council will need to examine the details of the Government's consultation to fully assess the implications for the Council.

The Council also welcomes the decision to review the allocation for the New Homes Bonus as it has long argued that the split of funding between the upper and lower tier authorities is unfair.

Detailed funding allocations for 2016-17 to local authorities will not be published until the Provisional Local Government Finance Settlement is announced later this month. Details of the settlement will be reported in the Revenue Budget Report 2016-17 which will be considered by Cabinet in January 2016.

The Council will examine the full impact of the CSR15 announcements when consultations are published in respect of the Business Rates Retention Scheme and New Homes Bonus. Details will be reported to Cabinet in due course.

3 Other Considerations

In preparing this report the relevance of the following factors has been considered:- Legal and human rights, finance, human resources, equality of opportunity, health, environmental, transport, property and crime and disorder considerations.

4 Background Papers

Spending Review and Autumn Statement 2015 - HM Treasury

5 Key Decision?

No

6 Is it necessary to waive the call-in period?

No

7 Officers' Recommendation

That Members note the details of the Comprehensive Spending Review 2015.

IAN STEPHENSON

Chief Executive

PETER HANDFORD

Director of Finance