

Agenda Item No.7 (a)

DERBYSHIRE COUNTY COUNCIL

CABINET

22 September 2015

Report of the Director of Finance

**GOVERNMENT ANNOUNCEMENTS AND LOCAL AUTHORITY
FUNDING**

(STRATEGIC POLICY, ECONOMIC DEVELOPMENT AND BUDGET)

1 Purpose of the Report

To provide Members with details of Government announcements and latest estimates for local authority funding.

2 Information and Analysis

Summer Budget 2015

The Government announced details of the Summer Budget 2015 on 8 July 2015. Alongside the Budget, the Office for Budget Responsibility (OBR) published its forecasts for the economy and the public finances, together with an assessment of whether the Government is likely to achieve its fiscal mandate and supplementary target.

Details of the key announcements for local government are set out below.

Living Wage

A new 'national living wage' for all workers aged over 25 will be introduced from April 2016. The wage will start at £7.20 and will rise to 60% of median earnings by 2020, which would be £9, according to OBR forecasts. The Low Pay Commission will advise on future changes to rates.

Public Sector Pay

Public sector pay awards will be limited to 1% a year for the 4 years from 2016-17 onwards, in order to protect jobs.

Local Government Pension Scheme (LGPS)

The Government will work with LGPS administering authorities to ensure that they pool investments to significantly reduce costs, whilst maintaining overall investment performance. Authorities will be invited to bring forward their own

proposals to meet common criteria for delivering savings. The Government will consult later this year on the detailed criteria, as well as legislation to require those authorities which do not have sufficiently ambitious proposals to pool investments.

Local Authority Assets

The Government will make available a further £6m to expand the 'One Public Estate' programme to local authorities in England with a significant asset base.

Childcare

From September 2017, the Government will extend the free childcare entitlement to 30 hours a week for working parents of 3 and 4 year olds.

County Devolution

The Government is offering towns and counties the opportunity to agree devolution deals and is making good progress towards a deal with Cornwall.

City Devolution

There are on-going negotiations over elected mayors in Liverpool, Leeds, Sheffield and West Yorkshire. The negotiations have continued in Manchester with the responsibilities of the elected mayor now widening to include a Land Commission, employment programme, children's services and fire services.

Combined Authorities

Two Combined Authority proposals have been submitted by local authorities in the East Midlands and the Government 'welcomes the recent publication of a West Midlands Statement of Intent for devolution'. The Government 'remains open to any further proposals from local areas for devolution of significant powers in return for a mayor', to be agreed in the Spending Review.

Enterprise Zones

The Government will hold a bidding round for a new programme of Enterprise Zones for this parliament, which 'will focus on ensuring that all places in England can benefit, including rural areas where appropriate, and the government encourages towns and districts to work with Local Enterprise Partnerships.

Motoring

Fuel Duty continues to be frozen for the rest of the year. New Vehicle Excise Duty rates will be introduced with three bands and a standard charge of £140.

By the end of the decade the Government will use Vehicle Excise Duty income to create a 'Roads Fund', to finance the strategic roads network.

Budget Surplus

The Government plans to achieve a surplus on its budget by 2019-20, which will require £37bn of further savings. Savings from welfare will contribute £12bn to this amount, with an additional £5bn from changes to the tax system to address imbalances and tackle avoidance and evasion. The remaining £20bn of savings will come from Departmental Expenditure Limits (DELs) and will be outlined in the autumn, following the Spending Review process.

Departmental Spending Cuts

Over the parliament, overall departmental spending will fall by an average of 1.5% per year in real terms. No year will see cuts as severe as in 2011-12 and 2012-13.

Inflation

CPI inflation is forecast to be below target in 2015, returning gradually to 2.0% in 2020.

Comprehensive Spending Review

The Spending Review which is due to be published on 25 November 2015 will set out how the Government will invest in priority public services and reduce the budget deficit. Following the Summer Budget, the Government has set out further details setting out its approach of the Spending Review. The main headlines for local government are:

- The Government will look at transforming the approach to local government financing and further decentralising power.
- Non-protected Government departments, which include the Department for Communities and Local Government, have been asked to model 25% and 40% real terms decreases in their revenue budgets over the four year period covered by the Spending Review (2016-17 to 2019-20).
- Spending for the NHS and defence will be increased as outlined in the Budget. The Government will continue to spend 0.7% of Gross National Income on international aid and development. Schools funding, including the pupil premium, will be protected on a per-pupil basis.

Local Government Association Future Funding Outlook Report

The Local Government Association (LGA) has produced a report which sets out the impact in the local government sector of future funding cuts and unavoidable growth pressures on the resources it will have available for services between now and the end of the decade. It has also produced individual local authority projections based on applying the projections for

departmental spending implied by the Office of Budget Responsibility in its March 2015 report. The LGA assumptions around the level of Revenue Support Grant are lower than those estimated by the Council's Five Year Financial Plan which was published in February. The Council has updated its Plan to reflect this, however these are subject to change as the funding allocations will not be confirmed until the Government announces details of its Spending Review in November 2015.

Council Tax

The Government's Summer Budget 2015 did not provide any details of whether the Government would continue with its offer of the Council Tax Freeze Grant in future years. Neither did it provide any details of Council Tax referendum principles. The assumption is that the principle will be set at 2% over the medium term in line with the Government's inflation target.

The Council had assumed Council Tax increases of 2.5% over the medium term, however, given that inflation is expected to remain low until the end of the decade, an assumption of an annual increase of 2% has now been used in its financial forecasts.

The Council's Financial Strategy makes a commitment to ensure that Council Tax is within acceptable levels. In the last 15 years, in the main, the Council has set increases which are below the national average. The average council tax for the county is one of the lowest in comparison with similar authorities.

Medium Term Financial Plan

The above measures will have a significant impact on the Council's finances over the medium term. The decisions regarding the National Living Wage (NLW) means that the Living Wage paid by the Council and the underlying spinal column points will need to increase to at least match the NLW in later years and this increase is likely to be significant.

The impact of the NLW on staffing costs incurred by the Council's suppliers is likely to be particularly significant in 2016-17 and this will result in increased costs of some contractual arrangements, particularly around low paid labour intensive work such as residential and home care. Early estimates indicate a cost of £11m in Adult Care alone from this measure in 2016-17. In order to achieve the longer term objective of £9 per hour by 2020 (based on this being 60% of median pay) the NLW hourly rate will need to increase on average by 6% per annum, creating further pressure on budgets in each of those years. If the Government do not provide additional resources to meet the costs, the Council's mitigation is that the current Five Year Financial has assumed a 2% pay award in future years. The announcement to restrict public sector pay awards to 1% means that the savings can be used to offset some of the costs.

The costs of increased free childcare entitlement should be fully funded by the Government as set out in the Government's New Burdens Doctrine.

The Council is updating its Five Year Financial Plan (FYFP) in response to the recent Government announcements and in light of the LGA's funding projections. There will be a report to the next Cabinet on the FYFP. The Plan will be updated again when the Government's Spending Review is announced later this year. Details will be reported alongside the Revenue Budget Report in February 2016.

3 Financial Considerations

As outlined above.

4 Human Resources Considerations

None.

5 Other Considerations

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

6 Background Papers

Summer Budget 2015 - HM Treasury

7 Key Decision?

No.

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

No.

9 Officer's Recommendation

That Members note the details of the Government's Summer Budget 2015.

PETER HANDFORD

Director of Finance