

From: John Simmonds, Cabinet Member for Finance & Procurement
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To: **Policy and Resources Cabinet Committee 11th December
2015**

Decision No:

Subject: **Spending Review & Autumn Budget Statement
Announcements**

Classification: **Unrestricted**

Summary: This report sets out the main elements of the Chancellor of the Exchequer's Autumn Budget Statement and 2015 Spending Review (both announced on 25th November). This paper focuses on how local government funding fits into the national context and the main elements of the announcements affecting local authority budgets. We will not know the full impact until we receive the Local Government Finance Settlement later this month (date yet to be confirmed) and grant announcements from other departments. The impact will need to be reflected in KCC's Medium Term Financial Plan (MTFP) and draft Budget 2016/17 due to be published 11th January 2016 including KCC's response to the recent budget consultation.

Recommendation(s):

Members are asked to NOTE the relationship between central government and local authority decisions on the council's budget plans and the main announcements within the Spending Review and Autumn Budget Statement affecting local authorities.

1. Introduction

1.1 Setting the Council's revenue and capital budgets continues to be exceptionally challenging due to the combination of increasing spending demands and reducing funding. 2016/17 looks likely to be the most difficult yet due to a number of other contributory factors (many of which have unknown consequences). The most significant of these factors was that we did not have spending plans from central government beyond 2015/16. This has now been resolved following the announcement of the Spending Review on 25th November. The Autumn Budget statement on the same day also gave us other vital information to inform our budget plans e.g. funding arrangements for the National Living Wage (NLW).

1.2 This report sets out a comprehensive picture of local authority funding and financial devolution, and in particular how the Spending Review fits into this. It is a complex picture. The Spending Review represents the government's

medium term strategic spending plan for departmental budgets over a 4 to 5 year period. These spending plans are known as Resource DEL for current (day to day) expenditure and Capital DEL for infrastructure investment. Spending Reviews do not happen annually, the last full Spending Review was in October 2010 (SR2010) setting out the plans for 2011/12 to 2014/15, this was updated in the Spending Round 2013 (SR2013) which revised the 2014/15 plans and included new plans for 2015/16.

1.3 The Autumn Budget Statement is published each year (usually in November) to complement and update the annual Budget Statement in March. The Budget statements set out forecasts of taxation receipts¹ to fund public expenditure and spending plans for the remainder of public spending not included in the departmental DELs (including any variations to DELs from Spending Review amounts). This remaining portion of public spend is referred to as Annually Managed Expenditure (AME) and principally includes welfare spending but also includes locally financed spending for local government services i.e. the element funded out of Council Tax and the retained business rates. The Budget statements also include information from the economic and fiscal forecasts from the Office for Budget Responsibility (OBR) and a summary of the government's key policy priorities.

1.4 The impact on local government spending is identified in several places within the Spending Review/Autumn Budget Statement publications as follows:

- Un-ring-fenced revenue grants from the Department for Communities and Local Government (CLG) are shown under a separate Resource DEL for Local Government. This principally includes the main Revenue Support Grant (previously Formula Grant) and Business Rate baseline/top-up but also includes some other local authority grants
- Ring-fenced and un-ring-fenced revenue grants from other departments are shown under the DELs for the relevant department e.g. Dedicated Schools Grant, Public Health Grant, Bus Service Operators Grant, Asylum Grant, etc.², but are not separately identifiable from other spending by the departments
- Capital DEL includes grants to local authorities to fund capital projects (principally schools and roads) but these grants are not separately identifiable for other capital spending controlled by the departments
- Benefit payments administered by lower tier authorities are shown under AME welfare spending
- Locally financed expenditure through Council Tax and the local share of business rate growth is shown under AME

This means there is not a single identifiable sum (or a sum that can be derived) for local government within the overall spending plans.

1.5 The Spending Review/Autumn Budget Statement announcement does not identify either the overall amounts for individual grants within departmental

¹ These forecasts are calculated by the independent Office for Budget Responsibility

² Reported under Resource DEL for the relevant department e.g. Department for Education (DfE), Department of Health (DoH), Department for Transport (DfT), Home Office, etc.

allocations, or the allocations for individual authorities within local government. These come at a later date, the key date for local authorities being the announcement of the provisional Local Government Finance Settlement which we are anticipating will be on 16th/17th December this year. This settlement includes the un-ring-fenced grants which together with Council Tax and the local share of business rates are used to fund the net budget requirement. These grants remain a significant factor within budget planning. A number of ring-fenced grants are also announced at the same time as the Local Government Finance Settlement, it remains KCC policy to adjust ring-fenced spending in line with changes in specific grants and not to top-up spending from discretionary funds.

2. Local Government Spending in the National Context

2.1 This section provides information on the totality of local government spending in recent years. It is drawn from the HM Treasury Public Expenditure analysis published in July 2015. The individual tables may not add down due to showing individual entries to the nearest £m, including totals. The overall spending by local government as a proportion of total public spending in the UK has been falling in recent years, as shown in table 1 (although this includes the impact of academy transfers which are identified separately for England later in this section).

Table 1

FINANCING OF UK LOCAL GOVERNMENT	2009/10 Outturn £m	2010/11 Outturn £m	2011/12 Outturn £m	2012/13 Outturn £m	2013/14 Outturn £m	2014/15 Outturn £m	2015/16 Plans £m
Current Expenditure							
DEL	104,012	97,835	90,812	86,216	80,028	76,614	68,737
AME	21,033	28,107	29,413	30,122	36,553	37,889	38,045
Sub Total	125,045	125,942	120,225	116,338	116,581	114,503	106,782
Locally Financed	30,666	27,767	36,893	28,943	29,449	33,578	33,219
Capital							
DEL	15,254	12,894	10,908	9,668	9,145	10,203	10,886
AME	402	993	290	133	132	207	196
Accounting Adjustments	2,879	11,297	5,369	14,867	14,234	12,190	15,763
UK Local Government Total	174,247	178,893	173,685	169,949	169,541	170,681	166,846
Total Public Expenditure							
DEL	381,179	375,377	364,053	356,012	358,118	361,244	356,700
AME	292,224	331,741	342,524	364,844	364,230	374,289	385,600
Total Managed Expenditure	673,402	707,118	706,577	720,856	722,348	735,533	742,300
UK Local Government as %	25.9%	25.3%	24.6%	23.6%	23.5%	23.2%	22.5%

2.2 Table 2 shows the split of Government funded current expenditure through DEL and AME (table 1 line 5) between the individual countries in the UK. Local government spending falls under the remit of the devolved administrations in Scotland, Wales and Northern Ireland and thus operates under different governance and legislation. The remainder of this report focuses on local government spending in England.

Table 2

UK GOVERNMENT FUNDED CURRENT EXPENDITURE	2009/10 Outturn £m	2010/11 Outturn £m	2011/12 Outturn £m	2012/13 Outturn £m	2013/14 Outturn £m	2014/15 Outturn £m	2015/16 Plans £m
England	108,207	108,175	102,950	98,426	100,065	98,677	92,055
Scotland	10,551	11,067	10,825	10,877	9,415	8,609	8,835
Wales	6,233	6,647	6,396	6,976	7,043	6,633	6,284
Northern Ireland	54	53	54	59	58	138	52
Total Current Spend	125,045	125,942	120,225	116,338	116,581	114,057	107,226

2.3 Table 3 shows the split of Government funding for both current expenditure and capital for English authorities between DEL and AME. The represents English local government funding from central government in its widest sense and includes schools, police, fire as well as local authorities. An estimate for school expenditure has been deducted leaving the central government funded expenditure for English authorities as a % of UK total public expenditure.

Table 3

FINANCING OF ENGLAND LOCAL GOVERNMENT	2009/10 Outturn £m	2010/11 Outturn £m	2011/12 Outturn £m	2012/13 Outturn £m	2013/14 Outturn £m	2014/15 Outturn £m	2015/16 Plans £m
Current Expenditure							
DEL	89,503	83,182	76,800	71,656	66,239	63,562	57,261
AME	18,704	24,993	26,150	26,770	33,826	35,114	34,794
Total	108,207	108,175	102,950	98,426	100,065	98,676	92,055
Capital							
DEL	13,510	11,222	9,621	8,421	8,009	8,833	9,378
AME	402	993	290	133	132	207	201
Total	13,912	12,215	9,911	8,554	8,141	9,040	9,579
ENGLAND TOTAL	122,119	120,390	112,861	106,980	108,206	107,716	101,634
Est. England Schools Exp	41,183	41,502	35,971	33,173	31,840	31,388	32,047
England Net excl. Schools	80,936	78,888	76,890	73,807	76,366	76,328	69,587
England excl schools as % of UK total public expenditure	12.0%	11.2%	10.9%	10.2%	10.6%	10.4%	9.4%

2.4 Some of the main trends are worth further explanation:

- Resource DEL has been reducing as part of the overall programme to reduce public spending, but this pattern also includes the transfer of academies out of local government as well as the transfer in of new responsibilities e.g. Public Health
- AME has been increasing, mainly as a result of demand for housing benefit but also as a result of localising half of business rates in 2013/14 which transferred funding from Resource DEL to AME in that year
- Capital spending trends changed during the period with initially significant reductions with a return to modest growth in recent years following the 2013 Spending Round. Recurrent funding for previous capital expenditure under the supported borrowing regime has not been protected from the current expenditure funding reductions.

2.5 Table 4 shows the individual departmental contributions towards government funded current spending for English local government (table 3 line 5). It is not possible to split these between Resource DEL and AME although the majority of AME is accounted for in welfare payments administered by lower tier local authorities on behalf of the Department for Work Pensions (DWP).

Table 4

Central government current grants English local government	2009/10 Outturn £m	2010/11 Outturn £m	2011/12 Outturn £m	2012/13 Outturn £m	2013/14 Outturn £m	2014/15 Outturn £m	2015/16 Plans £m
Education	37,625	40,587	36,910	34,166	32,722	33,012	31,919
Health	1,227	1,454	136	93	2,713	2,672	2,639
Transport	3,335	3,814	3,494	3,515	2,847	2,456	1,293
CLG Communities	3,194	2,817	1,314	1,479	1,880	2,114	2,281
CLG Local Government	30,784	25,390	25,999	23,223	27,604	25,837	22,214
Business Innovation & Skills	2,464	257	98	0	376	357	0
Home Office	6,898	10,354	10,353	10,284	9,949	10,329	10,057
Environment Food & Rural Affairs	38	50	147	98	92	139	120
Work & Pensions	22,521	23,317	24,469	25,522	21,839	21,665	21,465
Other	121	135	30	46	43	96	67
Total	108,207	108,175	102,950	98,426	100,065	98,677	92,055

2.6 Table 4 includes a number of significant transfers between departments. This makes year on year comparison difficult:

- In 2010/11 responsibility for school sixth form funding transferred from Business Innovation and Skills (BIS) to DfE. Since the transfer funding for sixth forms has declined significantly.
- In 2011/12 responsibility for aspects of Learning Disability services transferred from DoH to CLG Local Government settlement, a number of specific grants and area based grants also transferred into CLG Local Government from DfE/DoH/DfT/CLG etc.
- In 2013/14 responsibility for Council Tax benefit transferred into CLG Local Government from DWP, Police transferred out of CLG Local Government, Public Health services transferred into DoH to devolve to local authorities

- 2.7 The general pattern over the last 5 years has seen a reduction in central government funding for local authorities combined with the transfer of additional responsibilities which have effectively become funded from the proceeds from Council Tax and business rates. This has been compounded for many authorities by additional spending demands arising from changes in population, legislation and the effects of inflation.
- 2.8 Within the £23bn identified in table 4 under CLG Local Government for 2015/16 the vast majority was allocated via the business rate baseline (£11.3bn) and £9.5bn through Revenue Support Grant (RSG). RSG is funded out of the 50% central share of business rates. The business rate baseline reflects the local authority 50% retained share. This is divided into an historical baseline for each authority which is then adjusted via a system of tariffs top-ups to redistribute funding from high wealth/low needs areas to low wealth/high spending needs areas. The 2015/16 allocations of RSG and business rate baseline/tariff/top-up for KCC and to all classes of authority are shown in table 5.

Table 5

	KCC £m	Shire Counties & Fire £m	Unitary Auth £m	Shire Districts £m	Metropol itan £m	London Boroughs & GLA £m	England £m
Revenue Support Grant	161.0	2,565.9	2,014.1	422.4	2,575.4	1,931.7	9,509.4
Business Rate Baseline	47.6	776.1	2,245.6	2,932.3	2,029.5	3,328.8	11,312.2
Tariff/Top-up	122.9	1,847.5	14.8	-2,412.0	902.5	-341.9	10.9

3. Spending Review

- 3.1 The main departmental allocations for current expenditure (Resource DEL) from previous spending review in 2010 (SR2010) and updated spending round in 2013 (SR2013) are shown in table 6.

Table 6

Department	Spending Review 2010					Spending Round 2013	
	2010/11 Baseline £bn	2011/12 £bn	2012/13 £bn	2013/14 £bn	2014/15 £bn	2014/15 Baseline £bn	2015/16 £bn
Education	50.8	51.2	52.1	52.9	53.9	52.8	53.2
Health	98.7	101.5	104.0	106.9	109.8	108.3	110.4
Transport	5.1	5.3	5.0	5.0	4.4	3.5	3.2
CLG Communities	2.2	2.0	1.7	1.6	1.2	1.2	1.1
CLG Local Government	28.5	26.1	24.4	24.2	22.9	14.4	11.9
Business Innovation & Skills	16.7	16.5	15.6	14.7	13.7	13.6	13.0
Home Office	9.3	8.9	8.5	8.1	7.8	10.4	9.9
Justice	8.3	8.1	7.7	7.4	7.0	6.8	6.2
Defence	24.3	24.9	25.2	24.9	24.7	23.9	23.9
International Development	6.3	6.7	7.2	9.4	9.4	8.3	8.5
Environment Food & Rural Affairs	2.3	2.2	2.1	2.0	1.8	1.7	1.6
Work & Pensions	6.8	7.6	7.4	7.4	7.6	5.5	5.0
Devolved Administrations	47.4	47.5	47.8	48.3	48.4	48.8	48.9
HMRC & Treasury	3.7	3.7	3.6	3.6	3.3	3.3	3.2
Other	13.9	14.5	14.5	14.4	12.8	11.4	11.9
Total	326.6	326.7	326.9	330.9	328.9	315.7	312.9

- 3.2 It is common practice that the baseline amounts for individual departments exclude one-off or time limited spend, although this spend is included in the published total and thus the baseline column(s) may not add down. As with section 2 individual entries are shown to nearest £100m and thus cause the same minor rounding problems with totals. In the SR2013 the localised share of business rates (£11.2bn for 2014/15 baseline and £11.6bn for 2015/16) was transferred from Resource DEL into locally financed resources. These amounts should be added back for comparison with SR2010 and table 4 above.
- 3.3 The differences between the SR2010 totals for CLG Local Government and table 4 demonstrates the significant impact of transfers of responsibilities into local government which were not included in the original spending plans e.g. the transfer of responsibility for Council Tax support. This gives the appearance that reductions are not as significant as the real impact.
- 3.4 The main departmental capital allocations (capital DEL) from previous spending review in 2010 (SR2010) and updated spending round in 2013 (SR2013) are shown in table 7.

Table 7

	Spending Review 2010					Spending Round 2013	
	2010/11 £bn	2011/12 £bn	2012/13 £bn	2013/14 £bn	2014/15 £bn	2014/15 £bn	2015/16 £bn
Capital DEL							
Education	7.6	4.9	4.2	3.3	3.4	4.6	4.6
Health	5.1	4.4	4.4	4.4	4.6	4.6	4.7
Transport	7.7	7.7	8.1	7.5	7.5	8.9	9.5
CLG Communities	6.8	3.3	2.3	1.8	2	4.8	3.1
CLG Local Government							
Business Innovation & Skills	1.8	1.2	1.1	0.8	1	2.1	2.5
Home Office	0.8	0.5	0.5	0.4	0.5	0.5	0.4
Justice	0.6	0.4	0.3	0.3	0.3	0.3	0.4
Defence	8.6	8.9	9.1	9.2	8.7	8.7	8.7
International Development	1.6	1.4	1.6	1.9	2	2	2.6
Environment Food & Rural Affairs	0.6	0.4	0.4	0.4	0.4	0.5	0.5
Work & Pensions	0.2	0.2	0.3	0.4	0.2	0.2	0.2
Devolved	6.3	4.7	4.6	4.1	4.2	5.2	5.6
Chancellor's	0.2	0.4	0.1	0.1	0.1	0.1	0.1
Other	6.2	5	4.5	4.6	5	4	3.3

3.3 The Spending Review totals for local government includes all the devolved funding controlled by the Department for Communities and Local Government (DCLG). This includes the main settlement of revenue support grant (RSG) and retained business rates redistribution. These amounts were originally allocated by Formula grant and replaced by RSG/business rate baseline in 2013 (these form the core grants to local authorities). The Local Government Resource DEL also includes a number of other grants which are paid directly to local authorities e.g. Council Tax Freeze, Private Finance Initiative, etc. Table 8 shows the breakdown in SR2010 between the main settlement for local government as allocated via Formula Grant through RSG/business rates and the other grants. The £0.7m council tax freeze for 2011/12 has subsequently been incorporated into business rate baseline and RSG in Local Government Finance Settlements since 2012.

Table 8

	Spending Review 2010				
	2010/11 £bn	2011/12 £bn	2012/13 £bn	2013/14 £bn	2014/15 £bn
Formula	28	25	23.4	23.2	21.9
CT Freeze	0	0.7	0.7	0.7	0.7
Other	0.5	0.5	0.4	0.4	0.4

3.4 The main departmental allocations from Spending Review 2015 (SR2015) are shown in table 9

Table 9

Department	2015/16 Baseline £bn	2016/17 £bn	2017/18 £bn	2018/19 £bn	2019/20 £bn
Current Expenditure Resource DEL excl depreciation					
Education	53.6	54.4	55.5	56.4	57.1
Health	111.6	115.6	118.7	121.3	124.1
Transport	2.6	2.0	2.1	2.2	1.8
CLG Communities	1.5	1.4	1.4	1.3	1.2
CLG Local Government	11.5	9.6	7.4	6.1	5.4
Business Innovation & Skills	12.9	13.4	12.3	11.7	11.5
Home Office	10.3	10.7	10.6	10.6	10.6
Justice	6.2	6.5	6.3	5.8	5.6
Defence	27.2	27.8	28.5	29.2	30.0
International Development	8.5	9.1	9.3	10.7	11.0
Environment Food & Rural Affairs	1.5	1.7	1.6	1.5	1.4
Work & Pensions	5.8	6.1	6.3	5.9	5.4
Devolved Administrations	48.5	48.9	49.3	49.4	49.7
HMRC & Treasury	3.5	3.7	3.6	3.2	3.0
Other	9.9	9.7	9.9	9.6	10.0
Total	315.1	320.8	322.9	325.2	328.3

Department	2015/16 Baseline £bn	2016/17 £bn	2017/18 £bn	2018/19 £bn	2019/20 £bn	2020/21 £bn
Capital DEL						
Education	4.6	5.2	4.6	4.4	4.4	4.6
Health	4.8	4.8	4.8	4.8	4.8	4.8
Transport	6.1	6.3	7.6	8.9	11.4	12.4
CLG Communities	3.1	4.0	3.7	4.0	3.6	4.3
CLG Local Government	0.0	0.0	0.0	0.0	0.0	0.0
Business Innovation & Skills	3.8	3.1	2.2	1.7	1.7	1.6
Home Office	0.4	0.5	0.5	0.4	0.5	0.5
Justice	0.4	0.7	0.7	0.7	0.4	0.1
Defence	7.1	7.3	7.5	7.8	8.1	8.7
International Development	2.6	2.7	3.2	2.8	3.1	3.6
Environment Food & Rural Affairs	0.5	0.6	0.6	0.6	0.5	0.5
Work & Pensions	0.2	0.3	0.4	0.3	0.2	0.2
Devolved Administrations	5.6	5.8	5.8	6.0	6.2	6.4
HMRC & Treasury	0.1	0.3	0.3	0.3	0.3	0.2
Other	-3.3	-2.5	-2.1	-1.2	-1.3	4.9
Total	35.8	39.0	40.1	41.6	44.0	52.8

3.5 As well as the Resource DEL allocations SR2015 announcement for local government also included an evaluation of the locally financed spending as reproduced below (table 2.17 from the Spending Review report). This analysis shows a dip in overall resources in 2016/17 compared to the baseline followed by a gradual recovery so that by the end of the period current expenditure has recovered to 2015/16 levels i.e. “flat cash”.

Table 2.17: Local Government

	£ billion					
	Baseline		Plans			
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
DCLG Local Government DEL ¹	11.5	9.6	7.4	6.1	5.4	*
Locally financed expenditure ²	28.8	29.0	31.5	33.6	35.1	*
Local government spending³	40.3	38.6	38.9	39.7	40.5	*

¹ In this table, Resource DEL excludes depreciation.

² Treasury/DCLG analysis based on data underlying the OBR's Local Authority Current Expenditure (England) forecast.

³ Does not include the impact of business rate reforms, which the government will consult on shortly.

- 3.6 The reduction in Local Government Resource DEL indicates further reductions in RSG over the period prior to it being phased out entirely as part of the proposals to allow local authorities to retain all of the proceeds from business rates. This will be accompanied by the transfer of additional responsibilities under the new proposed arrangements which will be subject to further consultation during 2016. At this stage we can park the impact of this further transfer of responsibilities and focus on the reductions in RSG and the increase in locally financed expenditure. We need further clarification how much of the reduction shown in table 2.17 will impact on RSG and how much on the other grants within the overall figure.
- 3.7 We have been advised that locally financed expenditure in table 2.17 does not include all of the locally raised funding and only includes the elements subject to change under the Spending Review. We need further clarification of the elements which have been excluded before we can fully evaluate the impact. It does include assumptions from OBR that authorities will add £1.1bn to reserves in 2016/17, £0.8bn in 2017/18 and £0.4bn in 2018/19, although once again we need further clarification how this is reflected in the figures.
- 3.8 The Spending Review announced the government's intention to consult on reforms to New Homes Bonus (NHB) grant. NHB has previously been split between the CLG Communities departmental and Local Government Resource DELs. We need further clarification how much is included in SR2015 for NHB. The proposed reforms would reduce the length of payments for new homes from 6 years to 4 years. The government's preferred option is that the reform would generate savings of at least £800m which can be used for social care. Consultation on NHB will be included in the Local Government Finance Settlement including protection for authorities which would lose out disproportionately.
- 3.9 The government announced a number of issues affecting local authority and public sector pay. This includes guidance on salaries for senior staff, consultation on reducing the cost of redundancy and sick pay, and confirmation of average 1% pay award for each of the 4 years from 2016/17. Local authorities will also be allowed to use 100% of capital receipts from fixed asset disposals towards the cost of reform and transformation projects to reduce current expenditure.

Education

- 3.10 The Spending Review included a number of announcements to help children get the best start in life. Free childcare for 3 and 4 year olds will be extended from 15 hours to 30 hours for working families from September 2017. It also announced a review the hourly rate paid to providers from 2017/18 supported by an additional £300m. We anticipate this childcare funding will continue to be distributed via the Dedicated Schools Grant (DSG). DfE will continue to have £300m budget to help drive up social care workforce standards and improve support for vulnerable children.
- 3.11 School budgets will continue to be protected with the cash amounts per pupil in DSG and Pupil Premium protected. The government announced its intention to introduce a national formula for the distribution of DSG with consultation in 2016 prior to implementation in 2017/18. This should build on the additional funding allocated to the lowest funded authorities in 2015/16 and lead to further equalisation of funding rates between authorities.
- 3.12 £23bn has been identified within Capital DEL to support 500 new free schools, creating 600,000 additional places, rebuilding and refurbishing over 500 schools and addressing maintenance needs. This investment includes new school places for children with Special Educational needs.
- 3.13 The government announced its intention to save around £600m from Education Services Grant towards the goal of ending local authorities' role in running schools. We need further clarification over both the phasing of these savings and how much will be found from payments to local authorities for central functions and how much from payments to academies.
- 3.14 The Spending Review announced the government's intention to introduce an apprenticeship levy on larger employers from 2017/18. The levy will be 0.5% of each employer's total paybill. All employers will receive £15,000 to offset against the levy meaning only those with a paybill of £3m or more will contribute to the levy. This would impact on both private and public sector employers although it is not clear whether this includes schools.
- 3.15 Funding for core adults skills participation will be protected in cash terms. Savings will be found non participation budgets.

Social Care

- 3.16 The Spending Review included the ability for authorities with social care responsibilities to precept an additional 2% over and above the Council Tax referendum threshold towards spending demands in social care. This is included in the locally figures in table 2.17 and also includes OBR assumptions about increases up to the referendum level in some authorities (although the re referendum threshold has not been yet been announced) and assumptions about growth in Council Tax base. This additional 2% precept is to recognise spending pressures in social care authorities, including the impact of the introduction of the National Living Wage in April 2016. There is no other funding for the National Living Wage identified.
- 3.17 The Spending Review included an announcement that the Better Care Fund will be extended and improved from 2017 to support social care with £1.5bn being available by 2019/20. This fund is designed to improve integration

between health and social care. This funding is included in Local Government DEL in table 2.17 above and includes assumptions about the contribution from New Homes Bonus reform referred to in paragraph 3.8.

- 3.18 The Spending Review includes over £500m for Disabled Facilities Grant (DFG) by 2019/20. We need further clarification whether this is included within the Local Government figures in table 2.17 or whether it is included in either Resource DEL or Capital DEL in other departments. It is also not clear whether this is included within the improved Better Care Fund. DFG is administered by district councils in two tier areas
- 3.19 The Spending Review confirmed that grants for Public Health will remain ring-fenced in 2016/17 and 2017/18. These grants will be subject to real terms savings of 3.9% over the period of the review. The government announced its intention to consult on integrating Public Health grants into the retained business rate arrangements at some point in the future.
- 3.20 The Department for Health spending plan includes an additional £600m investment in mental health services.

Transport

- 3.21 The Department for Transport plans include £250m over 5 years to tackle pot holes in addition to £5bn for roads maintenance (£300m increase over the previous parliament). The plans also include investment in the strategic road and rail network.

4. Conclusions

- 4.1 Local authority funding and financial delegation is a complex matter and has been subject to substantial change in recent years. This change is likely to continue, particularly in relation to the budget excluding schools. The Spending Review announcement includes additional funding for social care both from locally finance resources (ability to raise additional precept) and government resources through Better Care Fund. Consultation on changes to the New Homes Bonus could also see funding diverted into social care.
- 4.2 Local authority revenue funding continues to include a mixture of ring-fenced grants from central government departments (these grants have to be spent in accordance with specified conditions), un-ring-fenced grants which can be spent at the discretion of the authority, and locally raised finance through Council Tax and retained share of business rates. The trend of reductions in un-ring-fenced grants and greater share of locally financed expenditure looks likely to continue. The government plans to phase out RSG (the main un-ring-fenced grant included in the Local Government Finance settlement) and to introduce 100% retention of business rates. This will require the devolution of additional responsibilities and will be subject to extensive consultation during the forthcoming year.
- 4.3 The “flat cash” equation for local authorities within the spending review requires further clarification of a number of significant issues highlighted in

this report including the additional 2% precept for social care. This could mean some authorities seeing cash growth between 2015/16 and 2019/20 through the combination of the Local Government Finance Settlement and locally financed expenditure. The impact of changes in other grants (particularly Education Services Grant, NHB, DSG, etc.) also requires further clarification. We should receive this clarification leading up to the Local Government Finance Settlement later this month (date to be confirmed).

- 4.4 Capital spending also includes both government grants and locally financed expenditure. A significant proportion of capital spending is funded from grants and the spending review identifies additional investment in both schools and roads. Locally financed capital includes proceeds from the sale of assets, developer contributions and prudential borrowing. The latter has an impact on the revenue budget both in terms of interest payments and loan repayments. As previously identified the recurrent funding for capital expenditure under the previous supported borrowing regime has not been protected from central government funding reductions.

5. Recommendations

- 5.1 Members are asked to NOTE the relationship between central government and local authority decisions on the council's budget plans and the main announcements within the Spending Review and Autumn Budget Statement affecting local authorities.

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Glossary

AME – Annually Managed Expenditure

BIS – Department for Business, Innovation and Skills

CLG – Department for Communities and Local Government

DEL – spending controlled by government departments

DfE – Department for Education

DfT – Department for Transport

DoH – Department of Health

DWP – Department for Work and Pensions

MTFP – Medium Term Financial Plan

NHB –New Homes Bonus

NLW – National Living Wage

OBR – Office for Budget Responsibility

RSG – Revenue Support Grant

