From:	**John Simmonds, Deputy Leader & Cabinet Member for Finance & Procurement** **Andy Wood, Corporate Director for Finance & Procurement**
To:	**Cabinet, 26th September 2016**
Decision No:	**16/00094**
Subject:	**Four-year finance settlement**
Classification:	**Unrestricted**

Past Pathway of Paper: Corporate Board, 12th September 2016

Future Pathway of Paper: N/A

Electoral Division: N/A

Summary: Local authorities have until 14th October 2016 to respond to DCLG's four-year settlement offer. This report sets out what the four-year settlement would mean for Kent County Council and recommends how the Authority should respond to meet the financial challenge ahead.

Recommendation(s): Cabinet are asked to agree to accept the four-year settlement offer for Kent County Council and for the Corporate Director for Finance & Procurement to provide notification of this to DCLG, in a mutually appropriate format, by 14 October.

1. Introduction

1.1 In the provisional local government finance settlement on 17th December 2015, Greg Clark (then Secretary of State for Communities & Local Government) announced the offer of a 4-year budget "to give certainty and confidence" to local government. On 8th February 2016, along with the final settlement for 2016/17, the allocations available under the four-year offer were confirmed by the Department for Communities & Local Government.

1.2 Local authorities have been given until 14th October 2016 to respond to the four-year settlement offer. This paper outlines what the four-year settlement offer means for KCC and how we should respond to meet the financial challenge ahead.

2. The four-year settlement offer

2.1 Chart 1 below is a screen shot of central government's publication of the four-year Core Spending Power calculation for Kent County Council, published on 8th February 2016. This includes the grant allocations which are available under the four-year offer.

Chart 1

Core Spending Power of Local Government;					
	2015-16 (adjusted)	2016-17	2017-18	2018-19	2019-20
		£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment	340.0	283.4	241.8	218.2	195.8
Council Tax of which;	549.0	577.2	609.7	644.6	682.2
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	*549.0*	*566.0*	*586.3*	*608.0*	*631.1*
additional revenue from 2% referendum principle for social care	-	*11.2*	*23.3*	*36.6*	*51.1*
additional revenue from £5 referendum principle for lower quartile districts Band D Council Tax level	-	-	-	-	-
Improved Better Care Fund	-	-	*0.3*	*17.5*	*33.7*
New Homes Bonus and returned funding	*7.9*	*9.3*	*9.4*	*5.9*	*5.7*
Rural Services Delivery Grant	-	-	-	-	-
Core Spending Power	**896.9**	**869.9**	**861.1**	**886.2**	**917.3**
Change over the Spending Review period (£ millions)					20.4
Change over the Spending Review period (% change)					2.3%

2.2 The four-year settlement is purported to deliver ‘flat cash’; this means that there is no material increase or decrease in funding over the period of the four year settlement in cash terms (see the figures circled in red in Chart 1 above). Chart 1 identifies that, in order to achieve ‘flat cash’, the Settlement Funding Assessment (combination of Revenue Support Grant and retained Business Rates), Better Care Fund and New Homes Bonus figures (all highlighted in yellow) reduce by £113m. Council Tax (highlighted in green) is assumed to increase by £133m over the same period (up to the 2% referendum limit, plus a further 2% Social Care Levy in each year) and includes CLG’s estimate of the rising tax base. Without the Council Tax increase ‘flat cash’ would not be achieved.

2.3 The Core Spending Power does not take account of the increasing costs of and demands on delivering services, such as a growing and ageing population, inflation and the national living wage. The four-year settlement is therefore insufficient to cover our estimated spending demands without the need to make significant savings to balance the budget in each year to 2019/20, even after taking account of council tax increases.

2.4 We have consistently challenged the basis of the distribution for Revenue Support Grant and other grants on the grounds that they do not adequately take account of the needs of shire authorities compared to London and metropolitan areas, nor protect funding that had previously been guaranteed. The distribution methodology was amended in the 2016-20 settlement which further disadvantaged shire areas. By using the indicative allocations from the settlement we are not implying that we now accept the methodology and will continue to campaign for a better distribution through the business rate retention proposals and review of needs and redistribution (see separate paper under agenda item 8).

2.5 Ultimately we have two options: to accept the four-year settlement offer, or not. Subject to exceptional circumstances, accepting the offer would secure the funding highlighted in yellow in Chart 1 above for KCC (Settlement Funding Assessment, Improved Better Care Fund, and New Homes Bonus). There is a risk with not accepting the offer, because we have been advised that any further local government budget reductions could be disproportionately allocated to those Authorities who have not signed up to the four-year settlement. It should be noted that the indicative allocations for the New Homes Bonus are based on proposed changes outlined in a consultation, the outcome of which has not been confirmed. We have also been promised further consultation on the improved Better Care Fund allocations as at the moment this is based on the old Formula Grant methodology. It is unclear how these consultations would impact on four-year settlement offer. On balance, we believe it is better to accept the four-year settlement than not. In the unlikely event that resources increase, then those who haven't taken the settlement will not be at an advantage.

3. Managing the challenge ahead

3.1 Starting with Bold Steps for Kent, launched in 2010, KCC's strategic documents have been designed to shape the Authority to manage with reduced funding and increased spending demands on local government services, as well as to respond to the opportunities and challenges from our customers' changing expectations.

3.2 Since 'Facing the Challenge: Delivering Better Outcomes' (approved by County Council in September 2013), transformation has been a key pillar of activity across the Authority, resulting in a number of market engagement and service reviews being undertaken to challenge fundamental assumptions about how and why KCC delivers services in the way it does. These reviews have already resulted in the establishment of the Property Local Authority Trading Company (Gen2), the external communications/Contact Centre partnership with Agilisys, and the Legal Alternative Business Structure (Invicta Law Ltd). Our transformation partners Newton Europe have also worked with us to identify a number of service transformation opportunities and we must continue to pursue further such opportunities. Kent County Council are committed to seek to deliver as many savings as possible through service transformation and efficiency.

3.3 Facing the Challenge: Towards a Strategic Commissiong Authority (agreed by County Council in May 2014) initiated the development of Kent County Council's strategic commissioning framework, which was agreed at County Council in December 2014. Strategic Commissioning is now embedding across the organisation, as we progress into a Strategic Commissioning Authority. Savings will continue to be driven out as strategic commissioning, effective procurement, and good contract management becomes business as usual at Kent County Council.

3.4 Over the period of the four-year settlement, Kent County Council will continue to deliver as much of the reduction as possible through efficiencies, transformation, better procurement, and a strategic commissioning approach. However, given the scale of the challenge, it is almost inevitable that some of these savings will have to come from a further review of front-line services. This will fit with the Council's objective to move from a service provider to service commissioner.

3.5 In line with the national vision, we must also find ways to reduce dependence on publicly funded local authority services through prevention and promoting greater self-reliance. This will mean a dramatic change in the way local authority services are viewed by the public. We need to find ways of providing advice and support to help more people help themselves or access services elsewhere, and encourage them to view local authority service delivery (whether provided directly or commissioned) as the last resort for those who can't help themselves or have no other alternative.

4. Conclusion

4.1 Managing within the four-year settlement figures set out in Chart 1 will be a very challenging task for the Authority, and it is inevitable that difficult decisions will have to be made. However, not accepting the settlement could lead us to an even worse position. DCLG have advised that the Brexit vote counts as an ‘exceptional circumstance’ to the four-year settlement offer, and therefore the figures may change in the next settlement. However, it has also been articulated to us that any further local government budget reductions could be disproportionately allocated to those Authorities who have not signed up to the four-year settlement.

4.2 Although the proposal is for Kent County Council to submit an efficiency plan and accept the four-year funding settlement, we will continue to challenge the changes made to the Revenue Support Grant distribution in the 2016/17 settlement, including the transitional grant and previous grant arrangements which do not adequately reflect spending needs and ability to raise income (leaving some London boroughs with very low council tax rates compared to rest of UK). We will also be seeking an improved allocation for the improved Better Care Fund, as we believe the old Formula Grant mechanism is flawed. We will persist with pushing for a fair and equitable funding solution through the business rate retention working groups.

4.3 It is unclear what the Government are expecting by way of an efficiency plan, along with the notification of acceptance of the four-year funding settlement, other than that it should be ‘light touch’. We will continue to work with the DCLG on an appropriate format for our efficiency plan.

5. Recommendation(s)

Recommendation(s):

Cabinet are asked to agree to accept the four-year settlement offer for Kent County Council and for the Corporate Director for Finance & Procurement to provide notification of this to DCLG, in a mutually appropriate format, by 14 October.

6. Background Documents

- Oral statement to Parliament on the provisional local government finance settlement 2016 to 2017: https://www.gov.uk/government/speeches/local-government-finance-settlement
- Oral statement to Parliament on the final local government finance settlement speech: https://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2016-to-2017
- Letter from the Rt Hon Greg Clark MP 10 March 2016 https://democracy.kent.gov.uk/documents/s72275/SuppdocGCletter.pdf
- KCC Medium Term Financial Plan 2016-19: http://www.kent.gov.uk/__data/assets/pdf_file/0003/56019/MTFP-201619.pdf
- Facing the Challenge: Towards a Strategic Commissioning Authority, 15 May 2014 County Council
- Facing the Challenge: Commissioning Framework, 11 December 2014 County Council
- Embedding strategic commissioning as business as usual, 10 December 2015 County Council

7. Contact details

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