

APPENDIX H

Provisional 2016/17 to 2019/20 Local Government Finance Settlement

1. On 17 December 2015, the Secretary of State for Communities and Local Government announced the provisional grant settlement for 2016/17 and indicative funding settlement figures for 2017/18 to 2019/20.
2. Since the announcement, details have gradually emerged regarding both funding levels for individual local authorities and other changes in funding structures. The format of the information has been revised from previous years, especially with regard to the underlying assumptions for the government's calculation of core spending power. For example, this now assumes that local authorities will apply year on year council tax increases over and above the ASC Precept.

Fixed Funding offer

3. The government has set out an offer to local authorities to accept a four year funding settlement to 2019/20. It is understood that this is an offer to individual local authorities, although the conditions to be imposed by the government for accepting the offer, the sanctions if conditions are not met, and implications for not accepting the offer are not known at this time. However, it is understood that government will expect local authorities to make a commitment towards making efficiencies during the period of the settlement, although the details of this commitment are not known.

Specific Grants

4. Further information is still awaited on specific grants including better care fund, public health grant, other new burdens grants, etc.

Changes in Settlement Funding Assessment (SFA)

5. The table below compares the assumed settlement funding assessment contained in the budget assumptions included in the 8 December 2015 cabinet report and the provisional settlement figures.

	2015/16 £m	Adjusted 2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Reduction 2015/16 to 2018/19 £m	2019/20 £m	Total Reduction
December cabinet estimates	195.2	195.2	187.6	149.9	119.1	(76.1)	112.2	(83.0)
Provisional settlement	195.2	197.7	179.5	165.9	158.3	(39.4)	150.7	(47.0)
Change in funding from summer budget based estimates	0.0	2.5	(8.1)	16.0	39.2		38.5	
Annual reduction in funding			(18.2)	(13.6)	(7.6)		(7.6)	

6. Over the period of the settlement to 2019/20, Southwark loses £47m in settlement funding (23.8%). This equates to £39.4m (18.9%) over the three year period to 2018/19. This compares to £6,536.6m (30.8%) nationally and £1,082.5m (28.2%) in London.

7. While the funding reduction indicated by the provisional settlement of £39.4m is less than that which had previously been assumed using London Councils assumptions following the July budget statement, it remains highly significant. This is not least in the context of savings that have been necessary since 2011/12 in order to balance the council's budget.
8. The reduced loss to the council has been a function of two main reasons. Firstly, there were improvements to the Office of Budgetary Responsibility (OBR) general financial forecasts since the summer; these forecasts will need to be monitored carefully over the period of the settlement as any overestimates of growth may compromise funding available for all public services. Secondly, analysis indicates a shift in the distribution of grant to local authorities, especially in favour of those authorities more highly geared towards government funding. Similarly, it indicates a redistribution of funds towards those local authorities more likely to have greater local needs.
9. The table below shows the effect of the provisional local government settlement at national and London levels and specifically compares these with Southwark. It shows that contrary to recent years, outer London boroughs are subject to a proportionately greater share of the funding reductions than inner London boroughs.

		2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Southwark	Grant Loss	(18.2)	(13.6)	(7.6)	(7.6)	(47.0)
	% Grant Loss	(9.2)	(7.6)	(4.6)	(4.8)	(23.8)
England	£m Grant Loss	(2,648.5)	(1,970.1)	(1,047.9)	(870.1)	(6,536.6)
	% Grant Loss	(12.5)	(10.6)	(6.3)	(5.6)	(30.8)
London	£m Grant Loss	(435.0)	(316.7)	(171.2)	(159.5)	(1,082.5)
	% Grant Loss	(11.3)	(9.3)	(5.6)	(5.5)	(28.2)
Inner London	£m Grant Loss	(180.1)	(133.2)	(74.4)	(74.3)	(462.1)
	% Grant Loss	(9.6)	(7.9)	(4.8)	(5.0)	(24.7)
Outer London	£m Grant Loss	(254.9)	(183.5)	(96.8)	(85.3)	(620.5)
	% Grant Loss	(13.0)	(10.8)	(6.4)	(6.0)	(31.7)

10. The SFA reduction of £18.2m for Southwark Council in 2016/17 comprises a loss in revenue support grant of £19.0m less the projected increase in retained business rates and top up of £0.8m. Overall this is a greater loss in SFA of £8.2m since the report to cabinet in December 2015. In summary, this is due to more of the required cuts being front loaded into 2016/17.

	Adjusted 2015/16 £m	Indicative 2016/17 (Summer Budget) £m	Provisional 2016/17 £m	Change from 2015/16 £m
Retained business rates	60.2	60.9	60.7	0.5
Business rates top-up	45.0	45.5	45.3	0.3
Revenue Support Grant	92.5	81.3	73.5	(19.0)
Total SFA	197.7	187.7	179.5	(18.2)

Changes in Spending Power

11. Revenue spending power (RSP) was introduced by government as an indicator in 2011/12 and has become a measure through which government may assess their view of the impact of changes to grants on council budgets in cash terms. RSP has not

accounted for any changes in the costs of services or the level of demand for them, especially for those which are statutory.

12. For this provisional settlement, government has recognised some of the limitations of previous RSP principles (e.g. resources not managed by local authorities directly, such as the Better Care Fund) and changed the basis of the calculation. The following shows what was included in the 2015/16 spending power calculation.

- Revenue support grant
- Assumed funding from the local share of business rates
- Council tax
- Council tax freeze grant
- Public health grant
- Autumn statement measures grant
- New homes bonus grant
- NHS funding (from 2015/16, better care fund)
- Efficiency support grant (applies to councils with reductions in spending power greater than 6.4%, and therefore not available to Southwark)

13. The 2016/17 spending power calculation only includes the following:

- Settlement funding assessment
- Estimated council tax, including annual increases within the referendum limit of 1.99%
- Additional council tax from social care flexibility (the ASC Precept)
- Potential additional council tax revenue from district councils with lower quartile Band D council tax levels, these can levy maximum of 2% or £5 increase without a referendum (not available to Southwark)
- Proposed improved better care fund (2017/18 onwards)
- New homes bonus
- Rural services delivery grant (not available to Southwark)

14. The impact of spending power following the announcement of the provisional settlement is shown in the table below. As part of the government's calculation of spending power, it has been assumed that authorities tax bases will grow, and that council tax increases will be at maximum allowed

		2016/17	2017/18	2018/19	2019/20	Total
Southwark	£m change	(9.5)	(5.2)	(0.1)	5.3	(9.5)
	% Change	(3.3)	(1.8)	0.0	1.9	(3.2)
England	£m change	(1,246.6)	(564.6)	480.2	1,108.7	(222.5)
	% Change	(2.8)	(1.3)	1.1	2.6	(0.5)
London	£m change	(207.6)	(103.6)	33.3	150.4	(127.5)
	% Change	(3.0)	(1.6)	0.5	2.3	(1.9)
Inner London	£m change	(95.9)	(54.6)	(5.7)	49.1	(107.1)
	% Change	(3.4)	(2.0)	(0.2)	1.8	(3.8)
Outer London	£m change	(111.7)	(49.0)	39.0	101.3	(20.4)
	% Change	(2.8)	(1.3)	1.0	2.6	(0.5)

15. The government has reported an average loss in spending power across all local authorities of 2.8% for 2016/17, and only 0.5% over the period of the spending review.

For London boroughs this represents an average loss of 3.0% in 2016/17 and a total of 1.9% over the four year period.

16. The provisional settlement figures show Southwark's spending power reducing by 3.3% (3.2% overall), £9.5m being the fourth highest cash reduction in spending power in London behind Camden £10m (4.0%), Newham £9.6m (3.6%) and Lewisham £9.6m (3.8%).
17. Using the government's calculation, the average 2016/17 reduction for London authorities is 3.0% (inner London 3.4%, outer London 2.8%). Unlike in previous years when some outer London boroughs saw an increase in spending power, all London boroughs have reduced spending power in 2016/17.
18. Over the period to 2019/20, all London Boroughs have a reduction in spending power, with the exception of Hounslow and Lewisham (0%) and the following which have increases, Barnet and Sutton (0.9%), Haringey (1.6%), Havering (1.8%), Bexley (2.0%) and Waltham Forest (2.3%).