

**Manchester City Council
Report for Resolution**

Report to: Resources and Governance Scrutiny Committee - 5 January 2017

Subject: Provisional Local Government Finance Settlement 2017-2018 including an update on funding for Schools and Early Years

Report of: The City Treasurer

Summary

The attached report details the key announcements from the Provisional Local Government Finance Settlement which was issued on 15 December 2016. It also summarises the recent announcements regarding funding for Schools and Early Years.

Recommendations

The Committee is asked to note the report.

Wards Affected:

All

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Provisional Local Government Finance Settlement, 15 December 2016,
<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2017-to-2018>

Dedicated Schools Grant, 20 December 2016,
<https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2017-to-2018>

Early Years Funding, 1 December 2016,
<https://www.gov.uk/government/publications/early-years-national-funding-formula-allocations-and-guidance>

1 Introduction

- 1.1 This report summarises the key announcements in the Provisional Finance Settlement which was published on 15 December 2016 and the impact of this on the Council's budget position over the four-year period 2016/17 to 2019/20. The information in this report will inform the Revenue Budget report that is due to go to Executive in January 2017. The final settlement will be laid before the House of Commons in February 2017.
- 1.2 The report includes an overview of:
- the headlines from the provisional finance settlement announced 15 December and the impact on the budget;
 - the impact of the flexibility around council tax increases for Adult Social Care; and
 - the position for Schools Funding and funding for Early Years.
- 1.3 The government had offered council's a four year financial settlement on receipt of an Efficiency Plan. The Efficiency Plan was submitted in October 2016 and it has been confirmed that the City Council will receive a four-year settlement for the period 2016/17 to 2019/20. The sums currently included in the multi-year settlement offer that apply to Manchester are the Revenue Support Grant and Business Rates (tariff and top up payments).

2 Headlines from the Finance Settlement

- 2.1 The key announcements of the Provisional Finance Settlement are listed below:
- The Council Tax rate can be increased by up to 5% in 2017/18 and 2018/19 before triggering a referendum. The core principle of 2% a year will continue to apply, Social Care authorities have flexibility to increase the Social Care precept by up to 3% in 2017/18 and 2019/20 (previously 2%) although the 6% over three years can not be exceeded. Therefore this does not bring any additional resource overall. A 1% increase in the social care precept generates c£1.3m in additional council tax income.
 - There is an additional Adult Social Care grant of £240m nationally of which Manchester will receive £2.7m. This is to be distributed on the basis of the adults relative needs formula and does not take account of the ability of individual Local Authorities to raise funds through a precept.
 - The New Homes Bonus Grant will be reduced nationally by £240m to fund the Social Care Grant. This is bringing forward planned reductions from 2018/19 by reducing the number of legacy years paid. It is also introducing a new reduction by applying a baseline for housing growth at 0.4% of the prior year's Band D properties.

- There is no new central government funding for Adult Social Care, nationally the grant changes are neutral however there will be a distributional impact.
- 97% of Councils accepted the multi-year settlement offer and published an efficiency plan. The government has now written to those authorities to confirm the offer. Those who did not accept have only had funding allocations confirmed for 2017/18 and will have their allocations revisited in 2018/19 and 2019/20
- The settlement has confirmed the intention to move to 100% business rates retention by 2020/21 and that this will be piloted in a number of areas, including Greater Manchester, from 2017/18.

2.2 In summary the resource position has changed from that previously reported as a result of the following:

- A reduction in New Homes Bonus grant of £3.6m in 2017/18 and £1.2m in 2018/19 and 2019/20 respectively.
- Inclusion of Adult Social Care Support grant of £2.7m in 2017/18 only.

2.3 The net effect of these two adjustments in 2017/18 is a reduction in funding of £0.9m for Manchester. Overall the council is £1.2m worse off at the end of the three year period.

2.4 Changes to early years and schools funding have also been announced and are out to consultation. These are summarised in Section 4 of this report.

3 The Provisional Local Government Finance Settlement – Changes for 2017/18 – 2019/20

Spending Power

3.1 Appendix One shows the 2017/18 spending power for Manchester as reported in the last settlement (published December 2015 compared to the current provisional settlement. Overall this is showing an increase of £0.7m from £430.7m to £431.4m by 2019/20. However, £1.9m of this relates to Government assumptions around local tax raising ability (Council Tax and Business Rates). The actual impact of the settlement against current assumptions is a net reduction in resources of £1.2m due to the changes to funding available from New Homes Bonus.

New Homes Bonus (NHB)

3.2 The previous assumption was that the New Homes Bonus scheme would continue indefinitely but with changes. The changes were expected from 2018/19 where significant reductions were anticipated reflecting the Government's stated intention to move from paying for six years of legacy payments to four, and saving at least £800m nationally. On this basis the Council's budget assumption was for a grant receipt of £13.189m in 2017/18

reducing to £8.540m in 2018/19 and £8.193m in 2019/20. However, the provisional settlement provides an estimated 2017/18 receipt for Manchester of £9.587m (excluding the one off adjustment grant of £402k) reducing to £7.329m in 2018/19 then £7.032m in 2019/20.

3.3 The Government are proposing the following:

- to reduce the number of years for which legacy payments are made from six years to five years in 2017/18 and then to four years from 2018/19; and
- to introduce a baseline for housing growth set at an initial baseline of 0.4% of band D dwellings, (this is to reflect a percentage of housing that would have been built anyway). Housing growth below this level in each authority will not receive Bonus allocations. The Government will retain the option of making adjustments to the baseline in future years in the event of a significant increase in housing growth.

3.4 The 2017/18 reduction of £3.6m is due to the loss of year two funding (£2m); application of the baseline (£1m) and lower than forecast new properties (£0.6m).

3.5 There are also revised conditions applying to the NHB. From 2018/19 the Government will consider withholding NHB payments from local authorities that are not planning effectively, by making positive decisions on planning applications and delivering housing growth. To encourage more effective local planning they will also consider withholding payments for homes that are built following an appeal.

Adult Social Care Support Grant

This is a one off grant of £240m nationally of which £2.7m has been allocated to Manchester. The distribution is in proportion to the Adult Social Care relative needs formula. In 2016/17 a welcome development was that the apportionment of both the Revenue Support Grant and Better Care Fund took account of the ability of a Local Authority to raise funds through Council Tax. This methodology has not been used for this new grant. The net effect of the reductions in NHB and the new Adult Social Care Grant is a reduction in funding of £0.9m for Manchester in 2017/18.

Public Health

3.6 The 2017/18 Public Health Grant has been confirmed at £53.250m for Manchester. The grant reduces in line with the figures published last year. The reductions were phased in at 2.2% in 2016/17, 2.5% in 2017/18 and 2.6% in each of the following two years. This is a ring-fenced grant, but as part of 100% business rates pilot the grant for Greater Manchester will be paid via the business rates system and excluded from the grant conditions.

Council Tax Precept

- 3.7 The policy intention at the time of the 2016/17 Settlement was that the Social Care precept would be 2% a year each of the three years. This provisional settlement is introducing the flexibility to bring forward the council tax increase for Social Care in recognition of the pressures on social care and there will be freedom to increase by up to 3% in 2017/18 and 2019/20 with the stipulation that this must not exceed 6% in total over the three year period.
- 3.8 The table below shows the impact on Manchester's budget of increasing the precept to 3% in 2017/18 and 2018/19. There would be additional income of £1.3m in 2017/18 increasing to £2.8m in 2018/19. When looking over the three year budget the overall position is a small reduction in income of £44k.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Current Assumption (2% ASC in 2017/18, 2018/19 and 2019/20)	128,694	138,238	147,347	157,057
Potential Revision (3% ASC in 2017/18 and 2018/19 and 0% in 2019/20)	128,694	139,567	150,195	157,013
Increased / (reduced) Council Tax Requirement		1,329	2,848	(44)

4 Schools and Early Years Funding

Dedicated Schools Grant (Grant) 2017/18

- 4.1 The 2017/18 Dedicated Schools Grant (DSG) notification has also been received (£497.5m). In respect of demographic changes, Manchester has been allocated £13.2m for an additional 2,537 pupils in primary and secondary schools between October 16 and October 17. For the High Needs funding block, Manchester has been allocated £1.6m of the £129.1m available nationally from the DfE. The High Needs Block adjustments do not adequately reflect Manchester's growth in pupil numbers.

National Funding Formula from 2018/19

- 4.2 On 14 December 2016, the Department for Education (DfE) published consultation documents for a national funding formula from 2018/19. From an initial analysis, whilst there is a significant immediate and long term impact for Manchester schools, there is no required change to the Council's financial planning assumptions for 2017/18 – 2019/20.
- 4.3 The consultation sets out the detail of the formulae and the impact on individual local authorities and schools. Manchester is in the top ten local authorities facing the largest reductions and is the hardest hit outside London,

with reductions of £5m (1.42%) in 2018/19 rising to £10m (2.74%) without protection.

- 4.4 The consultation runs until 22nd March 2017 and is consulting on the overall funding system, in particular proposals to:
- introduce a school-level national funding formula where the funding for each school, largely based on the funding each pupil attracts to their school, is determined nationally;
 - implement the formula for mainstream schools from 2018-19, allocating funding to local authorities to distribute for one year, and then to schools directly from 2019-20;
 - create a central schools block for the ongoing duties of Local Authorities; and
 - ensure stability for schools through the minimum funding guarantee and transitional protection and by providing practical help, including a restructuring fund.
- 4.5 A detailed analysis of the consultation proposals is underway and briefings will be provided to Executive members, schools and Schools Forum ahead of preparing and submitting a response to the consultation.

Early Years from 2017/18

- 4.6 On 1 December 2017, the DfE published the outcome to their recent consultation on Early Years funding. The intent is to introduce a new national funding formula for early years funding from April 2017. In order to comply with the recently announced DfE requirements, the Council needs to review and consult early years providers on potential changes to the local early years (3 and 4 year olds) formula. The new formula has led to a £4m increase in early years funding for 3 and 4 year olds in Manchester for 2017/18. The Council funding consultation with its early years providers is about to be launched and will end mid-January. This additional funding has to be paid to early years providers and cannot be retained by the Council.
- 4.7 The Government will be introducing 30 hours of free early education and childcare to working parents from September 2017. Manchester's allocation for the 15 hours above the current entitlement for the period 1 September 2017 to 31 March 2018 is £3.158m which is based on DfE estimates of 1,138 three and four year olds of working parents being eligible.

5 Conclusions

- 5.1 The resources announced in the Provisional Finance Settlement are slightly lower than that anticipated in previous reports. This is due, in the main, to net effect of the reduction in NHB, from that expected, and the allocation of the Social Care Grant.
- 5.2 There is the opportunity for the council tax precept for social care to be implemented at 3% for 2017/18 and 2018/19 with no precept for social care in 2019/20 or remain at 2% for each year.

- 5.3 The budget proposals will be presented to Executive in January 2017.
- 5.4 The launch of the second stage consultation on a schools national funding formula is a key development and has significant implications for schools in Manchester.

Appendix One – Spending Power comparison between settlements

	Settlement Dec 16			Settlement Dec 2015				Difference			
	2017-18	2018-19	2019-20	2016-17	2017-18	2018-19	2019-20	2016-17	2017-18	2018-19	2019-20
	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions
Settlement Funding											
Assessment*	257.1	246.1	235.5	277.4	257.0	245.5	234.3	0.0	0.1	0.6	1.2
Council Tax of which;	139.7	151.6	164.5	128.2	139.0	150.8	163.8	0.5	0.7	0.8	0.7
<i>Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)</i>	134.3	143.0	152.2	125.7	133.7	142.3	151.6	0.5	0.7	0.7	0.7
<i>additional revenue from referendum principle for social care</i>	5.3	8.6	12.3	2.5	5.3	8.6	12.3	0.0	0.0	0.0	0.0
<i>Potential additional Council Tax from £5 referendum principle for all Districts</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Improved Better Care Fund	3.3	14.8	24.4	0.0	3.3	14.8	24.4	0.0	0.0	0.0	0.0
New Homes Bonus	9.989	7.3	7.0	13.5	13.6	8.5	8.2	0.0	-3.6	-1.2	-1.2
Rural Services Delivery Grant	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transition Grant	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
The 2017-18 Adult Social Care Support Grant	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.7	0.0	0.0
Core Spending Power	412.7	419.7	431.4	419.1	412.8	419.6	430.7	0.5	-0.1	0.1	0.7
Change over the Spending Review period (£ millions)			-3.2				-4.0				
Change over the Spending Review period (% change)			-0.7%				-0.9%				