Business Rates Pilot Scheme 2019/20

Staffordshire & Stoke on Trent – Application Form

Appendix B: Financial Sustainability

Introduction

A key element of the Business Case Pilot application, pending the outcome of the Fair Funding Review, is to provide essential funding which contributes to the financial sustainability of each authority within Staffordshire but particularly upper tier authorities, in the 2019/20 Financial Year.

Financial Sustainability has been jeopardised, as compared to other authorities, due to inequalities in funding distribution. Although all authorities have borne the unfunded cost pressures which impact directly on sustainability the Staffordshire area has not received the benefits of additional funding. In particular the area has not received Transitional Funding and the Abatement of Negative Revenue Support Grant and has been penalised by Core Government Funding representing a greater proportion of funding as compared to Council Tax.

Executive Summary

A key element of Financial Sustainability, as highlighted in the National Audit Report of March 2018, is the distribution of funding by MHCLG. The objective of the allocation of Central Funding, since 2016/17 has been to ensure that "*councils delivering the same set of services receive the same percentage change in 'settlement core funding' ".*

In utilising the 2019/20 indicative figures, as provided by Government , the Staffordshire Area is set to receive the 5th highest reduction in real terms core spending power as compared to the 2015/16 levels This "Indicative" spending power does not include Business Rates Growth but does include the other incentive regime of New Homes Bonus.

A more comparable indicator is to exclude New Homes Bonus and Better Care Funding, reflecting the limited timeframe of such funding. This revised Core Spending Indicator is in line with the Core Funding Definition that determined the framework for the four year settlement 2016/17 to 2019/20.

Over this period, the Area has received in each annual settlement, a greater reduction in funding power, when compared to the average of all areas as demonstrated in Chart 1. The variance commenced at 1.5% in 2016/17 and is forecast to rise to 3.4% in 2019/20. This represents a cumulative reduction in resources available to the area of £67.8 million (Table 1)

The shortfall does not take into account the additional resources arising from the determination of Business Rates Pilots for 2018/19.

CHART1

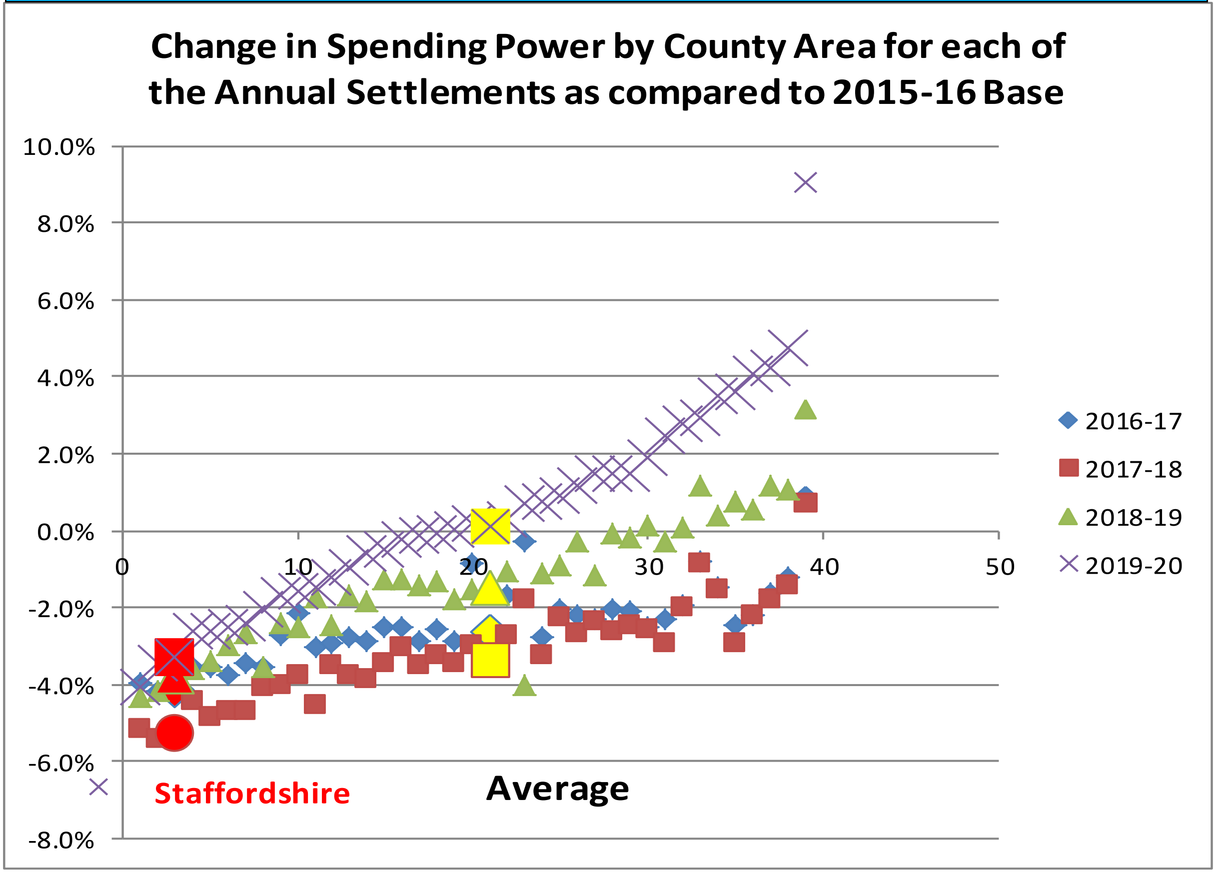

Table 1 : Additional reduction in Core Funding for Staffordshire based upon the average change for "County" areas					
	2016/17	2017/18	2018/19	2019/20	Total
Rank (out of 38)	2nd	2nd	4th	3rd	
% Variance to Area based Average	1.5%	1.9%	2.3%	3.4%	
Amount	£11.2m	£14.2m	£17.1m	£25.3m	£67.8m

The defining test of Financial Sustainability is the ability to deliver statutory services .Hence it is important to set this additional reduction in core funding in context to the Financial Position of the two Upper Tier Authorities.

Staffordshire County Council is facing a Budget Deficit of £35 million for 2019/20. Work to address this has been underway for some considerable time and its Cabinet recently received an update report on its Medium Term Financial Strategy.
The report emphasised that "the only way it can present a balanced budget is by securing considerable extra funding or a significant reduction in services citizens may expect in core areas such as care, highways and transport".

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Details of the current Financial Position of each authority are attached as Annex C and D respectively.

Background

In March 2018, the National Audit Office reported on the *Financial Sustainability of Local Authorities 2018.*

The report stated that "The *Ministry of Housing, Communities & Local Government (the Department) views authorities' ability to deliver their statutory services as the defining test of their financial sustainability*"

The report went on to state that "*compared with the situation described in our 2014 report, the financial position of the sector has worsened markedly, particularly for authorities with social care responsibilities. We noted in 2014 that the sector had coped well financially with funding reductions, but our current work has identified signs of real financial pressure. A combination of* ***reduced funding*** *and higher demand has meant that a growing number of single-tier and county authorities have not managed within their service budgets and have relied on reserves to balance their books*".

A key element of Financial Sustainability, as highlighted in the report, is the "*distribution by MHCLG of the majority of funding voted by Parliament to support local authorities to deliver services*". The key overriding document, in relation to funding distribution, is the 2015 Spending Review as reflected in the 2016/17 Local Government Settlement . The latter formed the basis of the four year settlement to 2019/20.

The settlement stated;

"For *2016-17, funding will be allocated to reflect the different sets of services provided by councils, as described in paragraph 2.2. The Government proposes to allocate central funding in a way that ensures councils delivering the same set of services receive the same percentage change in 'settlement core funding' for those sets* of *services described above. Core funding will take into account the main resources available to councils7, which for this purpose comprise:*

- *council tax income (including any Council Tax Freeze Grant)*
- *the Settlement Funding Assessment, comprising:*
– estimated business rates income (baseline funding level under the rates retention scheme)
– Revenue Support Grant. "

The National Audit Office report went on to state

"*Since the 2015 Spending Review, the rate of reduction in spending power has dropped. From 2010-11 to 2016-17 it fell by 28.5%. But from 2016-17 to 2019-20, it is predicted to fall by only by a further 0.4% in real terms*. "

Changes in Core Spending Power at County Area level

MHCLG, on the 24 July 2018, issued its Technical Consultation on the 2019/20 Settlement.
The consultation in particular:

- outlined the fourth year of the multi-year settlement offer for those councils that accepted the offer, and arrangements for those that did not.

- outlined the Government's proposals for dealing with the issue known as 'Negative Revenue Support Grant'.

The proposals provide continuity of the approach in relation to the four year settlement .However, it provides an inequitable base in relation to the sustainability of a number of authorities and particularly the two social care providers within Staffordshire, unless addressed by other funding sources.

Annex A) provides an analysis of indicative core spending power for 2019/20, as contained in the 2018/19 Settlement, for the Staffordshire area as compared to the other County areas of England. In addition, an analysis is provided at individual Authority Tier level identifying how the change in spending power compares to the average for that Tier and the loss of core funding as a result.

The analysis reveals that not only at overall Area level, but at each tier level, the Staffordshire and Stoke On Trent area has seen a greater reduction in spending power as compared to the other 37 County areas. It is quite evident from the analysis that Council's or areas delivering the same set of services have had markedly different reductions in spending power as compared to 2015/16.

- In relation to 2019/20, based upon the published indicative settlement, the area will have an increase in (cash) spending power of 1.5% , as compared to 2015-16.This is the 5th lowest of the 38 areas and 1% below the average equating to a funding shortfall of £7.7 million.

- **However, based upon proposed changes as included in the 2019/20 Technical Consultation and, in particular, the abatement of Negative Revenue Support Grant , the Area will have the 3rd lowest increase in spending power, being 1.7% below the average for all areas, and representing a funding allocation shortfall of £12.9 million for Staffordshire .**

- **The 2019/20 data includes indicative New Homes Bonus Grant (NHB) and Better Care funding. Excluding both these elements*, in 2015/16 and 2019/20, results in the area now having the 3rd highest reduction in spending power of 3.3%. This is some 3.4% below the average (The sector receiving a 0.1% increase) with a funding allocation shortfall of some £25.3 million for Staffordshire.**

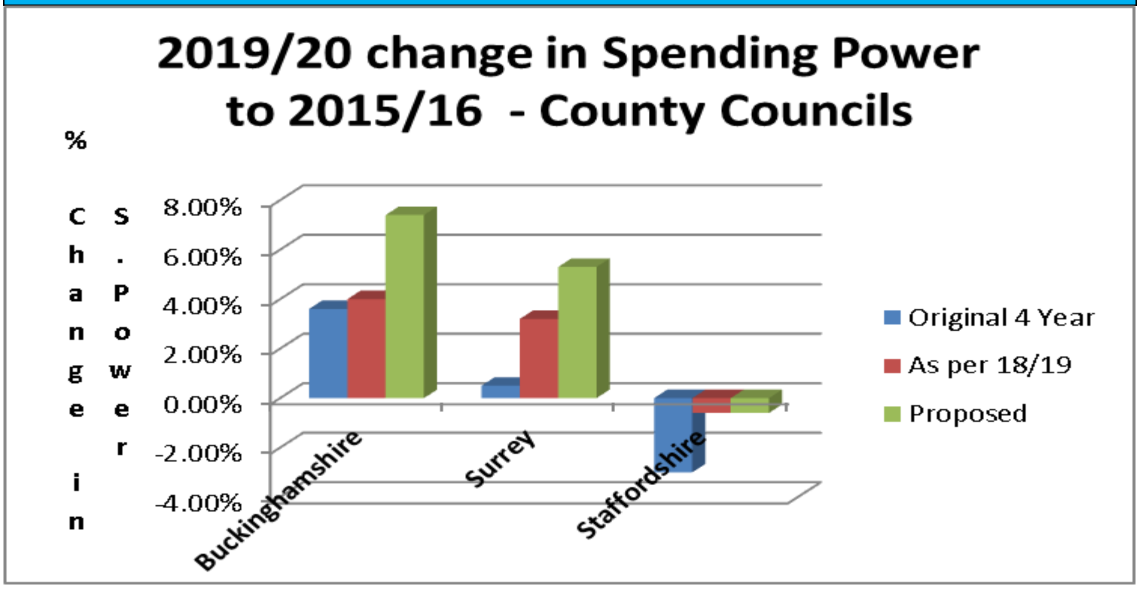
This discrepancy exists for the various Tiers of Staffordshire as demonstrated in Charts 2-4.

The data compares Core Spending Power of Staffordshire authorities against, authorities subject to the greatest financial benefit from the elimination of Negative RSG, for each of the following Settlements..

:The original projection for 2019/20 from the 2016/17 settlement (Original 4 Year)

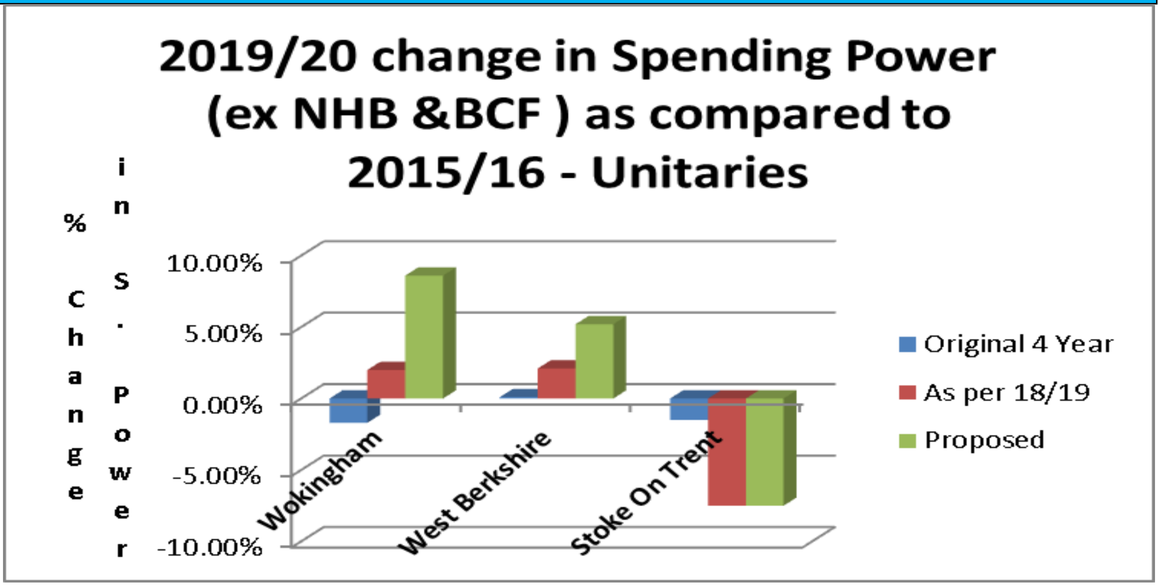
1. The 2019/20 projection as contained in the 2018/19 settlement (As per 18/19)
2. The proposed elimination of negative RSG (Proposed)

CHART 2



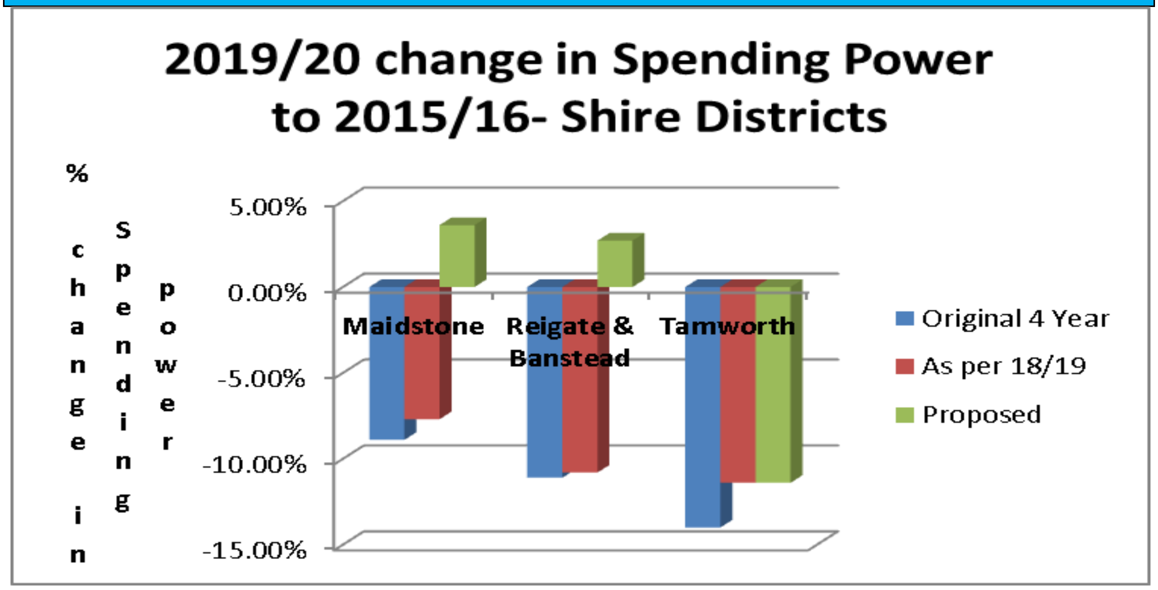
Based upon a comparison reflecting the 2016/17 principles, Buckinghamshire will have a 7.4% increase in Spending Power, Surrey 5.3% whereas Staffordshire faces a reduction of 0.6%.

CHART 3



At Unitary Authority level, Wokingham and West Berkshire will receive the greatest benefit from the proposed abatement of Negative RSG. Eliminating Negative RSG will amend the spending power for Wokingham and West Berkshire by 6.6% and 3.1% respectively whereas Stoke on Trent will see no change at all.

CHART 4

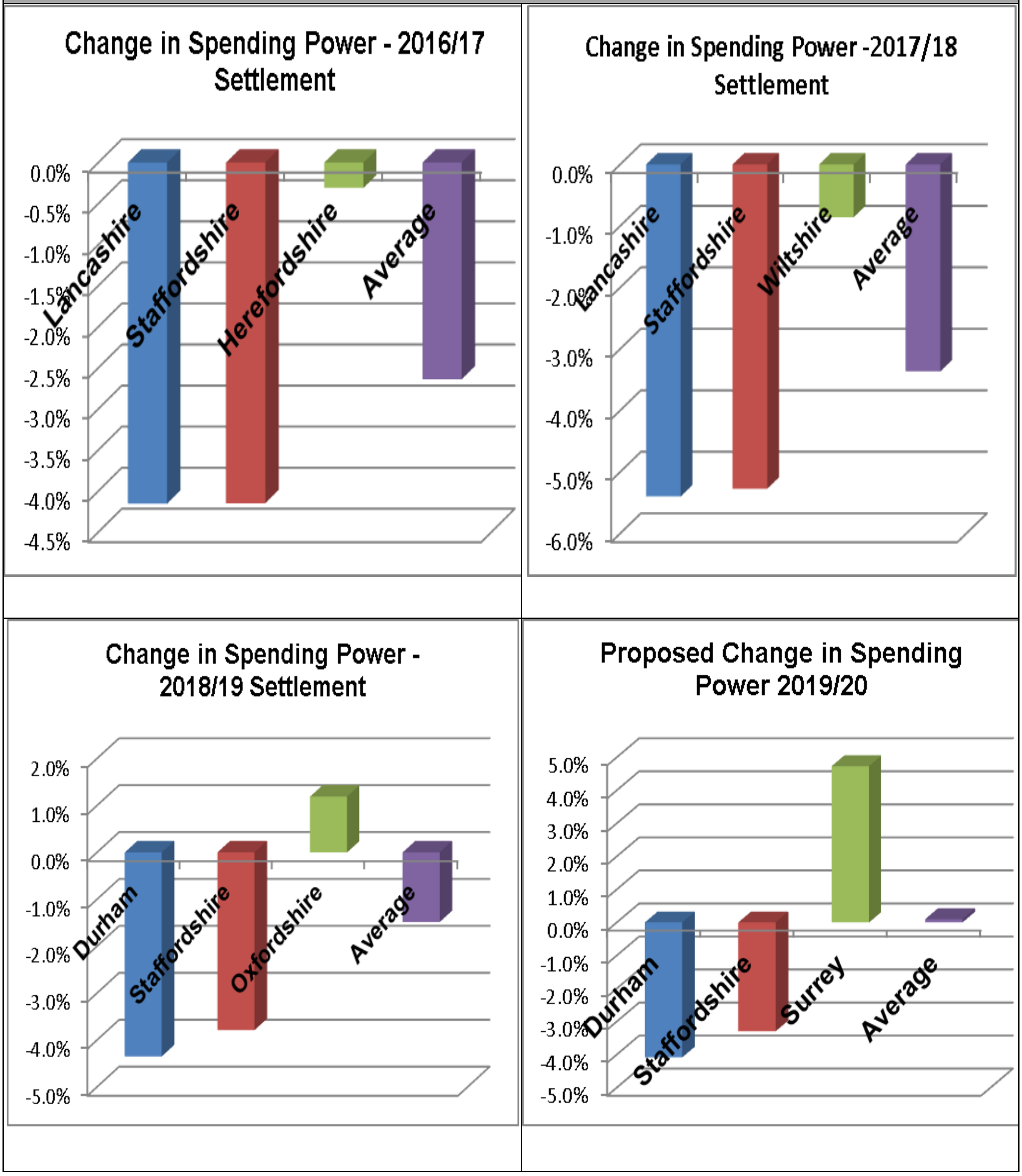


At Shire District Level, if RSG is abated Maidstone will have, excluding New Homes Bonus, a 3.6% increase in Spending Power and Reigate 2.7%, as compared to a reduction of 11,4% for Tamworth.

This situation has existed since 2016/17(as demonstrated in Chart 1 within the Executive Summary). The table below analyses this in more detail and compares the Staffordshire area to the highest and lowest change in Spending Power and the average for that year.

CHART 5

Analysis of changes in Spending Power for each Annual Settlement 2016/17 to 2019/20



The Financial Impact in each of these years is shown in Table 2 with the area effectively having an additional cumulative reduction in core funding of £67.8 million :

Table 2: Additional reduction in Core Funding as compared to the average all other areas					
	2016/17	**2017/18**	**2018/19**	**2019/20**	**Total**
Rank (out of 38)	**2nd**	**2nd**	**4th**	**3rd**	
% Variance to Tier Average	**1.5%**	**1.9%**	**2.3%**	**3.4%**	
Amount	**£11.2m**	**£14.2m**	**£17.1m**	**£25.3m**	**£67.8m**

Ability to Deliver Statutory Services

As stated in the background to the report ""The *Ministry of Housing, Communities & Local Government (the Department) views authorities' ability to deliver their statutory services as the defining test of their financial sustainability*".

All authorities have strived to present a balanced budget each year and mitigate the impact on front line services. However the position is set to deteriorate considerably in 2019-20.

Details of the Financial Position for the two Upper Tier Authorities are attached at Annex C and D Respectively and can be summarised as follows:

Staffordshire County Council is facing a Budget Deficit of £35 million for 2019/20. Work to address this has been underway for some considerable time and its Cabinet recently received an update report on its Medium Term Financial Strategy.
The report emphasised that " the only way it can present a balanced budget is by securing considerable extra funding or a significant reduction in services citizens may expect in core areas such as care, highways and transport".

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*****Reflects the basis of 2016/17 settlement and the nature / duration of the grants NHB is a (rolling programme) incentive grant (similar to the growth element of Business Rates) ;.Whereas Better Care Fund allocations were removed from the 2015/16 Spending Power calculations **.**The Better Care Fund provided grant funding to social care authorities to support adult social care alongside partner health bodies however it was subject to conditions , and partly was required to stabilise provider markets in addition to integration. The funding is however not a permanent feature of the system

Annex A: Reduction in Core Spending Power 2016/17 to 2019/20 for County Overall Areas

	2019/20 Core Spending Power						2016/17 to 2019/20 Core Spending Power Reductions %							
Area	As per 18-19		Adjusted for Neg RSG		Ex BCF & Illustrative NHB		2016/17		2017/18		2018/19		2019/20	
	% Redu	Rank	% Reduct	Rank	% Reducti	Rank	% Reducti	Rank	% Reducti	Rank	% Reducti	Rank	% Redu	Rank
Durham	1.9%	9	1.9%	5	-4.1%	1	-3.9%	3	-5.1%	3	-4.3%	1	-4.1%	1
Lancashire	1.9%	10	2.0%	6	-3.5%	2	-4.2%	1	-5.4%	1	-4.2%	2	-3.5%	2
Staffordshire	**1.5%**	**5**	**1.7%**	**3**	**-3.3%**	**3**	**-4.1%**	**2**	**-5.3%**	**2**	-3.8%	4	**-3.3%**	**3**
Suffolk	0.4%	2	0.8%	2	-2.6%	4	-3.5%	7	-4.4%	8	-3.6%	5	-2.6%	4
Derbyshire	2.6%	17	2.7%	13	-2.6%	5	-3.5%	6	-4.9%	4	-3.4%	7	-2.6%	5
Nottinghamshire	1.6%	7	1.7%	4	-2.5%	6	-3.8%	4	-4.7%	5	-3.0%	8	-2.5%	6
East Riding of Yorksh	3.0%	21	3.0%	17	-2.4%	7	-3.4%	8	-4.7%	6	-2.7%	9	-2.4%	7
Cambridgeshire	-0.3%	1	-0.1%	1	-2.1%	8	-3.6%	5	-4.1%	9	-3.6%	6	-2.1%	8
Lincolnshire	2.5%	15	2.6%	11	-1.0%	12	-2.7%	16	-4.0%	10	-2.4%	12	-1.7%	12
Cumbria	2.8%	19	3.0%	16	-1.6%	9	-2.2%	26	-3.8%	13	-2.5%	10	-1.6%	9
Northumberland	3.0%	22	3.0%	18	-1.5%	10	-3.0%	9	-4.5%	7	-1.7%	15	-1.5%	10
Essex	1.7%	8	2.1%	7	-1.2%	11	-3.0%	10	-3.5%	14	-2.4%	11	-1.2%	11
Norfolk	2.9%	20	2.9%	15	-1.0%	13	-2.8%	14	-3.8%	12	-1.7%	16	-1.0%	13
Cornwall*	2.8%	18	2.8%	14	-0.6%	14	-2.9%	12	-3.9%	11	-1.8%	13	-0.6%	14
Devon	3.6%	25	3.7%	20	-0.5%	15	-2.5%	18	-3.4%	17	-1.3%	21	-0.5%	15
East Sussex	2.3%	12	2.6%	10	-0.3%	16	-2.5%	19	-3.0%	20	-1.3%	20	-0.3%	16
Hampshire	2.3%	13	2.7%	12	-0.1%	17	-2.9%	11	-3.5%	15	-1.4%	18	-0.1%	17
Cheshire	4.0%	29	4.3%	26	-0.1%	18	-2.6%	17	-3.2%	18	-1.3%	19	-0.1%	18
Leicestershire	4.2%	30	4.6%	29	0.0%	19	-2.9%	13	-3.5%	16	-1.8%	14	0.0%	19
North Yorkshire	3.4%	24	4.0%	24	0.2%	20	-0.8%	35	-3.0%	21	-1.5%	17	0.2%	20
Shropshire	5.6%	36	5.6%	34	0.3%	21	-1.7%	31	-2.7%	24	-1.1%	24	0.3%	21

	2019/20Core Spending Power						2016/17 to 2019/20 Core Spending Power Reductions%							
Area	**As per 18-19**		**Adjusted for Neg RSG**		**Ex BCF & IllustrativeNHB**		**2016/17**		**2017/18**		**2018/19**		**2019/20**	
	% Reduc	Rank	**% Reduct**	**Rank**	**% Reducti**	**Rank**	**% Reducti**	**Rank**	**% Reducti**	**Rank**	**% Reducti**	**Rank**	**% Redu**	**Rank**
Herefordshire	3.7%	27	3.7%	21	0.7%	23	-0.3%	37	-1.8%	34	-4.0%	3	0.7%	23
Kent	3.2%	23	3.6%	19	0.7%	22	-2.8%	15	-3.2%	19	-1.1%	23	0.7%	22
Gloucestershire	3.7%	26	3.9%	23	0.9%	24	-2.0%	28	-2.3%	30	-0.9%	25	0.9%	24
Bedfordshire	2.2%	11	2.4%	9	1.1%	25	-2.2%	24	-2.6%	25	-0.3%	27	1.1%	25
Worcestershire	4.8%	32	5.5%	32	1.5%	28	-2.3%	23	-2.3%	29	-1.1%	22	1.5%	28
Hertfordshire	1.6%	6	2.2%	8	1.5%	26	-2.0%	29	-2.6%	26	-0.1%	29	1.5%	26
Somerset	4.9%	33	5.0%	31	1.5%	27	-2.1%	27	-2.4%	28	-0.2%	28	1.5%	27
Northamptonshire	5.5%	35	5.6%	33	1.9%	29	-2.5%	20	-2.6%	27	0.1%	31	1.9%	29
Dorset	2.5%	14	4.9%	30	2.5%	30	-2.3%	22	-2.9%	23	-0.3%	26	2.5%	30
Warwickshire	6.1%	37	6.5%	37	2.8%	31	-1.9%	30	-2.0%	32	0.1%	30	2.8%	31
Wiltshire	3.9%	28	4.4%	27	2.9%	32	-0.8%	36	-0.9%	37	1.2%	36	2.9%	32
West Sussex	5.4%	34	6.4%	36	3.5%	33	-1.5%	33	-1.5%	35	0.4%	32	3.5%	33
Berkshire	2.6%	16	4.6%	28	3.6%	34	-2.5%	21	-2.9%	22	0.8%	34	3.6%	34
Buckinghamshire	1.4%	3	3.8%	22	4.1%	35	-2.2%	25	-2.2%	31	0.6%	33	4.1%	35
Oxfordshire	4.5%	31	5.9%	35	4.2%	36	-1.7%	32	-1.8%	33	1.2%	37	4.2%	36
Surrey	1.4%	4	4.3%	25	4.7%	37	-1.2%	34	-1.4%	36	1.1%	35	4.7%	37
Rutland	7.3%	38	10.5%	38	9.1%	38	0.9%	38	0.7%	38	3.2%	38	9.1%	38
Average	**2.5%**		**3.4%**		**0.1%**		**-2.6%**		**-3.4%**		-1.5%		**0.1%**	

Annex B : Comparison of Spending Power Reduction for Staffordshire Authorities as compared to Average within Tier				
	Reduction In Spending Power	Rank /(out of)	Average Reduction for Tier	Loss of Equivalent Funding
	%		%	£m.
County Council				
Staffordshire	0.6	**5 /(27)**	(2.0)	**12.3**
Unitary				
Stoke On Trent	7.5	**2 /(56)**	1.3	**12.2**
Shire Districts				
Tamworth	11.4	**9/(201)**	5.1	**0.45**
Staffordshire Moorlands	11.2	**10/(201)**	5.1	**0.56**
East Staffordshire	10.3	**21/(201)**	5.1	**0.59**
Cannock Chase	10.2	**24/(201)**	5.1	**0.53**
Newcastle U. L.	9.5	**29/(201)**	5.1	**0.54**
Stafford	7.4	**67/201**	5.1	**0.26**
South Staffs	6.5	**110/201**	5.1	**0.10**
Lichfield	2.9	**133/201**	5.1	**(0.19)**

ANNEX C: **County Council Medium Term Financial Strategy 2019 - 2024**

Staffordshire County Council is a well-run council which has helped deliver a strong economy, low unemployment, improving schools, a good children's service and better jobs and training opportunities, all with one of the lowest county council taxes in the country.

In the last decade we have seen the funding needed to provide adult social care and look after children in our care increase from £200m up to £316m and the national funding needed to do this has simply not kept pace, leading to the County Council and other authorities like ours facing some extremely difficult decisions about how we can balance the books.

In February 2018, we faced a £35m budget shortfall in 2019/20 and work began in March to address this and formulate an action plan to tackle the shortfall. We have already reduced our own running costs by £240m in the last nine years, so the options we have had to consider have been incredibly difficult. As well as pressing for a national solution to the funding of care, the council is also: bidding to be part of a business rates pilot scheme; increasing council tax by 2.95 per cent but still remaining at one of the lowest county council taxes in the country; and looking to play a stronger role in creating the right conditions for housing growth.
Proposals agreed by council to bridge the gap include:

- Review of council back office support staff and focus on frontline services
- Controls on all non-essential spending by on areas such as recruitment, travel and conferences
- A review of all school crossing patrols – with a view to encouraging community funded posts from September 2019
- Offer of concessionary travel post 9.30am only
- Review of highways landscaping

However these will not solve the problem. Cabinet at is meeting on the 19th September considered its Medium Term financial Strategy (http://moderngov.staffordshire.gov.uk/documents/s112231/Strategic%20Plan%20and%20Medium%20Term%20Financial%20Strategy%202019%20-%202024.pdf).

Potential saving options are highlighted in Appendix 3a however our current financial position means that the only way to present a balanced budget is by securing considerable extra funding or a significant reduction in services citizens may expect in core areas such as care, highways and transport.

The council will be working through the proposals with staff, unions and partners as they move forward and consultations with stakeholders and the public will be held on key changes.

The final budget for 2019/20 will be presented to Full Council In February.

Annex D. Stoke on Trent City Council Medium Term Financial Strategy