

Cabinet

Date: 18 January 2016

Subject: Draft Business Plan 2016-20

Lead officer: Caroline Holland – Director of Corporate Services

Lead member: Councillor Mark Allison – Deputy Leader and Cabinet Member
for Finance

Contact Officer: Paul Dale

Urgent report:

Reason for urgency: The chairman has approved the submission of this report as a matter of urgency as it provides the latest available information on the Business Plan and Budget 2016/17 and requires consideration of issues relating to the Budget process and Medium Term Financial Strategy 2016-2020. It is important that this consideration is not delayed in order that the Council can work towards a balanced budget at its meeting on 2 March 2016 and set a Council Tax as appropriate for 2016/17.

Recommendations:

1. That Cabinet notes the financial information arising from the Provisional Settlement 2016/17 and that the financial implications will be incorporated into the draft MTFS 2016-20 and draft capital programme 2016-20.
 2. That Cabinet agrees the Council Tax Base for 2016/17 set out in paragraph 8 and Appendix 2
 3. That Cabinet notes the latest update of the draft MTFS for 2016 – 20
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report provides an update to Cabinet on the Business Planning process for 2016-20 and in particular on the current position relating to the revenue budget for 2016/17, and the draft MTFS 2016-20.
- 1.2 It also sets out the latest information and analysis of the Local Government Finance Settlement 2016/17 which was published on 17 December 2015 and summarises the implications for Merton's budget and MTFS.
- 1.3 In addition, the report sets out details of the Council's draft Council Tax Base calculation for 2016/17 for consideration and approval. It is a statutory requirement to set a Council Tax Base by 31 January and this is a fundamental element of the Council Tax calculation for 2016/17. The report also gives an indication of the financial impact over the period of the MTFS.

2. DETAILS

2.1 Introduction

- 2.1.1 The report provides a general update on all the latest information relating to the Business Planning process for 2016-20, including the Provisional Local Government Settlement 2016/17.
- 2.1.2 A review of assumptions in the MTFs was undertaken and reported to Cabinet on 7 December 2015. On 30 December 2015 a savings proposals consultation pack of all details previously presented to Cabinet at its meetings was sent to all Members. This can be brought to all Scrutiny and Cabinet meetings from 7 January 2016 onwards and to Budget Council. This should be an improvement for both councillors and officers - more manageable for councillors and it will ensure that only one version of those documents is available so referring to page numbers at meetings will be easier. It will also considerably reduce printing costs and reduce the amount of printing that needs to take place immediately prior to Budget Council.

The pack includes:

- Savings proposals
- Equality impact assessment for each saving proposal
- Service plans (these will also be printed in A3 to lay round at scrutiny meetings)
- Budget Summaries

- 2.1.3 The total draft savings proposals agreed by Cabinet in October and December and the remaining gap on the MTFs as reported to Cabinet on 7 December 2015 is summarised in the following table:-

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Savings – October Cabinet	(200)	(3,256)	(2,509)	0
Savings – December Cabinet	0	(601)	(981)	0
Total - Savings	(200)	(3,857)	(3,490)	0
Gap remaining (cumulative)	0	0	0	814

2.2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2016/17

- 2.2.1 Details of the provisional Local Government Settlement were published on 17 December 2015.
- 2.2.2 Appendix 1 sets out the main details set out in the provisional Settlement and assesses the implications for Merton's finances as set out in the Medium Term Financial Strategy (MTFS).

2.2.3 The provisional Settlement outlined provisional core funding allocations (Settlement Funding Assessment (SFA) for local authorities for the four year period 2016-17 to 2019-20. Four year funding is an offer to local authorities subject to authorities publishing an efficiency plan. Details of what is required in the plan and the deadlines required are still to be provided. The Settlement Funding Assessment is the total of Revenue Support Grant (RSG) and Baseline Funding (BF) from Business Rates.

	Adjusted SFA	Settlement Funding Assessment				Cumulative % change in SFA from 2015-16 to 2019-20				Real terms cumulative
	2015-16	2016-17	2017-18	2018-19	2019-20	2016-17	2017-18	2018-19	2019-20	% change
Merton	64.9	55.5	48.5	44.6	40.7	-14.5%	-25.3%	-31.3%	-37.3%	-41.8%
London Boroughs	3,833.4	3,398.5	3,076.8	2,896.8	2,717.7	-11.3%	-19.7%	-24.4%	-29.1%	-34.2%
England	21,249.9	18,601.5	16,621.6	15,536.0	14,499.7	-12.5%	-21.8%	-26.9%	-31.8%	-36.7%

Settlement Core Funding

	Adjusted SCF	Settlement Core Funding				Cumulative % change in Settlement Core Funding from 2015-16 to 2019-20				Real terms cumulative
	2015-16	2016-17	2017-18	2018-19	2019-20	2016-17	2017-18	2018-19	2019-20	% change
Merton	142.0	132.6	125.6	121.7	117.8	-6.6%	-11.6%	-14.3%	-17.0%	-23.0%
London Boroughs	6,561.8	6,127.0	5,805.3	5,625.3	5,446.2	-6.6%	-11.5%	-14.3%	-17.0%	-22.9%
England	43,281.1	40,632.6	38,652.8	37,567.2	36,527.9	-6.1%	-10.7%	-13.2%	-15.6%	-21.6%

Defined by DCLG as: 2015-16 CT requirement (incl. CTFG) + SFA

Core Spending Power

	Adjusted CSP	Core Spending Power				Cumulative % change in Core Spending Power from 2015-16 to 2019-20				Real terms cumulative
	2015-16	2016-17	2017-18	2018-19	2019-20	2016-17	2017-18	2018-19	2019-20	% change
Merton	145.8	141.4	139.2	140.0	143.2	-3.0%	-4.5%	-3.9%	-1.8%	-8.8%
London Boroughs	6,815.9	6,608.3	6,504.8	6,538.1	6,688.4	-3.0%	-4.6%	-4.1%	-1.9%	-8.9%
England	44,501.3	43,254.8	42,690.1	43,170.3	44,278.9	-2.8%	-4.1%	-3.0%	-0.5%	-7.6%

Defined by DCLG as: SFA + CT requirement* + NHB + BCF + Rural Services Grant

These are within the range of implications provided to Cabinet at its meeting in September 2015, following the Government's Spending Review 2015 and the Government's request that spending departments prepare savings of 25% and 40%. In the report to Cabinet on 14 September, following the Spending Review in July 2015, Members were provided with a range of potential scenarios showing the potential implications of cuts in grant of between 25% and 40% in the light of the Government's forecasts. One of those forecasts was within £3,000 of the 2016/17 figure included in the Settlement. However, given the wide range of possible outcomes, the figures in the MTFS were retained as those agreed at Council in March 2015 and the reductions in Revenue Support Grant outlined in the Provisional Settlement are therefore much harsher than currently included in the MTFS. This is demonstrated in the following table:-

Revenue Support Grant	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Provisional Settlement	(22.589)	(14.963)	(10.071)	(5.076)
MTFS	(23.161)	(16.691)	(12.256)	(10.617)
Change/Reduction	0.572	1.728	2.185	5.541

The Baseline Funding figures in the Settlement are derived from the 2013/14 baseline figure and updated by the September change in RPI. Merton is a top-up authority, as are the majority of other London Boroughs. This means that on top of its 30% share of the Business Rates yield, Merton receives a top-up payment to bring it up to the Baseline funding level. The top-up is also increased in line with the small business non-domestic rating multiplier each year and this was originally planned to continue until the Business Rates system is reset in 2020 but the Government have now indicated that they propose to use them to adjust for new burdens, and changes in needs assessments and changes arising from revaluation.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Business Rates Baseline	24.8	25.0	25.5	26.2	27.1
Top-Up	7.8	7.9	8.1	8.3	8.6
Baseline Funding	32.6	32.9	33.6	34.5	35.6

This can be a bit misleading when assessing the resources available to the authority because the funding for Business Rates is based on the forecast included in the Council's NNDR1 return (which is required to be submitted by 31 January 2016).

This can be seen by reference to the Council's share of Business Rates based on the NNDR1 returns over the past three years since Business Rates Retention began

	2013/14 £m	2014/15 £m	2015/16 £m
NNDR1 Share (30%)	24.5	25.6	25.8
Top-Up	7.5	7.7	7.8
Section 31 payments	0	1.1	1.2
Total Business Rates inc. in Budget	32.0	34.4	34.8

Therefore, projections of the Council's share of Business Rates funding over the next four years are starting from a higher level than the Baseline Funding projections in the Provisional Settlement.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
NNDR Forecast	(34,432)	(35,121)	(35,823)	(36,540)	(37,270)

These figures will be reviewed once the NNDR1 for 2016/17, which is due to be returned to the DCLG on 31 January, has been completed and Members will be updated in the report to Cabinet in February. The later years projections also do not take into consideration any impact of Crossrail 2 at this stage.

2.2.4 There has been a definitional change to revenue spending power compared with previous years. From 2016-17 onwards it will be known as “Core Spending Power” and assumes a Council Tax increase of 1.75% and a Social Care Tax precept increase of 2% . Further details are provided in Appendix 1.

Core Spending Power

	Change in Spending Power 2015/16 to 2016/17	Cumulative Change in Spending Power 2015/16 to 2019/20
Merton	-3.0%	-1.8%
London Boroughs	-3.0%	-1.9%
Inner London	-3.4%	-3.2%
Outer London	-2.8%	-0.8%
GLA	1.3%	9.8%
London Boroughs	-3.0%	-1.9%
England	-2.8%	-0.5%
England (councils only)	-3.0%	-0.9%

2.2.5 Special and specific grants

The provisional settlement provided details of three special and specific grants (included within the Core Spending Power allocations spread sheet): the proposed Improved Better Care Fund (from 2017-18 onwards); New Homes Bonus allocations, now proposed to be over four years rather than six years currently; and Rural Services Delivery Grant.

	Proposed Improved Better Care Fund				Cumulative change (£m)
	2016-17	2017-18	2018-19	2019-20	
Merton	-	-	1.4	3.1	4.5

	New Homes Bonus				Cumulative change (£m)
	2016-17	2017-18	2018-19	2019-20	
Merton	4.7	4.8	3.0	2.9	15.4

2.2.6 In 2015/16, New Homes Bonus was subject to a deduction in respect of LEP for which the grant was top-sliced. DCLG have advised that they won't be able to confirm whether the LEP top-slice will continue in London for 2016-17 until the New Year.

2.2.7 A summary of the key details in the Provisional Settlement and some detailed analysis of Merton's figures are set out in Appendix 1.

2.2.8 School Funding Announcement 2016/17

The School Revenue Funding Settlement: 2016 to 2017 was also published on 17th December 2015, confirming details of the Dedicated Schools Grant (DSG), Education Services Grant (ESG) and pupil premium.

	Education DSG 2016-17	ESG 2016-17
Merton (£m)	157.0	2.4

The Education Services Grant has reduced from £2.594m in 2015/16 to £2.360m in 2016/17, a reduction of £0.234m (9%).

3. Social Care Funding 2016/17

3.1 It is the Administration's policy to continue to freeze council tax for the duration of the current administration. The Spending Review announced that for the rest of the current Parliament, local authorities responsible for adult social care ("ASC authorities") "will be given an additional 2% flexibility on their current council tax referendum threshold to be used entirely for adult social care". This additional ability to increase council tax beyond the levels already allowed is in recognition of demographic changes which are leading to growing demand for adult social care, and increased pressure on council budgets.

3.2 Final terms for this offer will be confirmed in late February 2016.

3.3 Section 151 officers will have to confirm to the Secretary of State the cash amount that the ASC precept will raise and what the budget for Adult Social Care would have been before and after the flexibility is included. There would be a note on the Council Tax bill for this and further information would need to be provided with the information supplied with the demand notice.

3.4 The figures provided will also be reflected in data returns to the Department during the year including the Council Tax requirement form, the Revenue Estimates and Revenue Outturn forms.

- 3.5 The Secretary of State will monitor the use of the additional flexibility and will take authorities actions into account when determining referendum principles each year – currently set at 2% for 2016/17.
- 3.6 Where local authorities take a decision to increase Council Tax by a further 2% in 2017/18, the confirmation by the Section 151 officer would have to confirm that the 2016/17 increase remains in the base for 2017/18.
- 3.7 Using the 2015/16 figures for Council Tax Base and Band D Council Tax as the 2016/17 figures are still to be set, the amount raised from a 2% Council Tax increase would be c. £1.535m. This equates to an increase of approximately £22 pa for a Band D Council Tax payer. If applied over the four years, the increase in council tax would equate to £90 on Band D. However the current administration is committed to keeping council tax low-
- 3.8 The Government has assumed within their settlement for local authorities that there would be an average Council Tax increase of 1.75% and that all upper tier authorities would levy the 2% precept for Adult Social Care.
- 3.9 They have also stated that they would want information from authorities who increase their Council Tax to fund Adult Social Care but do not levy the precept to determine future referendum limits – currently at 2%. This could be implied as if authorities do not levy the precept, the potential to increase Council Tax in the future could be further reduced, at a time when there would be very few options for balancing the budget left on the table.

4. Growth

- 4.1 There are no current proposals for growth.

5. GLA PRECEPT

- 5.1 On 21 December 2015, the Mayor of London published his draft revenue budget and capital spending plan for 2016-17 for consultation. This includes his draft budget proposals for the GLA (Mayor and Assembly), the Mayor's Office for Policing and Crime (MOPAC), the London Fire and Emergency Planning Authority (LFEPA), Transport for London (TfL), the London Legacy Development Corporation (LLDC) and the new Old Oak and Park Royal Development Corporation (OPDC).
- 5.2 The consultation budget proposes a reduction in the Mayor's Band D council tax precept of £19.00 (6.4 percent) from £295.00 to £276.00 in 2016-17 for council taxpayers in the 32 London boroughs.
- 5.3 The Mayor's draft budget is expected to be considered by the London Assembly on Wednesday 27 January 2016. The final draft budget is scheduled to be considered by the Assembly on Monday 22 February

following which the Mayor will confirm formally the final precept and GLA group budget for 2016-17.

6. DRAFT CAPITAL PROGRAMME

- 6.1 There will be an update to the Capital Programme 2016-20 along with the Treasury Management Strategy in February 2016.

7. GENERAL FUND BALANCES AND RESERVES

- 7.1 The General Fund balance can be seen as an authority's working balance. In considering the budget plans for the medium term, it is also necessary to give some attention to the level of this working balance. In coming to this decision a number of issues should be considered.

These include:

- (a) the retention of working balances to cushion cash flow variations and to avoid increased borrowing costs;
 - (b) the retention of sums to provide against inflation and pay awards being in excess of the assumptions made within the budget;
 - (c) the retention of sums to provide for contingent liabilities; or
 - (d) to meet unforeseen events
- 7.2 In taking a decision on the level of balances, it is important to take into consideration current and future budget pressures and recognise that in order to set a balanced budget over the next four years there is a need for significant net reductions in the budget which inevitably will mean that there is very little room for manoeuvre in determining the level of balances.
- 7.3 There has been a regular update on the use of earmarked reserves for 2015/16 reported through to Cabinet as part of the financial monitoring report.
- 7.4 Merton's reserves and balances as at 31st March 2015 and forecast for 2015/16 are summarised in the following table:-

	Balance at 31/03 2015	Forecast balance at 31/03/16*
	£000	£000
Balances held by schools	16,937	13,352
General Fund balances	15,152	15,152
Earmarked Reserves	35,486	24,501
Total	67,575	53,005

*based on Month 8 monitoring

7.4 The movement and planned use of reserves, both revenue and capital, over the MTFS period is currently being reviewed and there will be a full update to Cabinet in February.

8. COUNCIL TAX BASE, NNDR AND COLLECTION FUND

8.1 Council Tax Base

8.1.1 The Council Tax Base is a key factor which is required by levying bodies and the Council for setting the levies and Council Tax for 2016/17. The council tax base is the measure of the number of dwellings to which council tax is chargeable in an area or part of an area. The Council Tax Base is calculated using the properties from the Valuation List together with information held within Council Tax records. The properties are adjusted to reflect the number of properties within different bands in order to produce the Council Tax Base (Band D equivalent). This will be used to set the Council Tax at Band D for 2016/17. The Council is required to determine its Council Tax Base by 31 January 2016.

8.1.2 Regulations set out in the Local Authorities (Calculation of council Tax Base) Regulations 2012 (SI 2012:2914) ensure that new local council tax support schemes, implemented under the Local Government Finance Act 2012, are fully reflected in the council tax base for all authorities.

8.1.3 The Council Tax Base Return to central Government takes into account reductions in Council Tax Base due to the Council Tax Support Scheme and also reflects the latest criteria set for discounts and exemptions. The CTB Return for October 2015 is the basis for the calculation of the Council Tax Base for 2016/17.

8.1.4 Details of how the Council Tax Base is calculated are set out in Appendix 2. A summary of the Council Tax Bases for the Merton general area and the addition for properties within the Wimbledon and Putney Commons Conservators area for 2016/17 compared to 2015/16 is set out in the following table:-

Council Tax Base	2015/16	2016/17	Change
			%
Whole Area	69,638.0	71,327.0	2.4%
Wimbledon & Putney Common Conservators	10,880.0	11,127.2	2.3%

8. SUMMARY

8.1 Following the changes discussed in this report, mainly the changes arising from the Provisional Local Government Finance Settlement, the gap in the MTFS (Appendix 3) has changed to the following:-

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Gap remaining (cumulative)	0	0	0	5,668

9. **CONSULTATION UNDERTAKEN OR PROPOSED**

- 9.1 There will be extensive consultation as the business plan process develops. This will include the Overview and Scrutiny panels and Commission, the Financial Monitoring Task Group, business ratepayers and all other relevant parties. The consultation meeting with Business Ratepayers is arranged for 10 February 2016.
- 9.2 Feedback on scrutiny of the Business Plan proposals will be provided by the Overview and Scrutiny Commission on 28 January 2016.

10. **TIMETABLE**

- 10.1 The business planning timetable for 2016/17 has been reported to and agreed by Cabinet previously.

11. **FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 11.1 All relevant implications have been addressed in the report.

12. **LEGAL AND STATUTORY IMPLICATIONS**

- 12.1 All relevant implications have been addressed in the report.

13. **HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 13.1 Not applicable

14. **CRIME AND DISORDER IMPLICATIONS**

- 14.1 Not applicable

15. **RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 15.1 Not applicable

APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix 1 Summary and Analysis of Provision LGF Settlement 2016/17 including School Funding Announcement 2016/17**
- Appendix 2 Council Tax Base 2016/17**
- Appendix 3 Latest Medium Term Financial Strategy 2016-20**

BACKGROUND PAPERS

Budget files held in the Corporate Services department.

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Provisional Local Government Finance Settlement 2016-17

The provisional 2016-17 Local Government Finance Settlement was announced on 17 December 2015. The Settlement outlines provisional core funding allocations (Settlement Funding Assessment – SFA) for local authorities for the four year period 2016-17 to 2019-20. Councils accepting the provisional figures for the four years will have to publish an efficiency plan

The government is proposing a new method for distributing Revenue Support Grant taking into account the relative distribution of each authority's 2015-16 RSG, Baseline Funding and Council Tax

- Overall, Settlement Funding Assessment for England will fall by 12.5% in 2016-17 (11.3% for London Boroughs), and by 31.8% by 2019-20 (29.1% for London Boroughs)
- Core funding² from government to London boroughs will have fallen by 63% in real terms between 2010- 11 and 2019-20
- There will be no Council Tax Freeze Grant in 2016-17. Funding for previous years' grants will continue.
- The council tax referendum threshold will remain at 2%, and as announced in the Spending Review, upper tier authorities will be allowed to raise a further 2% to spend on social care.
- In 2016-17, £1.5bn of New Homes Bonus will be awarded nationally. London's share is £308m (21%)
- Government is consulting on options to reform the NHB – moving from 6 to 4 year rolling scheme and sharpening the incentives (meaning a reduction to annual award) that will save £800m in 2019-20 to partly fund the "improved" Better Care Fund (BCF)
- The new BCF funding will be £105m in 2017-18 rising to £1.5bn by 2019-20
- ESG will be cut from £564m to £514m nationally (8.8%) and from £94m to £86m across London (8.8%)

Four year settlement

Unlike previous years the provisional settlement includes figures for four years (2016-17 to 2019-20). The Government presented this as an 'offer' to local government with the only clear proviso in the consultation being that any council accepting the offer will have to publish an efficiency plan. There are no details about what this would include or when councils will have to submit these plans, however the Government, in the consultation, has indicated that Councils should use their multi-year settlements to "strengthen financial management and efficiency, including by maximising value in arrangements with suppliers and making strategic use of reserves in the interests of residents". Members will be updated when further details are announced.

Spending Power

There has been a definitional change to revenue spending power compared with previous years. From 2016-17 onwards it will be known as "Core Spending Power" and is defined as the sum of:

- Settlement Funding Assessment

- Estimated Council Tax excluding Parish Precepts
- Potential additional Council Tax revenue from Adult Social Care flexibility
- Potential additional Council Tax revenue from £5 referendum principle for districts with lower quartile Band D Council Tax levels
- Proposed Improved Better Care Fund (from 2017-18 onwards)
- New Homes Bonus; and
- Rural Services Delivery Grant.

Core Spending Power for England will reduce by 2.8% in 2016-17 (from £6.8 billion to £6.6 billion), and by 0.5% (7.6% in real terms) over the four year period. It will reduce by 3.0% in 2016-17 and by 1.9% over the four (8.9% in real terms) across London boroughs.

Changes to the distribution of central resources

The main changes to local government funding in 2016-17 include:

- £1.275 billion to be held back to fund the New Homes Bonus
- £50 million to be held back for the business rates safety net; and
- Additional funding of £20 million for the most rural authorities.

There are also a number of transfers of funding into the 2016-17 settlement including:

- £307.7 million funding for the Care Act 2014, alongside existing provision for the 2014 Act
- Council Tax Freeze Grant, ensuring those councils that chose to freeze their council tax in 2015-16 continue to receive the benefit of the funding in future years
- Efficiency Support Grant for 2015-16, ensuring those councils that received it continue to benefit
- £10 million funding, combined with the existing £20.6 million of funding within the settlement, for lead local flood authorities – and £1.9 million for lead local flood authorities to act as statutory consultees in planning Sustainable Drainage Systems to also be rolled into the settlement. This funding will also be supplemented by a new section 31 grant

The settlement consultation also outlines funding additional to the settlement which includes:

- Compensation to continue in 2016-17 for the 2% cap on the small business rates multiplier announced at the 2013 and 2014 Autumn Statements, calculated on the basis of the reduction to estimated retained income, as in 2014-15, and;
- Unspecified funding for the Improvement & Development Agency (IDeA) which is still to be agreed.

New RSG distribution

The settlement includes an important change to the way Central resources will be allocated, this is to ensure that “local councils delivering similar services receive a similar percentage change in ‘settlement core funding’ for those services”. Unlike the last 3 years, when the Government ‘protected’ rolled-in grants on the funding trajectories set out in Spending Review 2010 thereby focusing larger proportionate cuts on upper and lower tier funding element, the new funding distribution method for

RSG takes into account the wider resources available to councils including Council tax (including CTFG grants), locally retained business rates and RSG, when distributing RSG. There is no proposed damping or scaling.

Settlement Funding Assessment

The Government has confirmed the local government control total (i.e. total Settlement Funding Assessment) to be £18.6 billion in 2016-17. This comprises £7.2 billion of Revenue Support Grant (RSG) and £11.4 billion of Baseline Funding (i.e. the amount the government expects to be retained locally under the business rates retention net of tariffs and top-ups).

At a national level, Settlement Funding Assessment (SFA) will reduce from £21.3 billion in 2015-16 to £18.6 billion in 2016-17 (12.5%). For the period to 2019/20 the reduction is 31.8% (36.7% real terms) For London boroughs SFA by 11.3% (from £3.8 billion to £3.4 billion) in 2016-17. This is split between an increase of £17 million or 0.8% in baseline funding and a reduction in RSG of £452 million or 24.7%. For London in the period to 2019/20 the reduction is 29.1% (real terms decrease is 34.2%)

Business rates reform

The government's intends, as outlined in the Spending Review, to reform the business rates retention system and move to 100 per cent retention by 2020. The relevant new information relating to business rates devolution from the settlement consultation is that the Government will:

- consider giving more responsibility to councils in England, and to Wales, to support older people with care needs – including people who, under the current system, would be supported through Attendance Allowance and is planning to consult in the New Year on this proposal, including on the right model of devolution and the level of flexibility that councils would need in order to effectively deliver this additional responsibility;
- seek the “earliest opportunity” to legislate on this next year;
- set up systems to involve councils, businesses and others in the process early in 2016; and
- consult on the implementation of the 100% business rates retention scheme in summer 2016, following a period of extensive engagement with councils and their representatives in the preceding months.

The business rates multiplier will increase by 0.8% (the impact of September's RPI inflation on the Small Business Rates Multiplier). All tariff and top-up payments, business rates baselines and funding baselines will therefore increase by 0.8%. The size and extent of safety net payments for 2016-17 are not yet known – these will be determined by local forecasts reported in the NNDR1 returns in January 2016. The retrospective levy payments due from tariff authorities for 2015-16 will be calculated after the current financial year using the final NNDR3 returns. The safety net threshold will remain at 7.5% meaning authorities are guaranteed 92.5% of their baseline funding. The trigger point for a safety net payment is different for each authority as it depends on the relative size of funding and business rates baselines.

Special and specific grants

The provisional settlement provided details of three special and specific grants (included within the Core Spending Power allocations spread sheet): the proposed Improved Better Care Fund (from 2017-18 onwards); New Homes Bonus allocations; and Rural Services Delivery Grant. London boroughs will receive £312 million from revenue grants in 2016-17, rising to £437 million in 2019-20.

New Homes Bonus

The Spending Review set out the overall envelope for New Homes Bonus payments over the period to 2019-20 as being £1.485 billion for 2016-17, reducing to £900 million by 2019-20. The Government has published provisional allocations for 2016-17 – the final year of the 6 year rolling New Homes Bonus (NHB) scheme.

London boroughs' share of the national total has stayed broadly the same at 21%, receiving £308 million of the £1.46 billion national total.

The Autumn Statement 2013 announced that local authorities in London would be required to pool £70 million of New Homes Bonus in 2015-16 to support of the work of London's Local Enterprise Partnership. The DCLG will advise in January 2016 as to whether the LEP top slice will continue in 2016-17.

Alongside the settlement consultation there is a separate consultation on reforms to NHB that were announced at the Spending Review. This consultation seeks views on the options for change to two aspects of the Bonus: reducing overall costs by moving from 6 years to 4 of payments and reform of the Bonus in order to better reflect local authorities' performance on housing growth (i.e. "to sharpen the incentive"). It also considers options for staying within the funding envelope in the event of a sudden surge in housing growth.

Further work will be done to understand the implications of these options

The core spending power figures include an estimate for NHB allocations in each of the years to 2019-20. For 2016-17, the funding line includes both New Homes Bonus allocations and returned funding which are the actual allocations. For 2017-18 onwards, the national totals set at the Spending Review are used and are apportioned between local authorities according to local authority shares in 2016-17. These should therefore be treated with caution.

Better Care Fund

Together with the additional council tax flexibility for adult social care, the Government is providing £1.5 billion additional funding for authorities to spend on adult social care by 2019-20, to be included in an improved Better Care Fund. Government proposes to allocate this funding through a separate grant to local government using a methodology which benefits those councils who benefit less from the additional council tax flexibility for social care. For exemplification of core spending power projections to 2020, the methodology adopted is essentially one of allocations of the improved Better Care Fund being adjusted so that where an authority could receive more from the additional council tax flexibility than its share of the national amount of the 2013 adult social care relative needs formula, its allocation is set to zero rather than a notional figure.

This affects 12 London boroughs in 2017-18, two in 2018-19 and one (Richmond-upon-Thames) in 2019-20.

The Government will invite views on the approach and there will be a separate, formal consultation on the Government's proposed distribution methodology

Independent Living Fund

The provisional settlement did not mention the Independent Living Fund. It must be concluded that the current intention is not to maintain funding for the ILF from 2016-17 onwards.

Council Tax

The provisional settlement sets out the Government's council tax referendum principles for 2016-17. Once again, the core threshold for local referendums will be at 2%. It also confirms the policy outlined in Spending Review 2015 that councils with adult social care responsibilities (upper tier authorities) will be able to increase council tax by up to 2% for each year between 2016-17 and 2019-20 to fund adult social care services⁵.

Local authorities are invited to offer their views on its operation and requested to indicate whether their authority is minded to take up the 2% flexibility (in full or in part), by 5pm on 15 January 2016. The effective threshold for local referendums for London boroughs is 4% for 2016-17. The threshold for the (51) lowest district councils will be £5 a year.

Adult social care authorities can increase their council tax by up to 2% more than the core referendum principle on the following basis:

'Spending on ASC in 2016-17 is £X higher than it would have been, where X= revenue from additional ASC council tax flexibility'.

a. S151 officers are asked to write to SoS indicating whether they intend to use additional flexibility.

b. Section 151 officers in ASC authorities to provide information demonstrating that an amount equivalent to the additional council tax has been allocated to adult social care. This must be done within 7 days of their authority setting its budget and council tax for 2016-17.

c. ASC authorities must confirm the level of their average Band D (excluding parish precepts) council tax increase for 2016-17, and the proportion of it attributable to funding for adult social care on the Council Tax Requirement form that must be returned to DCLG within 7 days of their council tax having been set.

d. The amounts allocated to adult social care in steps b and c must be reflected in Revenue Account returns sent to DCLG in April/May 2016; and in the Revenue Outturn forms which will be submitted to DCLG in May 2017.

e. The above information will be required each year that the scheme is in operation. From 2017-18 onwards, the requirement will also encompass the cumulative year-on-year revenue being allocated to adult social care as per b above

There is no Council Tax Freeze Grant in 2016-17. The Government intends to roll the 2015-16 Council Tax Freeze grant into RSG (paid only to those authorities who qualified for the scheme in 2015-16) in the same way as the grant in previous years.

School Revenue Funding Settlement: 2015 to 2016

The School Revenue Funding Settlement: 2016 to 2017 was also published on 17th December 2015, confirming details of the Dedicated Schools Grant (DSG), Education Services Grant (ESG) and pupil premium.

Education Services Grant

The overall ESG will be cut by 7.5% from £815 million in 2015-16 to £750 million in 16/17. This is "a first step towards achieving the savings announced in the spending review" of £600 million.⁶ The amount paid directly to local authorities will fall 8.8%

from £564 million in 2015-16 to £514 million in 2016-17, including an 8.5% cut from £93.6m to £85.7m in London. The remainder is paid directly to academies, which will continue to receive protection against large falls in ESG.7 Table 4 below outlines the per-pupil rates. The retained duties rate of £15 per pupil will be maintained, but general funding rates will be reduced by 11.5% across all school types.

Dedicated Schools Grant (DSG)

The DSG continues to be set out in three notional blocks: the early years block, the schools block and the high needs block. Total DSG will be £40.2 billion in 2016-17, with London receiving 18.5% (£7.4 billion).

Schools block

Per pupil units of funding will be the same as in 15/16, with a slight adjustment for former non-recoupment academies. The minimum funding guarantee will continue to be set at -1.5% per pupil before the pupil premium is applied⁸. The government will consult on proposals for a new national funding formula in the New Year.

High needs block

£92.5million of extra funding on top of the 2015/16 baseline has been provided for the high needs block, distributed using age 2-19 population projections for 2016.⁹

Early years block

Early years per child rates are the same as in 2015-16. The amount per pupil for the early years pupil premium will also remain the same.

Pupil premium

Pupil premium rates for 2016-17 will be the same as in 2015-16, with final allocations published in June 2016¹⁰

Council Tax Base 2016/17

1. INTRODUCTION

- 1.1 The council tax base is the measure of the number of dwellings to which council tax is chargeable in an area or part of an area. The Council Tax base is calculated using the properties from the Valuation List together with information held within Council Tax records. The properties are adjusted to reflect the number of properties within different bands in order to produce the Council Tax Base (Band D equivalent). This will be used to set the Council Tax at Band D for 2016/17. The Council is required to determine its Council Tax Base by 31 January 2016.
- 1.2 In 2013/14 the Council Tax Base calculation was affected by the introduction of the new local council tax support scheme and technical reforms to council tax. On 30 November 2012, new regulations set out in the Local Authorities (Calculation of council Tax Base) Regulations 2012 (SI 2012:2914) came into force. These regulations ensured that new local council tax support schemes, implemented under the Local Government Finance Act 2012, were fully reflected in the council tax base for all authorities.
- 1.3 At its meeting on 9 November 2015, Cabinet considered a report on the Council Tax Support Scheme which has implications for the Council Tax. At the meeting it was resolved that Cabinet:
1. agrees to the uprating changes for the 2016/17 Council Tax Support Scheme, as detailed within the report, in order to maintain low council tax charges for those on lower incomes and other vulnerable residents.
 2. recommends to Council the adoption of the new 2016/17 Council Tax Support Scheme.
- 1.4 The calculation of the Council Tax Base reflects the changes agreed by Cabinet.

2. CALCULATING THE COUNCIL TAX BASE FOR 2016/17

- 2.1 Under the regulations, the council tax base is the aggregate of the relevant amounts calculated for each valuation band multiplied by the authority's estimated collection rate for the year.
- 2.2 The relevant amounts are calculated as

- number of chargeable dwellings in each band shown on the valuation list on a specified day of the previous year,
- adjusted for the number of exemptions, discounts, reductions for disability, and premiums that apply to those dwellings.

2.3 All authorities notify the DCLG of their unadjusted Council Tax Base using a CTB Form and the deadline for return was 16 October 2015 and Merton met this deadline.

2.4 The CTB form for 2016/17 includes the latest details about the Council Tax Support Scheme and the technical reforms which impacted on discounts and exemptions.

2.5 There is a separate council tax base for those properties within the area covered by Wimbledon and Putney Commons Conservators. The Conservators use this, together with the Council Tax bases from RB Kingston, and Wandsworth to calculate the levy which is charged each year.

2.6 Assumptions in the MTFS

2.6.1 Other than changes in the actual council tax rates levied, in producing a forecast of council tax yield in future years, there are two key variables to be considered:-

- the year on year change in Council Tax Base
- the council tax collection rate

2.6.2 The draft MTFS previously reported to Cabinet during the business planning process has assumed that the Council Tax Base increases 0.5% per year and that the collection rate is 97.25% in each of the years .

2.6.3 These assumptions have been applied to the latest Council Tax Base information included on the CTB return completed on 16 October 2015 to produce the Council Tax Base 2016/17.

2.7 Information from the October 2015 Council Tax Base Return

2.7.1 The Council makes two CTB returns, one for the whole area of the borough and the other for the area covered by the Wimbledon and Putney Common Conservators for which an additional levy is applied.

2.7.2 The information in the CTB returns has been used to calculate the council tax bases and these are summarised in the following table compared to 2015/16:-

Council Tax Base	2015/16	2016/17	Change
			%
Whole Area	69,638.0	71,327.0	2.4%
Wimbledon & Putney Common Conservators	10,880.0	11,127.2	2.3%

3. IMPLICATIONS FOR COUNCIL TAX YIELD 2016/17

- 3.1 Assuming that council tax charges remain as for 2015/16 the estimated income in 2016/17 compared to 2015/16 and the current assumption in the MTFS are summarised in the following table:-

Council Tax: Whole area	2015/16	2016/17
Tax Base	69,638	71,327
Band D Council Tax	£1,102.25	£1,102.25
Estimated Yield	£76.758m	£78.619m
Change: 2015/16 to 2016/17 (£000)		+ £1.861m
Change: 2015/16 to 2016/17 (%)		+ 2.4%

3.2 Analysis of changes in yield 2015/16 to latest 2016/17

- 3.2.1 There are a number of reasons for the change in estimated yield between 2015/16 and the latest estimate based on the CTB data.
- 3.2.2 Over this period the Council Tax Base increased by 1,689 from 69,638 to 71,327 which multiplied by the Band D Council Tax of £1,102.25 results in additional yield of £1.861m.
- 3.2.3 An exact reconciliation for the change between years is not possible because of changes in distribution of Council Tax Support and discounts and benefits, and premiums between years varies and bands. However, broadly the changes can be analysed as follows:-

a) Number of Chargeable Dwellings and Exempt Dwellings

Between years the number of properties increased by 489 from 82,589 to 83,078 and the number of exempt dwellings reduced by 89 from 860 to 771. This means that the number of chargeable dwellings increased by 578 between years. Based on a full charge, this equates to additional council tax of £0.637m.

b) Amount of Council Tax Support Reduction

In 2015/16 there was a reduction of 9,686.64 to the Council Tax Base for the local council tax support. This has reduced to 9,099.90 in 2016/17 which is a change of 586.74 and equates additional council tax of about £0.647m.

c) Changes in Discounts, Exemptions and Premiums

Overall, the level of discounts, exemptions and premiums in the 2016/17 calculation is less than that included in 2015/16 resulting in an increase of about 521 in the council tax base which increases yield by around £0.574m

d) Summary

The following puts the individual elements together to show how the potential council tax yield changes between 2015/16 and 2016/17:-

	Approx. Change in Council Tax Base	Approx. Change in Council Tax yield £m
Increase in number of chargeable dwellings	578	0.637
Change in Council Tax Support Reductions	587	0.647
Change in discounts, exemptions and premiums	521	0.574
Balance due to changes in distribution etc.	3	4
Total	1,689	1,862

APPENDIX 3

DRAFT MTFS 2015-19: RE-PRICED AND ROLLED FORWARD				
	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Departmental Base Budget 2015/16	150,913	150,913	150,913	150,913
Inflation (Pay, Prices)	1,624	4,731	7,837	10,944
Autoenrolment/Nat. ins changes	1,458	2,000	2,000	2,000
FYE – Previous Years Savings	(15,902)	(21,334)	(22,482)	(22,482)
Amendments to previously agreed savings	1,504	1,106	0	0
Change in Net Appropriations to/(from)				
Reserves	(5,260)	(5,418)	(5,887)	(4,486)
Revenuisation	(20)	(20)	(20)	(20)
Taxi card/Concessionary Fares	450	900	1,350	1,350
Other	1,622	1,692	1,765	1,841
Re-Priced Departmental Budget	136,389	134,570	135,476	140,060
Treasury/Capital financing	13,621	13,744	13,917	14,650
Pensions	4,395	4,592	4,799	5,015
Other Corporate items	(13,289)	(13,131)	(12,659)	(14,063)
Levies	632	632	632	632
Sub-total: Corporate provisions	5,359	5,837	6,689	6,234
BUDGET REQUIREMENT	141,748	140,407	142,165	146,293
Funded by:				
Revenue Support Grant	(22,589)	(14,963)	(10,071)	(5,076)
Business Rates (inc. Section 31 grant)	(34,432)	(35,121)	(35,823)	(36,540)
C. Tax Freeze Grant 2015/16	0	0	0	0
PFI Grant	(4,797)	(4,797)	(4,797)	(4,797)
New Homes Bonus	(2,904)	(2,615)	(2,294)	(968)
Council Tax inc. WPC	(78,913)	(79,306)	(79,701)	(80,098)
Collection Fund – (Surplus)/Deficit	1,566	0	0	0
TOTAL FUNDING	(142,070)	(136,802)	(132,686)	(127,479)
GAP excluding Use of Reserves (Cumulative)	(322)	3,605	9,479	18,815
Savings/Income Proposals 2016/17	(200)	(4,057)	(7,547)	(7,547)
Sub-total	(522)	(452)	1,932	11,268
Use of Reserves	522	452	(1,932)	(5,600)
GAP including Use of Reserves (Cumulative)	0	0	0	5,668