

# Provisional Local Government Finance Settlement 2013-14 and 2014-15

19<sup>th</sup> December 2012



## Headlines

- The government has announced the provisional local government finance settlement for 2013-14. It has also announced Revenue Support Grant for 2014-15.
- Full details can be found on the DCLG website at <http://www.local.communities.gov.uk/finance/1314/settle.htm>
- The closing date for responses to DCLG is 15 January 2013.
- The government has confirmed that the following will be withdrawn from the local government finance settlement in 2013-14:
  - £411m for New Homes Bonus.
  - £125m for capitalisation and the safety net - £220m less than the amount consulted on.
  - £1.04bn for the Academies Funding Transfer - £180m less than the amount consulted on. Of this £15 per pupil will be retained by authorities for pupils in academies.
  - They have confirmed that £1.7bn of Early Intervention Grant will go into the Start Up funding allocation. However they have not announced the distribution of the £150m holdback.
- On the basis of the information currently available we estimate that non-schools revenue funding will decrease by 4.8%. Of this £26.1bn is the start-up funding allocation, a decrease on a like for like basis of 3.9%.
- The figures confirm that there will be no further reductions from the control total in 2013-14 as a result of the Autumn Statement.
- However in 2014-15 there will be a further reduction of £447m, as announced in the Spending Review. The total reduction in 2014-15 will be 8.6%. Revenue Support Grant in 2014-15 will fall by 17%.
- Damping floors for 2013-14 have been announced, this relates to formula funding only.
- Spending power figures for 2013-14 have been announced and a new grant for seven councils – called the Efficiency Support Grant will be available, subject to conditions.
- The total expected business rates income is £26.3bn. The total amount deducted before arriving at the 50% split between the central and local shares is 4.5bn. That means that the Estimated Business Rates Aggregate for councils is £21.8bn. The local share is 50% of this or £10.9bn.
- The Start-up funding allocations for councils in 2013-14 have been confirmed. It has also been confirmed that of this £10.9bn will be in the local share and £15.2bn in Revenue Support Grant.
- Other key elements of the business rates retention scheme have also been announced. This includes top-ups and tariffs, levy and safety net rates and the proposed pools.
- Total council tax support funding of £3.295bn (not including police) has been announced in addition to £33.5m for New Burdens.
- Referendum limits have been confirmed for councils, fire authorities and PCCs. Parish and town councils will not be included.

## Briefing

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## LGA key messages

- **Today's settlement announcement confirms that local government continues to bear the brunt of public spending cuts in this Spending Review period. The Autumn Statement promises that cuts will continue at least until 2018. Whilst it is pleasing our campaigning has resulted in councils being protected from additional cuts next year, within the context of ongoing pressures to key service areas such as adult services and waste collection, the extra two per cent cut in 2014-15 is unsustainable to local government.**
- **It is generally recognised that councils have managed the cuts so far by maximising efficiencies and redesigning services. With further cuts on the horizon, this will be impossible to repeat and impacts on the local frontline services that residents rely on and value are inevitable.**
- **The LGA is pleased that the government has made adjustments to the total business rates aggregate to take account of appeals. We will continue to monitor carefully whether this adjustment is realistic and takes account of the backdating of appeals.**
- **We are also pleased that in response to strong pressure from the LGA and the sector the government has reduced the topslices for the safety net and academies. This is a total gain of £405m.**
- **It should be for local people to determine whether they find a suggested council tax increase "excessive", rather than the Secretary of State decreeing what constitutes "excessive" from the centre. If local referendums are to be truly localist, they should be triggered only at the behest of local people.**
- **The LGA welcomes the increased savings of £180 million for councils up and down the country as a result of using more up to date data for the academies funding transfer. However local authorities which have already reduced their spending on education services, and are spending less than £116 per pupil will see more money taken out of their budgets than they are spending on education services for the schools they maintain. It is disappointing that the government has not offered protection to councils on the same lines that it has for academies.**

## Settlement in detail

This is the first local government finance settlement under the new arrangements for business rates retention that will come into place on 1<sup>st</sup> April 2013. This means that business rates have now been split into a central and a local share; each being 50% of the Expected Business Rates Aggregate in 2013-14 (as predicted by the Office for Budget Responsibility); after deductions are made for expected appeals and reliefs.

The total size of the local share is £10.9bn.

The Start Up Funding Assessment has also been announced. The following table shows how this compares with 2012-13

| Settlement Key statistics                       | 2012-13    | 2012-13  | 2013-14 | %      | 2014-15 | %      |
|---|------------|----------|---------|--------|---------|--------|
|   | unadjusted | adjusted |         | change |         | change |
|   | £bn        | £bn      | £bn     |        |         |        |
| Net AEF = Start Up Funding Allocation           | 23.596     | 27.169   | 26.101  | -4%    |         |        |
| Funded through                                  |            |          |         |        |         |        |
| Local Share                                     |            |          | 10.899  |        | 11.233  | 3.1%   |
| Revenue Support Grant                           |            |          | 15.203  |        | 12.624  | -17.0% |
|   |            |          | 26.101  |        | 23.856  | -8.6%  |
| How the local share is worked out               |            |          |         |        |         |        |
| Local list income                               |            |          | 26.297  |        |         |        |
| less deductions for appeals losses, reliefs etc |            |          | 4.500   |        |         |        |
|   |            |          | 21.797  |        |         |        |
| Central Share (50%)                             |            |          | 10.899  |        |         |        |
| Local Share (50%)                               |            |          | 10.899  |        |         |        |

## Start-up funding allocation

- The start-up funding allocation has decreased by 3.9% on a like for like basis. For 2014-15 the decrease is substantially larger at 8.6%. However this takes into account growth in the local share in line with RPI, so that Revenue Support Grant reduces by 17%.

### *LGA View*

- **This confirms that the cuts in 2014-15 are approaching the 2011-12 cut which was 12.1%. In our reaction to the Autumn Statement we characterised this as unsustainable. We also consider it to be contrary to the principle of business rates retention to apply an increase in the local share to reduce Revenue Support Grant.**

## Damping arrangements

The table sets out the damping arrangements for formula grant in 2013-14 (and 2014-15 if announced). This relates to formula funding. The gap between the bands has been increased from 1% to 2% and fire authorities will be banded for the first time.

|                                     | <i>Education/<br/>Social<br/>Services</i> | <i>Shire<br/>Districts</i> | <i>Police</i> | <i>Fire (3<br/>bands<br/>only)</i> |
|-------------------------------------|---|----------------------------|---------------|------------------------------------|
| <b>2013-14</b>                      |   |                            |               |                                    |
| <i>Single floor</i>                 |   |                            | 1.6%          |                                    |
| <i>Band 1 - most<br/>dependent</i>  | --2.7%                                    | --5.4%                     |               | -8.7%                              |
| <i>Band 2</i>                       | --4.7%                                    | --7.4%                     |               | -9.2%                              |
| <i>Band 3</i>                       | -6.7%                                     | -9.4%                      |               | -11.7%                             |
| <i>Band 4 - least<br/>dependent</i> | --8.7%                                    | -11.4%                     |               |                                    |

## New Homes Bonus

- Provisional amounts for the New Homes bonus for 2013-14 have been announced by CLG – a total of £661m. This will be funded through £250m in specific grant with the rest in top-sliced formula funding. The £500m top-slice which has been taken from formula funding in 2013-14 is £89m more than will be required; the balance will be returned to local government in proportion to the Start-Up Funding Allocation.

## Business rates

Business rates retention is introduced in April 2013. The settlement announces the key numbers around which authorities will take their decisions.

### Estimated Business Rates Aggregate

- The Estimated Business Rates Aggregate for 2013-14 has been announced as £21.8bn.
- This is the total notional yield from the local list - £26.3bn with deductions for:
  - Reliefs, transitional arrangements and enterprise zones - £2.4bn.
  - A calibration adjustment to allow for the difference between forecast and outturn figures; this is based on historic figures - £1.3bn.
  - Expected reduction in yield due to appeals - £0.6bn.
  - Costs of collection and losses on collection, etc - £0.2bn.
- These adjustments are made at the national level – with the implicit assumption that the effect is the same in all authorities.

### Central and local shares

- The expected business rates aggregate is divided between the central and local share - 50% for each. The central share will be used to pay Revenue Support Grant and police funding.
- The total size of the local share is 50% of £21.8bn i.e. £10.9bn. This is the total pot for business rates retention and also determines the split in the Start Up Funding Allocation between baseline funding and Revenue Support Grant.
- A proportionate share of the baseline funding is calculated for each local authority on the basis of average of business rates collected in 2010-11 and 2011-12. It is then split between tiers in a way that ensures that counties and fire authorities are top-up rather than tariff authorities.

### Top-ups and tariffs

- For each authority the result of this calculation is compared with its baseline funding. If the expected business rates are greater than the baseline funding it is a tariff authority; if it is the other way round it is a top-up authority. Top-ups and tariffs for all authorities have been announced and can be found on the DCLG website at the address given at the start of this briefing.

### Safety nets and levies

- Once the scheme is up and running, there will be a system of levies and safety nets to prevent what ministers see as excessive gain or excessive loss. The rates for these have also been announced:
  - All authorities will receive a safety net payment if their actual local share business rates income is 7.5% or more beneath the funding baseline.
  - Levy rates will be set individually for authorities, determined by the ratio of their expected local share income to their baseline funding level. They will not exceed 50% and cannot be negative.
- Final levy and safety net payments will only be determined after the end of the financial year. However there is provision for an authority which expects to receive safety net support to receive a payment on account.
- Although DCLG expects that levies and safety nets should balance in the long run, an additional top-slice of £25m has been removed from formula funding.

### Pools

- DCLG has also announced the proposals on pooling which it has received. Pools will be treated as one authority for the purposes of top-ups and tariffs, levies and safety nets. DCLG has designated 20 proposals for pools. These can also be found at the DCLG website. Authorities in pools are now asked to consider their numbers. If they want to withdraw they have to give 28 days' notice – with this starting from the date of the provisional local government finance settlement on 19<sup>th</sup> December.

## Multiplier

- Businesses will see no real terms change to the business rates they pay. The national non-domestic rate multiplier will go up by 2.6% to 47.1p in line with the increase in the September RPI. There will be a similar increase for small businesses.
- Councils will be fully funded for the announcements in the Autumn Statement on small business rate relief and empty property relief. The LGA understands that this will be done through the New Burdens Principle.

## LGA view

- **Localisation of business rates is a long-standing LGA aim. Business rates retention is a major development which has risks as well as potential rewards. We lobbied hard for the local share to be greater than 50% and will continue lobbying for the local share to be increased.**
- **The LGA welcomes the adjustments to the total business rates aggregate to take account of factors such as appeals. We will continue to monitor carefully whether this adjustment is realistic. We are also aware that some authorities are unhappy that these adjustments have been made at a national level rather than in response to local circumstances.**
- **We welcome the fact that the holdback for the safety net has been reduced from £245m to £25m.**
- **The amount of holdbacks for capitalisation has not changed. The LGA considers that capitalisation shouldn't be top-sliced.**
- **The LGA welcomes the adjustments to the expected business rates aggregate for appeals and the inaccuracy of forecasts. However it remains to be seen whether these are sufficient. The government should provide assurance that local government will be fully funded up to the planned spending control total, even if there is a shortfall in business rates.**

## Other specific grants

- Total specific grants outside the Start-Up Funding Allocation in 2013-14 will be £42.6bn. Of these £39.9bn is for schools. The remaining £2.8bn, which does not include the grant for public health which has not yet been announced represents a like for like decrease of 12%.

## Local Council Tax Support

- Council tax benefit will be abolished from April 2013 when local council tax support is introduced. The main funding for this (except for the police) will be within the Start Up Funding Allocation but outside formula funding.
- The total amount of funding for 2013-14, according to DWP figures seen by the LGA, will be £3.728bn, £31m more than in the original DCLG consultation. £3.295bn of this will be within the Start Up Funding

Allocation with the remaining amount paid to the police.

- The higher amounts come about because of revised OBR predictions and a revision of DWP's methodology. LGA officers have had detailed engagement with DWP and DCLG on this and pressed them for their forecast to be realistic.
- This is divided between areas on the basis of the shares of annual subsidised council tax benefit expenditure for 2011-12. Within areas it is divided between tiers (e.g. districts, counties, fire and police) in accordance with shares in the 2012-13 council tax.
- DCLG has also announced additional New Burdens funding of £34.8m. This will go to billing authorities. However no account has been taken of the increased costs of enforcement.
- As previously announced, DCLG will pay a transitional grant to those authorities whose schemes comply with a number of conditions.

### **LGA view**

- **The cut in funding is a Spending Review decision. We lobbied hard for additional flexibility on discounts while the Bill was in Parliament. Many councils are finding that they have no alternative but to pass the cut onto the working age poor.**
- **We do however welcome the fact that following careful scrutiny and lobbying by the LGA that DCLG have increased the total grant pot.**
- **We know that some authorities have concerns about the use of 11-12 outturn as opposed to 12-13 figures for dividing the money among authority areas. We call on DCLG to look carefully at the case for any additional payment.**
- **We also welcome the fact that DCLG are paying New Burdens money. However we do not agree with the decision not to make an allowance for the increased costs of enforcement.**

### Council tax

- As previously announced there will be a grant for billing and major precepting authorities who freeze or lower their council tax in 13-14. This grant is equivalent to a 1% increase in council tax on 2012/13 levels and is payable in 2013/14 and 2014/15 for a freeze in 2013/14.
- The government has confirmed that the referendum limit for 2013-14 will be 2% per annum. The exception for this is that for shire districts, police and fire authorities in the lower quartile of council taxes for their category of authority it will be the higher of £5 or 2%. Parish and town councils will not be included.

### **LGA view**

- **It is for councils to determine the appropriate rate of council tax. The lower referendum limits, coupled with the new council tax support arrangements will put many councils in a difficult position.**

### Capitalisation for equal pay

- The Secretary of State announced that local authorities would be allowed to use the receipts from asset sales to fund equal pay claims.

#### **LGA View:**

- **For authorities facing significant equal pay claims, this will likely be a welcome announcement although we await further details on the process for applying for capitalisation.**
- **However, we are disappointed in the Government's position on non-equal pay capitalisation, which is to ask local authorities to pay cash in advance from their revenue budgets to offset what are essentially permissions to allow the spreading of various kinds of exceptional revenue expenditure over more than one year.**
- **Taking real money from council budgets to cover what are essentially artificial quirks of government accounting is nonsensical, particularly at a time when funding is being heavily cut.**

### Schools and Children's Services Funding

#### Academies central services transfer

- DfE have announced the result of the consultation (Replacing LACSEG (Local authority central services equivalent grant)' on paying for central services for academies which came out in July 2012
- They consulted on a total transfer of £1.22bn – based on authorities' spending on central services such as school improvement and statutory and regulatory duties for education in 2011-12. Following evidence submitted by the LGA and authorities 2012-13 figures will be used. This means that the total size of the transfer diminishes to £1.04bn.
- Of this £265m has already been withdrawn from formula grant in 2012-13. Thus the total additional money transferred is £780m as opposed to £960m. So local authorities save £180m.
- The new grant works out at around £131 per pupil. This will go wholly to authorities for pupils in maintained schools. For academy pupils the academy will get £116 per pupil with the authority keeping £15 per pupil.
- There will be no adjustments for deprivation or area cost adjustment in the new grant; it will be the same per pupil everywhere in England.
- Academies will receive damping payments for the decreases in LA LACSEG so will get £150 per pupil in 2013-14 and £140 per pupil in 2014-15. However changes to LA funding will not be damped.

#### **LGA view**

- **The LGA has long argued that the government should only**



**withdraw funding for the central education services that local authorities provide in line with the savings that authorities are able to make as more pupils transfer to Academy schools.**

- **The government's decision to base the funding transfer calculations on the most recent budget information shows our messages are getting through and will result in welcome savings of £180 million for councils up and down the country. This marks a positive new approach and will go some way to alleviating the unprecedented budget squeeze local authorities are facing.**
- **The bad news, particularly for local authorities which have already reduced their spending on education services, is that local authorities spending less than £116 per pupil will see more money taken out of their budgets than they are spending on education services for the schools they maintain. This will see those with a high proportion of academies in their area hit the hardest, and it is very disappointing that for these authorities the government has not offered protection on the same lines that it has for academies facing significant funding reductions from the new approach. We would strongly urge the government to reconsider this aspect of its decision.**

#### Early Intervention Grant

- **The Early Intervention Grant was paid as a separate non-ring fenced grant in 2011-12 and 2012-13. In 2011-12 it was £2.235 billion and in 2012-13 it was £2.370 billion. It has been confirmed that it will be split as follows:**
  - **£1.7bn in 2013-14 and £1.6bn in 2014-15 will be incorporated into the start-up funding assessment;**
  - **£525m in 2013-14 is to be taken into the ring-fenced Dedicated Schools Grant in order to expand provision for disadvantaged 2-year olds. The two year old funding within the DSG has now been confirmed; councils' shares of the total £525m for 2013-14 were announced on 27 November. The amount for 2014-15 is £760m but the distribution has not yet been confirmed.**
  - **£150m to be retained by DfE for central purposes for adoption. Distribution has not yet been announced.**

#### **LGA View**

- **We said in our response to the business rates retention technical consultation that there was no justification for the removal of a top-slice of £150m in 2013-14 and 2014-15 in this way. The government provided no justification for this arbitrary reduction in the local government settlement as announced in Spending Review 2010, nor has it yet announced the distribution of the £150m.**
- **We have also heard concerns from member authorities that removing the 2 year old money to the ring-fenced Dedicated Schools Grant constitutes a double cut: the cut of existing core EIG (a 27% cut in non-ring fenced resources), plus the pressure**

from the insufficient funding to meet new statutory responsibilities for two year olds. Both of these elements would appear to contravene the Government's 'new burdens' principle.

- **These cuts risk under-resourcing local authorities in delivering targeted early support to children, young people and families that need it most. Cutting core EIG funding is counter-productive and will lead to significant cost pressures in the longer term, due to increased demand for more costly longer-term/lifelong interventions. Local authorities will be less able to provide support for children and families affected by disabilities or existing / potential development delays.**

### Public Health Funding

The total sum for the public health transfer has not yet been announced; the LGA understands that an announcement will be made in the new year.

#### ***LGA view***

- **We are disappointed that DH has delayed the announcement of public health allocations to local government – councils need this information urgently in order to plan their public health services for April 2013**
- **The recent LGA-led stock-take on the public health transition was generally very positive with 95% of areas being confident of a safe and effective transition. However this optimism is tempered by several key issues being outstanding, the concern most often mentioned was lack of clarity on public health funding.**

### Police Funding

As previously announced, the business rates retention arrangements will not include funding for police services. That means that police will be funded wholly from the central share and by outside grant. All police authorities will have a 1.6% reduction in funding in 2013-14.

#### ***LGA View***

- **The reductions in police funding will leave newly elected police and crime commissioners with difficult decisions about how they deliver their manifesto commitments, sustain frontline policing, and also look to make the efficiencies and savings needed.**
- **The further cut in the community safety fund on what councils received leaves PCCs with little funding to commission the broad range of community safety activity they are likely to be interested in.**
- **Working with partners, especially councils, on programmes like those assisting troubled families will therefore be crucial in reducing the demands on police time and resources going forward, and the pooling of budgets and co-commissioning of**

**services will be vital in the future funding of community safety activity.**

### Fire Funding

Fire funding will be included within the business rates retention scheme. All standalone fire authorities will be top-up authorities and their share of business rates income will be 2%. The decrease to fire funding is greater in 2013-14 than for other services, this reflects Spending Review decisions. Slightly different damping arrangements for 2013-14 have been announced, with fire authorities having banded damping arrangements.

### **LGA view**

- **The reduction in funding for fire authorities continues to put pressure on the delivery of fire services. This will only be heightened by the additional reductions expected in 2014-15 and the expectation that this trend will continue into subsequent years.**
  - **The LGA argued for greater flexibility in setting council tax increases and the exceptions to the “excessiveness principle” are welcome. However they will only apply to a very limited number of fire authorities and do not go far enough.**
  - **Fire authorities are already among the most efficient of public services and we await with interest the review by Sir Ken Knight on future means to achieving efficiency in the sector.**
-