

Local Government Association (LGA) briefing: *Provisional Local Government Finance Settlement 2014-15 and 2015-16*

18th December 2013



LGA KEY MESSAGES

- Today's Provisional Local Government Finance Settlement confirms that councils will continue to face significant spending reductions up to 2016. The Government has however started to listen to local authorities and made some important concessions without which local services would have suffered more.
- Central government grant to run local services will fall by 8.5 per cent over the next two years, when including NHS support for social care. However, without including NHS support for social care which is not available for shire district councils, the reduction is 15.9 per cent.
- As a result of the Autumn Statement there will not be an additional reduction in 2014-2015. This is a positive development as it will aid financial planning in local government.
- At a time when local authorities are contending with the biggest cuts in living memory, the introduction of the Better Care Fund and Government's decision to reverse potentially costly changes to the New Homes Bonus will help the efforts of some local authorities in protecting vital everyday services.
- The reduction of the money held back from councils for initiatives such as the New Homes Bonus reverses the position announced in the summer technical consultation on local government finance. It demonstrates that the concerns of the LGA and councils were listened to.
- The next two years will be the toughest yet for local public services. By the end of this Parliament, local government will have to have made £20 billion worth of savings. Councils have so far largely restricted the impact of the cuts on their residents. They have worked hard to save those services that people most value and have protected spending on social care for children and the elderly, but even these areas are now facing reductions. 2015/16 will be a crunch year for councils and local public services.
- It is unacceptable that for a second consecutive year, councils have had to wait until a week before Christmas to find out their funding for the next year. This prevents local authorities from being able to properly consult with residents and deprives local areas of the long-term certainty needed to run important local services to a high standard. No business would be run in this way. We look forward to the Chancellor delivering on his commitment to provide a longer-term funding settlement for local authorities.

KEY FACTS

- The Department for Communities and Local Government (DCLG) has announced the provisional [local government finance settlement for 2014-15](#). The Department has also announced an illustrative settlement for 2015-16.
- The closing date for responses to DCLG is 15 January 2014.

Briefing

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- There is a reduction in net Aggregate External Finance of 9.4 per cent in 2014-15 and 13.2 per cent in 2015-16. Compared with the summer consultation, there is £123 million more in the Settlement Funding Assessment (SFA) for 2014-15 and £131 million more for 2015-16 which has been found by reducing holdbacks for New Homes Bonus (£100m in each year) and capitalisation (£50million). The balance is explained by the resources for Efficiency Support Grant and sparse authorities.
- There is an overall reduction of revenue spending power of 2.9 per cent in 2014-15 and 1.8 per cent in 2015-16 (these figures exclude the Greater London Authority). This includes new resources for social care through the Better Care Fund. Excluding council tax income this is a reduction of 5.3 per cent in 2014-15 and 3.5 per cent in 2015-16, or 8.5 per cent over the two years.
- Confirmation that the Government will pay in full for the business rates changes announced in the Autumn Statement. The Government is doing this by increasing revenue support to compensate for the lower increase in the local share by a section 31 grant.
- Referendum limits have not been announced. The Government will make a further announcement in the New Year.
- The Government has announced an additional £2.35 billion of basic needs funding for councils to plan and create new school places that will be needed by 2017.

THE SETTLEMENT IN DETAIL

This is a two year settlement consisting of a provisional settlement for 2014-15 and illustrative figures for 2015-16. The Government have announced the following:

- Settlement Funding Assessment (SFA) figures for 2014-15 and 2015-16. This is a cut of 9.4 per cent in 2014-15 and 13.2 per cent in 2015-16.
- Compared with the summer technical consultation the holdbacks for New Homes Bonus and capitalisation have been reduced; putting a net £123 million back into SFA in 2014-15 and £131 million in 2015-16.
- Revenue spending power (RSP) figures for 2014-15 and 2015-16 for each council. These show an overall reduction in revenue spending power of 2.9 per cent in 2014-15 and 1.8 per cent in 2015-16 (excluding the Greater London Authority). These figures include council tax income. If you leave council tax out, this is a cut of 5.3 per cent in 2014-15 and 3.5 per cent in 2015-16, or 8.5 per cent over the two years.
- The main difference between the two figures is explained by:
 - Top slice for New Homes Bonus. The Revenue Spending Power figures include the New Homes Bonus grant for both years.
 - NHS money to support social care of £1.1 billion in 2014-15 and £3.46 billion in 2015-16 as well as set-up costs of £285 million revenue and £50 million capital for set-up costs for deferred costs for social care. This money will go to social care authorities.

- The effects of changes to business rates announced in the Autumn Statement, including the two per cent cap. These have been adjusted for in the SFA figures, but not in the Revenue Spending Power figures.
- The Government has confirmed that it will pay Efficiency Support Grant to councils which would otherwise have a revenue spending power reduction of more than 6.9 per cent. Nine councils are eligible in 2014-15 and 14 councils are eligible in 2015-16. They £40.5 million in each of 2014-15 and 2015-16 has been set aside to pay for this.
- They will also continue to pay a grant to the most sparsely populated authorities; this is estimated at £9.5 million in 2013-14. It will be incorporated into the Settlement Funding Assessment from 2014-15.

New Homes Bonus

The provisional amounts for the New Homes Bonus (NHB) for 2014-15 and 2015-16 have been announced by DCLG. This includes a total of £916 million in 2014-15 and £1150 million in 2015-16. This will continue to be funded through £250 million in specific grant with the rest in top-sliced funding. These figures are £100 million less for both 2014-15 and 2015-16 than the amount included in the summer technical consultation. This funding will be used to increase Settlement Funding Assessment (SFA) in each of these years.

Any unallocated money will be returned to local government in proportion to the SFA as a supplementary NHB amount, as was the case in 2013-14.

As previously announced the Government will not be going ahead with the transfer of £330 million of NHB to Local Enterprise Partnerships in 2015-16. However, £70 million will be transferred from London Boroughs and the City to the Greater London Authority.

Business rates

There are no changes to the business rates retention scheme which is now in its second year, other than an announcement on pooling. DCLG is consulting on 13 proposals for pools in 2014-15, the same number as in 2013-14.

The income from business rates will be affected by the measures announced in the 2013 Autumn Statement. These are:

- The 3.2 per cent RPI increase for 2014-15 will be reduced to 2 per cent.
- A £1,000 discount for all retail, pubs, cafes (excluding banks and betting offices) with rateable values below £50,000 for 2 years.
- The doubling of Small Business Rate Relief will continue for a further year.
- Ratepayers will continue to keep their Small Business Rate Relief entitlement for a year where they take on a second property. New occupiers of former retail premises which have been unoccupied for a year will receive a 50 per cent discount for 18 months.

The Government has said that they these will be paid for through the section 31 grant

so that councils are fully compensated. Figures reflected in the settlement aggregate this grant into local business rates

The multiplier will therefore be 48.0 pence, with the small business multiplier being 47.1 pence. Top-ups and tariffs will be uprated by 1.95 per cent; rather than the September Retail Price Index of 3.2 per cent.

The Government has also issued proposals for reforming the system of challenging and appeals for business rates. A [consultation](#) will close on 3 March 2014.

LGA view

- **It is good news that councils will be fully compensated for the loss of income from the business rate measures.** The Autumn Statement puts this at a total of £1.1 billion.
- The extension of the small business rates relief extension and other measures to help small businesses is good news as is the Government's commitment to paying for this through the New Burdens Doctrine.
- **However, councils have yet to see the payment to cover the extension announced in last year's Autumn Statement and need strong assurances that they will receive both payments as soon as possible.** Unless it is fully funded it will further undermine council finances at a time when councils need every penny for vital services.
- The amount of holdbacks for the safety net has not changed since the proposals in the summer technical consultation. The Government should set all appeals up to 31st March 2013 against the old business rates pool, thus reducing the need for a safety net top-slice.

Council tax

The Provisional Local Government Finance Settlement announces the following on council tax:

- The freeze grant will be extended for both 2014-15 and 2015-16. This grant is equivalent to a one per cent increase in council tax.
- Referendum limits have not been announced. DCLG says they will be announced separately in the New Year. The written ministerial statement says that ministers are "particularly open to representations suggesting that some lower threshold be applied to all or some categories of authorities, given the strong need to protect taxpayers wherever possible from unreasonable increases in bills, and given next year's elections on 22 May across the country allow for referendums to be held at minimal cost."

LGA view

- **Referendums on council tax are an unnecessary and a costly burden that will put growth generating investment at risk.**

Local Council Tax Support

Funding for local council tax support schemes is now included in the Settlement Funding Assessment.

- As foreshadowed in the technical consultation document, the funding for council tax support in 2014-15 will not be separately identified. The total amount of council tax support, according to the DCLG information, is £3.305 billion for 2014-15. If councils decrease funding to their local council tax support schemes in line with the reduction in SFA over £1 billion will be taken out of external funding by the end of 2015-16.
- DCLG has also announced additional New Burdens funding of £34.8 million and this will go to billing authorities. However, no account has been taken of increased costs of enforcement. As previously announced, DCLG will not be paying a transitional grant in 2014-15.

LGA view

- The National Audit Office has said that councils have implemented local council tax support schemes well. However, the way in which the support figures have not been identified at individual authority level in 2014-15 means that it is not clear how much of local schemes are being externally funded. **The Government should be more transparent about the level of external funding.**
- DCLG are paying for the changes to local council tax support through the New Burdens money which is something the LGA has called for. **However, we do not agree with the decision not to make an allowance for the increased costs of enforcement.**

Better Care Fund and funding for the Care Bill

The Better Care Fund (BCF) – formerly the ‘Integration Transformation Fund’ – was announced in the June 2013 Spending Round as a ‘pooled budget for health and social care services, shared between the NHS and local authorities, to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people’. The local government elements of the BCF (including the £1.1 billion transfer from health to social care) are based on local government formula and the health elements on Clinical Commissioning Group formula.

The Autumn Statement in December committed the Government to ‘making sure pooled funding is an enduring part of the framework for the health and social care system beyond 2015/16’.

The fund does not address the financial challenges facing councils and Clinical Commissioning Groups (CCGs) in 2015/16 and instead brings together local government and NHS resources that are already committed to existing activity.

The June 2013 Spending Round set out the following:

2014/15	2015/16
An additional £200 million transfer from the NHS to social care, in addition to the £900 million transfer already planned (as set out in the 2010 Spending Review)	£3.8 billion pooled budget to be deployed locally on health and social care through pooled budget arrangements

In 2015/16 the BCF will be created from the following:

£1.9 billion NHS funding

£1.9 billion based on existing funding in 2014/15 that is allocated across the health and wider care system, composed of:

- | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">• £135 million Carers' Breaks funding• £300 million CCG reablement funding• £354 million capital funding (including £220 million of Disabled Facilities Grant)• £1.1 billion existing transfer from health to social care |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

In the June Spending Round the Government announced £335 million in 2015/16 'so that councils can prepare for reforms to the system of social care funding, including the introduction of a cap on people's care costs from April 2016 and a universal offer of deferred payment agreements from April 2015.' The Department of Health has also identified other costs relating to care and support totalling £130 million that are to be met through the BCF.

LGA view

- The LGA's *Rewiring Public Services* campaign has called for further integration of social care and health services. Integrated services are more likely to improve outcomes in ways which treat people with dignity and respect and it makes sense to get rid of duplication and waste. **The BCF therefore fits well with our aspirations for integrated health and care and is an opportunity to improve joint working between health and social care for the benefit of the individual and the public purse.** Health and Wellbeing Boards will need to be at the centre of this work.
- We also welcome the Autumn Statement announcement that the pooling of resource between health and social care will be a permanent feature of our health and social care system. **However, the BCF does not of itself address the financial challenges facing councils and clinical commissioning groups and is included within NHS Departmental Expenditure Limits, so it could be regarded as double counting.** We need sustainable funding for adult social care both for now and in the longer-term in order to make the most of the Better Care Fund.
- The reforms being implemented through the Care Bill need to be **fully costed and funded as new burdens.** This means funding both implementation in 2015/16 (the £335 million referenced above) and supporting on-going running costs (money for which will be allocated through future Spending Reviews). The additional 'other costs' of £130 million that the Department of Health has identified should be counted as new burdens and therefore funded from new money.

Schools and Children's Services Funding

Schools funding is through ring-fenced resources – the Dedicated Schools Grant and the Pupil Premium. Most Children's Services Funding is included within the Settlement Funding Assessment. Today's announcements concern both revenue and capital funding.

- The Government has announced an additional £2.35 billion of basic needs funding for councils to plan and create new school places that will be needed by 2017. This

is additional to the £5 billion allocated between 2011-15 and represents an additional two-year allocation, drawing on the £21 billion of extra schools capital between 2015 and 2020 announced in this summer's Spending Review.

- Provisional figures for Dedicated Schools Grant and pupil premium for 2014-15 have been published. This includes funding for 2 year old nursery education for 2014-15 – a total of £775m. The allocation to councils of Education Services Grant of £750 million has also been published. The figures can be found on [the Department's website](#).
- The Government has announced that £70 million of the £150 million which was paid for adoption in 2013-14 will be used for Special Educational Needs costs in 2014-15. There is as yet no news on how the £80 million balance will be used.
- The expected consultations on the National Funding Formula and the cuts to Education Services Grant in 2015-16 have not been published. The LGA understands that they are likely to be published early in the New Year.

LGA View

- The LGA has been pressing the Government make three year capital funding allocations to councils to allow them to plan properly provide the sharply rising demand for primary school places and deliver the most cost-effective long term solutions. **So the announcement of an additional two year allocation to give councils certainty over central funding between 2014 and 2017 is very welcome and something the LGA called for.**
- We are very concerned at the continuing delay to the announcements about the introduction of a new National Funding Formula for schools in April 2015 and the cuts to Education Services Grant in 2015/16, which is causing great uncertainty for councils and schools.
- Continuing reductions to early intervention funding risk under-resourcing local authorities in their delivery of early support to children, young people and families. Cutting core 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.**

Police Funding

The police grant will decrease by 4.8 per cent in 2014-15. This year the police grant incorporates the Community Safety Fund, which was provided to local policing bodies in 2013-14 to commission services that help tackle drugs and crime, reduce re-offending and improve community safety. The Home Office has also confirmed there will be a £50 million Police Innovation Fund available in 2014-15 to assist police and crime commissioners establish initiatives that promote collaboration, including with the emergency services and councils.

LGA View

- These reductions in police funding will continue to leave 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.

- **Working with partners, especially councils, on programmes like those assisting troubled families or improving public health 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

The decrease to fire Settlement Funding Assessments is 6.5 per cent in 2014-15 and 8.7 per cent in 2015-16. This reflects decisions taken as part of the Spending Round.

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 in 2014-15 and 2015-16 and the expectation that this trend will continue into subsequent years.

Further Information

For further information on this briefing paper please contact Mike Heiser, Senior Adviser (Finance) (mike.heiser@local.gov.uk/ 020 7664 3265); or Lee Bruce, Public Affairs and Campaigns Adviser (020 7664 3097 / lee.bruce@local.gov.uk)

The LGA will continue analysing settlement figures in order to develop a deeper understanding of the effect on councils before replying to the consultation. We would welcome sight of responses from individual members councils and groupings. Please send to lqfinance@local.gov.uk

A dedicated workshop session in the LGA's *Rewiring Local Government Finance* conference on 8 January 2014 will provide an in-depth analysis of the figures announced today. You can find out more about the event and book your place by [following this link](#).

Annex: Tables showing key numbers

Annex: Tables with key information

Table 1. Overall reduction in revenue spending power (RSP)

Authority type	Change in RSP, 2013/14 to 2014/15	Change in RSP, 2014/15 to 2015/16	Total change in RSP over the settlement period
England average*	-2.9%	-1.8%	-4.5%
Shire districts	-2.5%	-3.0%	-5.5%
Shire counties	-1.4%	0.9%	-0.5%
Met districts	-4.2%	-3.7%	-7.8%
London boroughs*	-3.9%	-3.3%	-7.0%
English unitaries**	-2.9%	-1.7%	-4.6%

*Excludes the GLA

**Excludes the Isles of Scilly

Table 2. Composition of revenue spending power

	Adjusted 2013/14, £m	2014/15, £m	Adjusted 2014/15, £m	2015/16, £m
Council tax (net of council tax support)	20,087	20,221	20,221	20,356
Settlement funding assessment (see table 2)	25,092	22,627	22,627	19,498
plus Adjustment to reflect Section 31 grants for business rates cap	0	108	108	108
minus Council Tax Support Funding to Parishes	-40	-40	-40	-40
New Homes Bonus - prior year adjustment	82	34	34	86
New Homes Bonus - current year	668	916	916	1,164
Public health grant	2,662	2,794	2,794	2,794
NHS support to social care	859	1,100		-
Efficiency Support Grant	9	9	9	10
Adult Social Care New Burdens			285	285
Pooled NHS and LA Better Care Fund			1,645	3,460
Other grants, composed of:	718	925	552	567
<i>Commons Pioneer Authorities</i>	0	0	0	0
<i>Inshore Fisheries Conservation Authorities</i>	3	3	3	3
<i>Lead Local Flood Authorities</i>	15	15	15	10
<i>Social Fund Admin Grant</i>				
<i>Fire Revenue Grant (FireLink and New Dimension elements)</i>	27	28	28	29
<i>Community Right to Challenge</i>	3	3	3	0
<i>Local Welfare Provision (Admin + Programme funding) 2014-15</i>	175	172	172	0
<i>Housing Benefit Subsidy Admin</i>	402	0		
<i>Local Council Tax Support and Housing Benefit Administration Subsidy</i>	0	373		
<i>Council Tax Support New Burdens Funding</i>	33	35	35	0
<i>LA Social Housing Fraud</i>	5	5	5	0
<i>City of London Offset</i>	11	11	11	11
<i>Community Right to Bid</i>	3	3	3	0
<i>Council Tax Freeze Grant 2014/15</i>	-	235	235	235
<i>Council Tax Freeze Grant 2015/16</i>	-		0	236
<i>Local Reform and Community Voices</i>	42	43	43	43
Total revenue spending power	50,137	48,693	49,150	48,287
Change in spending power		-2.9%		-1.8%
Change in spending power less council tax		-5.3%		-3.5%

Annex B – Glossary of Local Government Finance Technical Terms

Aggregate External Finance	Government grant (including specific grants) and business rates together.
Better Care Fund	Previously known as the integration and transformation fund, this is a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and local authorities
Central Share	The percentage share of locally collected business rates that will be paid to central government by billing authorities. This will be set at 50 per cent. The central share will be re-distributed to local government through grants including the Revenue Support Grant.
Dedicated Schools Grant	The Dedicated Schools Grant was introduced in 2006-07, and is the principal source of funding for schools and related activities in England. The grant was introduced in place of funding previously allocated via the Formula Grant and a number of smaller specific grants.
Education Services Grant	From 2013-14, new funding arrangements for education services apply for local authorities and academies. LA Block LACSEG for academies, and the corresponding element of local government revenue funding, was replaced by the new Education Services Grant (ESG). The ESG is allocated on a simple per-pupil basis to local authorities and academies according to the number of pupils for whom they are responsible.
Efficiency Support Grant	A revenue grant which will help those authorities most affected by reductions in spending power to support long term changes to bring costs down whilst continuing to deliver the services that their citizens expect.
Local Council Tax Support	In April 2013 the national system of Council Tax Benefit was replaced by local support schemes in each billing authority. Authorities receive a fixed amount of funding and are free to design schemes as they wish, as long as pensioners' entitlement is protected
Local share	The percentage share of locally collected business rates that will be retained by local government. This will be set at 50 per cent. The local share of the estimated business rates aggregate is divided between billing authorities on the basis of their proportionate shares (This is the percentage of the national business rates yield which a billing authority has collected - on the basis of the average rates collected by authorities over the two years

2010-11 and 2011-12)

New Burdens Doctrine	The Cabinet agreed that all new burdens on local authorities must be properly assessed and fully funded by the relevant department.
New Homes Bonus	A grant paid to local councils for increasing the number of homes and their use, paid each year for 6 years. It's based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.
Pupil Premium	The pupil premium was introduced in April 2011 and is allocated to schools to work with pupils who have been registered for free school meals at any point in the last six years (known as 'Ever 6 FSM'). Schools also receive funding for children who have been looked after continuously for more than six months, and children of service personnel
Revenue Spending Power	Broadly speaking, spending power from council tax, Government revenue grants and NHS funding for social care.
Safety Net	A mechanism to protect any authority which sees its business rates income drop, in any year, by more than 7.5 per cent below their baseline funding level.
Section 31 Grant	A grant paid to local councils under Section 31 of the Local Government Finance Act 2003, under such conditions as the minister may determine
Settlement Funding Assessment	Previously known as start-up funding assessment, this is a local authority's share of the local government spending control total which will comprise its Revenue Support Grant for the year in question and its baseline funding level - it is also the sum of formula funding and grants rolled in from 2013.
Small Business Rate Relief	Until 31 March 2015 businesses receive 100% relief (doubled from the usual rate of 50%) for properties with a rateable value of £6,000 or less. This means business rates are not payable on properties with a rateable value of £6,000 or less. The rate of relief gradually decreases from 100% to 0% for properties with a rateable value between £6,001 and £12,000.
The (business rates) multiplier	The business rates multiplier when multiplied by the rateable value of a property determines a ratepayer's business rate bill. There are two multipliers – one for small businesses and one for larger businesses. These are set nationally. The

small business multiplier is updated annually by the retail prices index (although exceptionally a lesser increase may be imposed) and the other multiplier adjusted accordingly.

Top-ups and Tariffs

The difference between an authority's business rates baseline (the amount expected to be collected through the local share of business rates) and its baseline funding level (the amount of SFA provided through the local share). Tariff authorities make a payment and top-up authorities receive a payment. Tariffs and top-ups are self funding at the outset of the scheme and updated by inflation each year.