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

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Briefing

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LGA KEY MESSAGES

- Today's Provisional Local Government Finance Settlement confirms that councils will continue to face significant spending cuts and huge financial challenges. Initial analysis by the LGA shows that:
  - Central government grant to run local services will fall by 3.7 per cent next year, when the Better Care Fund (BCF) is included in full. Without including that element of BCF which will not be spent on social care or commissioned by local authorities, the reduction is 8.8 per cent.
  - Savings of £2.6 billion will need to be found from council budgets for 2015-16.
  - The cut announced today brings the total reduction in core government funding to councils since 2010 to 40 per cent. Over this period councils will have made £20 billion worth of savings.

- Research carried out by the LGA earlier this year found 60 per cent of councils said they were considering stopping at least some services next year because efficiency savings are fast running out. This was based on the expected cut for 2015-16 set out in last year's Local Government Finance Settlement.

- 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. Continuing reductions of the same order to the end of the decade, as set out by the Office of Budget Responsibility and by the Institute for Fiscal Studies, are unsustainable.

- By deciding not to lower the council tax referendum threshold, the Government has at least acknowledged councils' warnings about the significant additional strain this would have placed on services. However, it should not be the place of Whitehall to interfere in discussions between councils and their residents about how local services are paid for.

- It is hugely disappointing that the Government has not listened to councils and charities who have called for funding to support local welfare assistance. Instead of providing separate money for councils to help the vulnerable, the Government has instead suggested that councils will have to find this money from existing budgets, at a time when these are being cut by more than £2.5 billion.

- At a time when local authorities are contending with the biggest cuts in living memory, the introduction of the BCF will help the efforts of some local authorities in protecting vital everyday services. However it is double counting for the Government to include the whole of the BCF in local government's revenue spending power figures as at most £1.97 billion will be spent on social care or be commissioned by local authorities.

- Once again there has been a top-slice, this time of £50 million, to pay for the difference between income from the business rates levy and that from the safety net. This is because of provision from appeals, most of them from before 2013 when the business rates retention system was introduced. The LGA calls for the Government to meet the cost of appeals from before 2013 in full.

- It is unacceptable that once again, councils have had to wait until a week before Christmas to find out the centrally imposed referendum limit 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.

KEY FACTS

- The Department for Communities and Local Government (DCLG) has announced the provisional local government finance settlement for 2015-16.

- The closing date for responses to DCLG is 15 January 2015.

- There is a cut in net Aggregate External Finance of 13.9 per cent in 2015-16, on a like for like basis when compared with 2014-15

- There is an overall reduction of revenue spending power of 1.8 per cent in 2015-16. This includes the BCF in full. Excluding council tax income this is a cut of 3.7 per cent in 2015-16. This is a greater reduction than the 3.5 per cent reduction announced in December 2013's illustrative 2015-16 settlement.

- Confirmation that the Government will pay in full for the further business rates 2 per cent freeze and other changes announced in the Autumn Statement through a section 31 grant.

- The Government has announced that council tax increases of 2 per cent or over will be subject to a referendum.

THE SETTLEMENT IN DETAIL

This is a one year settlement covering 2015-16 only. It largely confirms the illustrative settlement announced last year. The Government has announced the following:

- Settlement Funding Assessment (SFA) figures for 2015-16. This is a cut of 13.9 per cent in 2015-16, or 14.6 per cent if the GLA is taken out of the figures.

- Revenue spending power (RSP) figures for 2015-16 for each council. These show an overall cut in RSP of 1.8 per cent in 2015-16. These figures include council tax income. If you leave council tax out, this is a cut of 3.7 per cent in 2015-16. After removing ringfenced and social care new burdens funding the reduction is 11.8 per cent.

- The main difference between RSP and SFA is explained by:

    - The RSP figures include the New Homes Bonus (NHB) grant which is top-sliced from the SFA.

    - An estimate of the revenue impact of the BCF of £3.46 billion in 2015-16 as well as Care Act new burdens funding of £285 million in addition to a £11.2 million grant for social care in prisons.

    - The effects of changes to business rates announced in the Autumn Statement, including the 2 per cent cap.

- The Government has confirmed that it will pay Efficiency Support Grant to councils which would otherwise have a RSP cut of more than 6.4 per cent. The grant is worth £2.29 million and 19 councils are eligible in 2015-16.

- They will also continue to pay a grant to the most sparsely populated authorities; this is estimated at £15.5 million in 2015-16. This is incorporated into the SFA. They have published research into funding in rural areas.

New Homes Bonus

The provisional amounts of £1,167 million for the NHB 2015-16 have been announced by DCLG. This will continue to be funded through £250 million in specific grant with the rest in top-sliced funding.

£32.7 million of returned new homes bonus funding will be paid as a separate grant in proportion to the SFA – this is included in the RSP figures.

As previously announced £70 million will be transferred from London Boroughs and the City to the Greater London Authority in 2015-16.

LGA View

- The NHB represents a considerable addition to funding for some authorities, mainly shire districts. However for many other authorities the effect of its being mainly funded through top-sliced funding is a net reduction in resources.

Business rates

There are no changes to the business rates retention scheme which is now in its third year, other than an announcement on pooling. DCLG is consulting on

28 proposals for pools in 2015-16, 4 more than in 2014-15.

Income from business rates will be affected by the measures announced in the 2014 Autumn Statement. These are:

- The 2.3 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 will be increased to £1500 for 2015-16.

- The doubling of Small Business Rate Relief will continue for a further year.

The Government will pay for this through a 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 49.3 pence, with the small business multiplier being 48.0 pence. Top-ups and tariffs will be uprated by 1.91 per cent; rather than the September Retail Price Index of 2.3 per cent.

The Government issued further consultations on business rates administration and business rates avoidance on 10th December. These close on 28th February 2015. More information on the review of the structure of business rates is expected early in the new year.

LGA view

- It is good news that councils will continue to be fully compensated for the loss of income from the business rate measures. However, this reduces the buoyance of the taxbase. We look forward to playing a part in the review on the structure of business rates.

- 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.

- 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 2015-16. This grant is equivalent to a one per cent increase in council tax.

- The Government has announced that council tax increases of 2 per cent or over will be subject to a referendum. The Government is asking for views on whether some parish and town councils should be subject to referendums.

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 SFA.

- As was the case in 2014-15, the funding for council tax support in 2015-16 is not separately identified. 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 for local council tax support of £12.47 million and this will go to billing authorities.

LGA view

- The National Audit Office has said that councils have implemented local council tax support schemes well. Nevertheless, we feel 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 New Burdens money which is something the LGA has called for. **However, allowance should be made for the increased costs of enforcement.**

Local Welfare Assistance

The settlement announces that there is no additional funding for local welfare. Instead the Government has separately identified £129.6 million which will be incorporated into the SFA in 2015-16.

LGA view

- This announcement is disappointing as the LGA and charities had called for the Government to provide additional funding to support local welfare assistance. Separately identifying funding for local welfare from within the existing core grant (that is reducing by £42.5 million) effectively represents a cut that will put additional pressure on existing council services. As a result many councils will be unable to continue to run their local welfare schemes. LGA research shows that without additional funding as many as three quarters of local welfare schemes will be scaled back or scrapped[1]. The LGA will continue to urge the Government to reconsider its decision ahead of this settlement being finalised in February.

The Better Care Fund

The settlement confirms the Government has not adjusted its estimate of the revenue impact of the BCF on local authority finances, quantified at £3.46 billion.

LGA view

- The BCF is showing signs of success, with a net financial benefit to local government of up to £440 million in comparison to 2014-15 at this early stage of the integration journey. The benefits are non-financial too - increased cooperation and new ways of working will potentially improve service quality as well as result in financial gains. The Government must focus its efforts on allowing local areas to shape the next iteration of a bigger BCF over a longer period of time and with an accompanying transformation fund of new money. This must be free from Whitehall interference so that real transformation can be achieved on the basis of investing to save, rather than saving to invest.

- However, we call on the Government to be honest about its impact in the settlement. In its revenue spending power calculation, the Government included a BCF value of £3.46 billion. This is misleading as not all BCF spending is on social care services or commissioned by local authorities. We estimate the value of the BCF attributable to social care or local authority commissioning to be £1.97 billion at most before councils' own contribution in addition to the original specification of the Fund is taken into account. Adjusting the revenue spending power calculation accordingly means that the actual reduction in full revenue spending power for England is 4.8 per cent, or 8.8 per cent after stripping out council tax.

Social care funding for 2015-16

The settlement confirms the size of the 2015-16 adult social care new burdens grant remains £285 million, with an additional grant of £11.2 million for social care in prisons. However, individual council allocations for this funding have changed substantially since last year's indicative settlement as a result of reviews of the Care Act implementation impact assessment and the relative needs formulae.

LGA view

- Councils are already working to an extremely challenging timetable on the

[1] http://www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10180/6583322/NEWS

Care Act so receiving confirmed funding allocations for the 2015-16 duties just four months before implementation – and less than three months before councils have to plan and set their budgets – only compounds this pressure.

- The pressure has already been exacerbated by the fact that some councils have had very little certainty on what level of funding to expect for the 2015-16 reforms. The difference between the 2014 exemplified allocations in the funding formulae consultation and the indicative allocations in the 2013 settlement ranged from growth of up to 51 per cent to reductions of up to 60 per cent.

- We welcome the recognition by the Department of Health that Care Act reforms on carer services constitute a constant and increasing burden, reaching almost £300 million by 2019-20, and look forward to seeing this burden addressed as part of the next Spending Review.

- Adult social care is facing a funding gap of £1.6 billion in 2015-16, rising to £4.3 billion by 2019-20, and in order to keep adult social care spending under control over the last four years departmental budget savings of 26 per cent have been made (equivalent to £3.53 billion) as well as £900 million 'cross-subsidy' savings from other council services. In this context – and given that some councils may have less funding for implementation than they were expecting – affordability of the Care Act in 2015-16 remains a principle concern for the LGA and councils. It is therefore essential that the Department of Health works with the LGA and others to monitor the cost of the Act next year. More importantly, where that monitoring shows that councils are incurring costs over and above their allocation, funding must be made available to compensate for the shortfall.

- It is extremely disappointing that the Autumn Statement and local government settlement have failed to recognise the additional cost pressure councils are facing as a result of the March 2014 Supreme Court judgment on deprivation of liberty safeguards. The LGA estimates that the cost to councils of this ruling will be £96.8 million in 2014-15. The Government must commit to funding this new burden; without this the sector can have little confidence that the Government will honour its commitment to fully fund the Care Act.

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 SFA.

- Provisional figures for Dedicated Schools Grant for 2015-16 were published on 17 December, including the addition previously announced for the 69 councils which the Government considers to be the least well funded; for other councils the settlement is cash flat per pupil. The allocation to councils of Education Services Grant of £582 million has also been published, this includes the cut of £200m on which the Department for Education consulted earlier in the year. The figures can be found on the Department's website.

- Early Intervention funding within the SFA has been decreased by 8.9 per cent in 2015-16.

- £19.1 million has been announced for extended rights to free travel. However this is a decrease of 24 per cent on the £25 million which was paid in 2014-15.

- £31.7 million has been announced for funding SEN reform

LGA View

- Continuing cuts to education grants outside the DSG and 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.**

- Continuing funding for SEN reform is welcome; councils need to be properly funded if parents' expectations are to be met. Councils will be working to ensure that all children get a good start in life and we will be monitoring closely to see whether DfE estimates are accurate in practice.'

Public health funding

It has been confirmed that the pre-existing public health grant has effectively been frozen in cash terms.

LGA view

- We are disappointed with the Department's decision not to protect the main public health grant in real terms for 2015-16 by making it inflation proof. Investing in prevention saves money for other parts of the public sector by reducing demand for hospital, health and social care services and it ultimately improve the public's health and wellbeing of our communities. Local government has so far borne the brunt of cuts to public spending; any reduction in the public health budget could prove counterproductive.

Police Funding

The police grant report for 2015-16 has been published. It confirms that there will be a headline reduction of 4.9 per cent in central government funding for the police; a total cash reduction of £299 million. Every police force will have a reduction in core funding of 5.1 per cent, the difference is explained by various small grants such as the Police Innovation Fund, which will be increased from £50 million to £70 million.

LGA View

- These further reductions in police funding leave police and crime commissioners with difficult decisions about how to deliver on the priorities in their police and crime plans, sustain frontline policing and make the efficiencies and savings needed.

- Closer collaboration with councils and other partners to intervene early to prevent offending and re-offending will be crucial in reducing the demands on police time and resources going forward. The pooling of budgets and co-commissioning of services will also be vital to reduce for example domestic violence, and better support offenders with mental health or substance misuse problems.

Fire Funding

The settlement announced a decrease to fire SFA of 9.0 per cent in 2015-16. This reflects decisions taken as part of the Spending Round.

In addition, the government has announced that employer contributions to the Firefighters' Pension Schemes will be reduced to 18.9 per cent from the previous expected rate of 19.1 per cent. The resultant reduction in fire authority costs will be met by a £2.1 million reduction in SFA to make the change revenue neutral.

LGA view

- **The reduction in funding for fire services 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. Future resourcing for fire and rescue services and the application of cuts to that resourcing needs to be based upon a clearly understood risk assessment. The national and local impact of proposed changes to funding needs to be properly assessed against risk.

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 lgfinance@local.gov.uk

There will be a session on the local government finance settlement at the LGA's finance conference on 6 January 2015 which will provide in-depth analysis of the figures announced today. You can find out more about the event and book your place by following this link.

Further Information

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Annex A: Tables showing key numbers

Table 1. Change in revenue spending power by authority type

Authority type	Change in RSP, 2014/15 to 2015/16
England average*	-1.8%
Shire districts	-3.1%
Shire counties	0.8%
Met districts	-3.8%
London boroughs*	-3.4%
English unitaries**	-1.8%
Combined fire authorities	-2.9%

*Excludes the GLA
**Excludes the Isles of Scilly

Table 2. Composition of revenue spending power

	2014/15, announced December 2013, £m	2015/16, announced December 2013, £m	2014/15 adjusted, £m	2015/16, announced December 2014, £m
Council tax (net of council tax support)	20,221	20,356	20,580	20,738
Settlement funding assessment	22,627	19,498	22,948	19,605
plus Adjustment to reflect Section 31 grants for business rates cap	108	108	108	151
minus Council Tax Support Funding to Parishes	-40	-40	-40	-40
New Homes Bonus - prior year adjustment	34	86	33	33
New Homes Bonus - current year	916	1,164	917	1,167
Public health grant	2,794	2,794	2,794	2,801
Efficiency Support Grant	9	10	-	2
Adult Social Care New Burdens	285	285	285	285
Pooled NHS and LA Better Care Fund	1,645	3,460	1,665	3,460
Department of Health revenue grant	-	-	43	44
Commons Pioneer Authorities/Commons Registration Authorities	-	-	0	0
Inshore Fisheries Conservation Authorities	3	3	3	3
Lead Local Flood Authorities	15	10	15	10
Fire Revenue Grant (FireLink and New Dimension elements)	28	29	27	27
Community Right to Challenge	3	-	3	-
Local Welfare Provision (Admin + Programme funding) 2014-15	172	-	-	-
Local Council Tax Support and Housing Benefit Administration Subsidy	-	-	363	329
Council Tax Support New Burdens Funding	35	-	35	12
LA Social Housing Fraud	5	-	5	-
City of London Offset	11	11	11	11
Community Right to Bid	3	-	3	-
Council Tax Freeze Grant 2014/15	235	235	-	-
Council Tax Freeze Grant 2015/16	-	236	-	239
Local Reform and Community Voices	43	43	-	-

Total revenue spending power	**49,152**	**48,288**	**49,796**	**48,877**
Change in spending power from 2014/15 to 2015/16		-1.8%		-1.8%
Change in spending power less council tax from 2014/15 to 2015/16		-3.5%		-3.7%

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 — This replaced the LA block of LACSEG (local authority central support equivalent grant) and the corresponding element of local government revenue funding from 2013-14. 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. It has been cut by £200 million in 2015-16.

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 retained by local government. This is set at 50 per cent. At the outset, the local share of the estimated business rates aggregate will be 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 ('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.

Small Business Rate Relief

Until 31 March 2016 businesses receive 100 per cent relief (doubled from the usual rate of 50 per cent) 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 per cent to 0 per cent 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 uprated 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 uprated by inflation each year.