

Provisional Local Government Finance Settlement 2015-16

London Councils' on-the-day briefing

London Councils represents London's 32 borough councils and the City of London. It is a cross party organisation that works on behalf of all its member authorities regardless of political persuasion.

Introduction

The provisional 2015-16 Local Government Finance Settlement was announced today (18 December 2014) by Kris Hopkins MP, the Parliamentary Under Secretary of State for Communities and Local Government. Full details on the settlement can be found on the DCLG website¹.

The Settlement outlines provisional core funding allocations (Settlement Funding Assessment – SFA²) for local authorities and sets out the impact on local authority “Revenue Spending Power”, as defined by Government for 2015-16. This briefing details the main headlines from the settlement. Further detail on individual authorities in London can be found in the accompanying annexes (A to F).

Key points

Funding

- The reduction in Revenue Spending Power³ in England (excl. the GLA) is £0.9 billion (1.8%) in 2015-16.
- For London Boroughs, it is £280 million (3.4%) in 2015-16.
- There is an overall cap in the reduction of Revenue Spending Power of 6.4% in 2015-16.
- Overall, Settlement Funding Assessment (SFA – core funding) for England will fall by £3.4 billion from £24.1 billion in 2014-15 to £20.8 billion in 2015-16 – a fall of 13.9%.
- For London local government, SFA will fall by £669 million (15.1%) from £4.4 billion to £3.8 billion.
- In 2015-16, London boroughs will receive this funding through Revenue Support Grant (£1.7 billion; 46%) and baseline funding (£2.0 billion; 54%).
- Between 2010-11 and 2015-16, London boroughs' core funding will have fallen in real terms by 45% on a like-for-like basis compared with 44% across local government in England.
- The Council Tax Freeze Grant will be available to local authorities at the equivalent of a 1 per cent freeze.
- The council tax referendum threshold will remain at 2%.

¹ <https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2015-to-2016>

² Settlement Funding Assessment (SFA) comprises Revenue Support Grant and Baseline Funding.

³ Defined by Government as the aggregate of: council tax; SFA; some specific grants including the Better Care Fund

Business Rates Retention

- The principal scheme architecture remains broadly the same.
- There are no changes to whether an authority is a top up or tariff authority.
- The increase in tariffs and top-ups, business rates and funding baselines will again be capped at 2% as announced in the 2014 Autumn Statement.
- London boroughs will receive SFA adjustment grants (c. £29 million) to compensate for this.
- The safety net threshold remains at 7.5% of an authority's baseline funding level.
- Individual levy rates, including the 50p cap on the levy rate, remain the same

Overview

This year's settlement is the third under the business rates retention (BRR) scheme and the last of the current parliament. It provides provisional allocations as well as updating key figures relating to the business rates retention system for 2015-16. It updated the illustrative figures from last year's settlement and reflects a number of technical adjustments proposed in last summer's technical consultation.

This briefing is structured as follows:

- **Overall Funding Allocations** - outlines the overall funding allocations, including the impact on London.
- **Business Rates Retention** - looks at the changes to the key business rates retention figures for London.
- **Special & Specific grants** - details the special and specific grant allocations.
- **The local welfare provision grant** – details announcements about welfare provision.
- **Council Tax Freeze Grant and Referendum Principles** – looks at the Council Tax Referendum Principles.
- **School Revenue Funding Settlement: 2015 to 2016** – summarises the key points from the schools funding settlement announced on 17 December.
- **Public Health funding for 0-5 year olds** – summarises the key points from the Government's recent consultation on the transfer of Public Health funding for 0-5 year olds.

Overall Funding Allocations

Revenue Spending Power

At the national level, Revenue Spending Power (defined by Government as the aggregate of council tax, SFA, special and specific grants including the Better Care Fund) has been reduced by £868 million (1.8%). In London, this will fall by £280 million (3.4%) in 2015-16.

The Government will continue to pay the Efficiency Support Grant to authorities experiencing a reduction of more than 6.4%. Again, there will be certain criteria attached to the receipt of this grant and the City of London is the only eligible London authority.

It is worth noting that these figures include:

- The pooled NHS and local authority Better Care Fund of £3.46 billion. The Better Care Fund is a pooled budget, for which spending plans must be agreed locally through Health and Wellbeing Boards.
- Estimates of the amount of income authorities will raise through council tax. This is based on an assuming the historic growth rate in local authority tax bases continues and that there are no increases in council tax rates.
- The assumption that 100% of authorities will take up of the council tax freeze grant - in 2014-15, 59% (100% in London) of all eligible authorities took up the grant.
- This includes the full NHB allocation for London and doesn't reflect the requirement for London boroughs to pool a proportion of their 2015-16 allocation with the London Local Enterprise Partnership.

Local Government Control total

The Government has confirmed the local government control total (i.e. total Settlement Funding Assessment) to be £20.8 billion in 2015-16 (Annex A). This comprises £9.4 billion of Revenue Support Grant (RSG) and £11.3 billion of Baseline Funding (i.e. the amount assumed to be retained locally under the business rates retention scheme).

Following proposals in the technical consultation over the summer, the provisional settlement confirms the Government's intentions to:

- **Roll the 2014-15 council tax freeze grant into RSG**, paid only to those authorities which qualified for the Council Tax Freeze Scheme in 2014-15. This mirrors the arrangements for the 2013-14 grant;
- **Roll the 2014-15 Efficiency Support Grant into RSG** as a separate element for qualifying authorities;
- **Roll the 2014-15 Rural Services Delivery Grant into RSG** and combine it with the existing rural funding element. A further £4 million was earmarked within the Settlement for rural authorities; and
- Reduce funding to authorities which have fallen below the threshold for participation in the **Carbon Reduction Commitment Energy Efficiency Scheme**.

In addition, the settlement confirms a number of new policy announcements that affect the overall SFA distribution and amount. These include:

- **Capping the small business multiplier:** The recent Autumn Statement announced that the small business rates multiplier would continue to be capped at 2% (as in 2014-15) rather than increase by September RPI (2.3%). The result of this policy is that top up, tariffs and baseline funding will increase by 1.91% with a subsequent lowering of the Settlement Funding Assessment (SFA). Again, a separate Section 31 grant will be established to ensure this does not impact on the overall level of funding for local government.
- **Adjustment to funding for fire and rescue authorities:** The Government has decided to take account of the recent revaluation of the Firefighter's Pension Schemes by reducing the fire funding element within RSG by £2.1 million (reflecting an amount equal to 0.24% of pensionable pay for each fire authority).
- **Reduction in New Homes Bonus holdback:** The Government proposes to hold back £950 million instead of the previously announced £1 billion to fund the New Homes Bonus grant in 2015-16. The £50 million will go into upper, lower and fire tier elements of RSG. As before, the Government will contribute £250 million to the scheme.

Figure 1 below provides a reconciliation between the figures announced last December and those provided as part of today's announcement.

Figure 1: Reconciliation between the illustrative finance settlement (December 2013) and the Provisional Settlement figures

	2015-16		
	RSG	BF	SFA
Illustrative 15-16 settlement (from the 2014-15 LGFS)	9,233.3	11,417.5	20,650.8
Carbon Reduction Commitment Adjustment	-6.4		-6.4
Rolling in 2014-15 Rural Grant	2.0		2.0
Rolling in 2014-15 Efficiency Support Grant	9.4		9.4
Rolling in 2014-15 Council Tax Freeze Grant	145.2		145.2
Adjustment for 2% Business Rates Cap		-94.4	-94.4
Reduction to NHB holdback	50.0		50.0
Fire Pensions Adjustment	-2.2		-2.2
Rural Services Delivery Funding	4.0		4.0
Provisional settlement	9,435.4	11,323.2	20,758.5

While the settlement has provided further clarity on the local government control total, it is worth noting that this fits into the wider Local Government Resource Departmental Expenditure Limit (LG RDEL). The Government has not published a breakdown of the LG RDEL with the settlement. The last publication was the explanatory memorandum to the DCLG Main Estimates, published in June 2014⁴. Without further detail of the LG DEL, it is difficult to have a full understanding of the impact of Government spending decisions on local government.

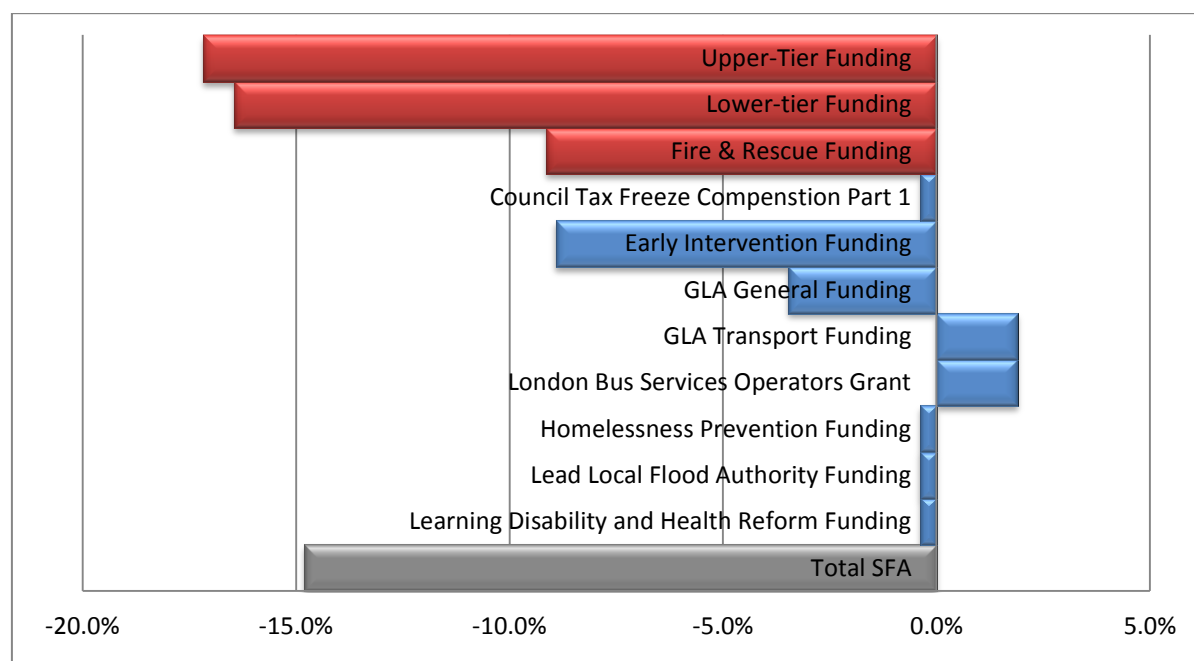
Settlement Funding Assessment

At a national level, Settlement Funding Assessment (SFA) will reduce from £24.1 billion in 2014-15 to £20.8 billion in 2015-16. Overall, this represents a reduction in local government core funding of £3.4 billion (13.9%)⁵. Annex A provides more detail on the changes to the elements comprising Settlement Funding Assessment (SFA) at the national level from 2014-15 to 2015-16.

London boroughs have seen an overall reduction in SFA of £669 million or 15.1% in 2015-16. This is split between an increase of £38 million or 1.9% in funding baselines and a reduction in RSG of £706 million or 28.8%. Annex C provides more detail.

The Government continues to focus the majority of the funding reductions through the upper and lower tier funding elements (Chart 1). Funding for the rolled-in grants will remain on their previous trajectories, as announced in Spending Round 2013.

Chart 1 - Changes to SFA by individual component 2015-16



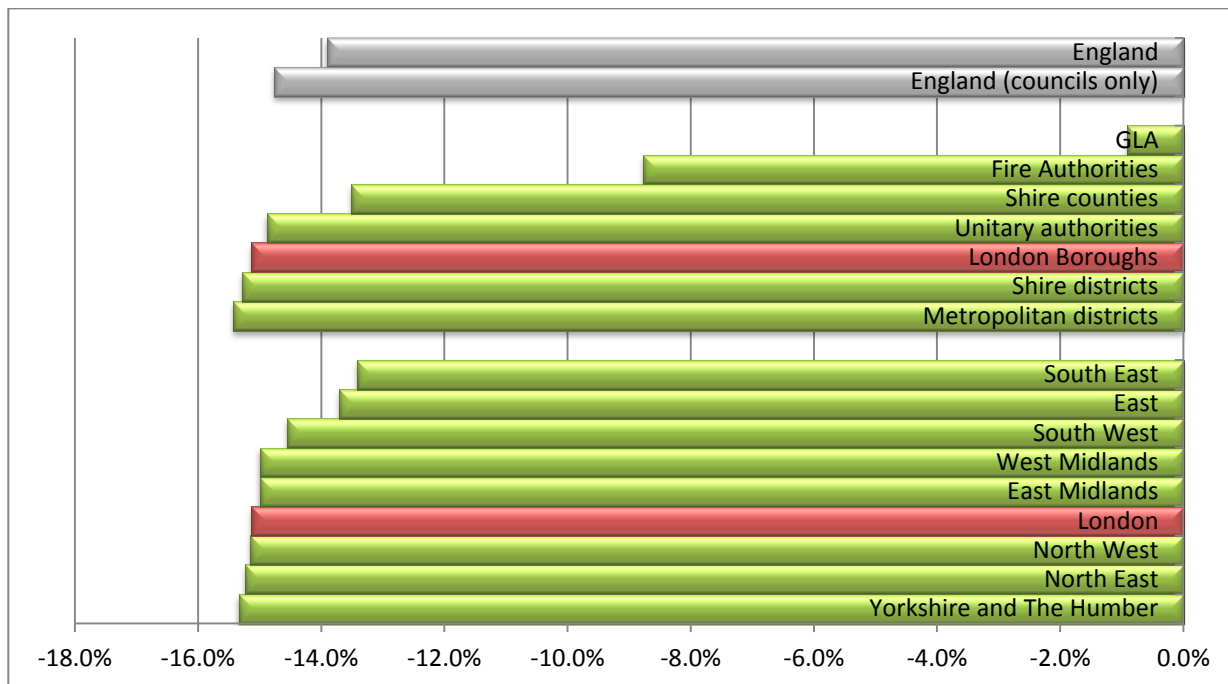
The policy of treating funding streams individually will affect each authority differently and will depend on an authority's income profile. In broad terms, London boroughs are more reliant on upper and lower tier funding (the

⁴ <http://www.parliament.uk/documents/commons-committees/communities-and-local-government/140512-SoS-to-CLG-SC-Chair-vre-2014-15-main-estimates.pdf>

⁵ This is based on an adjusted 2013-14 baseline and further work is being undertaken to understand these changes.

old 'formula grant') and so again face greater funding reductions in 2015-16 than elsewhere in the country (chart 2). This is likely to continue if the current approach to individual grant streams is maintained.

Chart 2 – Change in SFA by region and authority type 2015-16



Note: Regional figures are for councils only - i.e. they exclude Fire Authorities and the GLA.

Business Rates Retention

There is very little change to the overall architecture of the business rates retention scheme. As in 2014-15, London, overall, continues to have 25 top up authorities and 9 tariff authorities (including the GLA).

Annex D details all of the key figures relating to the retention system for London boroughs. It shows that the business rates multiplier will increase by 1.9% as a result of the 2% cap on business rates outlined in the 2014 Autumn Statement⁶. All tariff and top-up payments, business rates baselines and funding baselines will therefore increase by 1.9%.

The size and extent of safety net payments for 2015-16 are not yet known – these will be determined by local forecasts reported in the NNDR1 returns in January 2015. The retrospective levy payments due from tariff authorities for 2014-15 will be calculated after the current financial year using the final NNDR3 returns.

Levy rates & safety net thresholds

Tariff authorities will continue to be subject to a levy on any growth in business rates. The levy rates for the 9 tariff authorities in London are outlined below. As before, there is a 50p cap on the size of levy rate, which applies to the City of London, Westminster and Hillingdon. Top-up authorities will continue to retain 100% of their growth.

⁶ This is because of the way the multiplier is calculated to 3 decimal places

Figure 2 – Levy rates for London's tariff authorities

	Levy rate (p/£)
City of London	50
Westminster	50
Hillingdon	50
Camden	44
Kensington & Chelsea	43
GLA	27
Kingston upon Thames	18
Richmond upon Thames	16
Hammersmith & Fulham	5

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. Annex D includes the safety net trigger points for each London borough and the GLA.

There is wide variation across London in both the value and proportion of business rates an authority has to decline by to trigger a safety net payment. One borough triggers a safety net payment with a decline of 0.5% in business rates yield, while another would need a 42% decline in rates yield. In monetary terms, the most any authority (excluding the GLA) can lose in funding before a safety net payment is triggered is £7.9 million.

Pooling

Nationally, DCLG has received expressions of interest from 28 pools in 2015-16 comprising 196 authorities. The final pooling arrangements will be agreed as part of the final settlement.

Special and specific grants

Beyond core SFA funding, the settlement also provides details for a range of other special and specific grants (within the Revenue Spending Power spread sheet). Based on the latest available information, London boroughs will receive close to £1.6 billion from a range of revenue grants in 2015-16. The table below provides a summary with a full breakdown by local authority in Annex F.

Figure 3 – Main specific grants for London Local Government 2015-16

	£m
Local Council Tax Support and Housing Benefit Admin Subsidy Grant	69.4
New Homes Bonus	247.5
Better Care Fund	539.8
Public Health Grant (Ring-fenced)	577.5
Other grants	124.0
Total specific grants	1,558.3

Note: Figures exclude education grants

New Homes Bonus

The Government has also published provisional allocations for 2015-16 - year 5 of the New Homes Bonus scheme⁷. London boroughs' share of the national total has stayed broadly the same at 21%, receiving £248 million of the £1.167 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 Government decided that this would be achieved via pooling an equal proportion of each borough's 2015-16 New Homes Bonus allocation, sufficient to total £70m. The level of contribution from each borough is yet to be confirmed. London Councils has provided early estimates in Annex F. Though, these figures should be treated with caution. A fuller briefing on the NHB topslice and what this will mean for the local bids and proposals across the NHB programme will be circulated in due course.

The local welfare provision grant

The provisional settlement confirmed that the current intention is not to maintain additional funding for local welfare assistance schemes in 2015-16. A separate element has been identified within RSG worth £129.6 million. However, this is a notional amount and is not ringfenced. The Government has indicated that it does not plan to monitor how this is spent.

Council Tax Freeze Grant (CTFG) and Referendum Threshold

The Government has set out its council tax referendum principles for 2015-16⁸. Once again, the threshold for local referendums will be 2%.

The Government has extended its Council Tax Freeze Grant scheme for another year. In 2015-16, the Government will compensate authorities who freeze their council tax rate by the equivalent of 1% of their council tax. The value of CTFG in 2015-16 could be in the region of £249 million nationally and £32 million in London.

School Revenue Funding Settlement: 2015 to 2016

The School Revenue Funding Settlement: 2015 to 2016 was published on 17th December 2014, confirming details of the Dedicated Schools Grant (DSG).

The Dedicated Schools Grant (DSG)⁹ continues to be set out in three blocks, the early years block, the schools block and the high needs block.

Overall, DSG is £39.6 billion with London receiving 18.4% (£7.3 billion). London borough and regional allocations are set out in tables in Annex E.

⁷https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/387418/141215_Total_payment_provisional_15-16_for_website.xlsx

⁸https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277555/Council_Tax_Principles_2014-15_WEB.pdf

⁹<https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2015-to-2016>

The minimum funding guarantee is to be continued, meaning no school or academy will see a reduction compared with its 2014-15 budget (excluding sixth form funding) of more than 1.5% per pupil before the Pupil Premium is applied.

The DfE also announced a £31.7 million grant to help local authorities in England implement the special educational needs and disabilities (SEND) reforms. London will receive 17.9% (£5.7 million) of this funding.

Public Health funding for 0-5 year olds

The Government announced a baseline agreement exercise for the transfer of commissioning of children's 0-5 public health services to local authorities on 11 December 2014. This is the final part of the transfer of public health responsibilities to local government.

The service transfers to local authorities on 1 October 2015. The 2015-16 funding allocation is, therefore, for the 6 months from 1 October 2015 to 31 March 2016.

Overall, the allocation for the six months to 31 March 2016 is £425 million with London receiving £77.3 million (18.2%). A minimum floor for local authorities will be in place such that no local authority is funded to a level below an adjusted spend per head (0-5) of £160. 11 London boroughs are affected by the floor.

The Department of Health has requested responses to the proposed allocations by 16 January 2015. London Councils is currently reviewing the allocations before formally responding to the department.

Timeline for Response

The Government is consulting on the draft settlement figures and has requested comments by 15 January 2015. London Councils will be responding to the consultation and Members are kindly asked for their comments by 6 January 2015.

Please contact the Fair Funding team, LGF@londoncouncils.gov.uk or phone 020 7934 9961.

London Councils
Fair Funding Team
18 December 2014