

# Provisional Local Government Finance Settlement, 2014-15 and 2015-16: *On the day briefing*

## Introduction

The provisional 2014-15 and 'illustrative' 2015-16 Local Government Finance Settlement was announced today (18 December 2013) by Brandon Lewis MP (the Parliamentary Under Secretary of State, Communities and Local Government).

Full details on the settlement can be found on the DCLG website<sup>1</sup>.

The settlement outlines provisional core funding allocations (Settlement Funding Assessments<sup>2</sup>) for local authorities and sets out the impact on local authority "revenue spending power", as defined by Government, for 2014-15 and 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 spending power<sup>3</sup> across England (excluding the GLA) is £1.4 billion (2.9%) in 2014-15 and £0.9 billion (1.8%) in 2015-16.
- The reduction for London Boroughs is £328 million (3.9%) and £268 million (3.3%) in 2014-15 and 2015-16 respectively.
- There is an overall cap in the reduction of spending power of 6.9% in 2014-15.
- In England, overall Settlement Funding Assessment (core funding) for England is £23.8 billion in 2014-15 and £20.7 billion in 2015-16.
- This represents an overall reduction of £5.6 billion (21%) from 2013-14 based on the adjusted 2013-14 baseline.
- In London, boroughs will receive £4.3 billion in 2014-15 and £3.7 billion in 2015-16 in core funding.
- For London, this is an overall reduction of £1.1 billion from 2013-14.
- In 2014-15, London boroughs will receive this funding through Revenue Support Grant (£2.4 billion or 55%) and locally retained business rates (£1.9 billion or 45%).

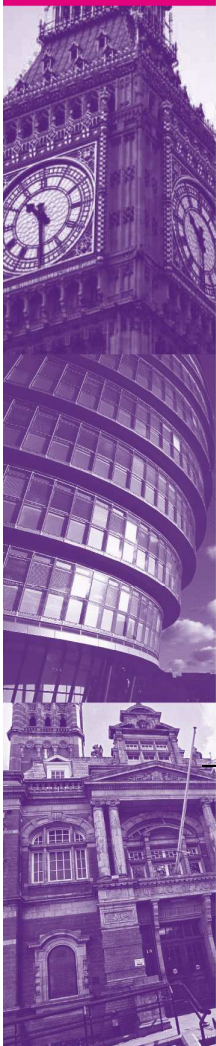
### Business Rates Retention

- The principal scheme architecture remains broadly the same.
- There are no changes to whether an authority is a top up or tariff authority.
- Tariffs and top-ups will rise by 2% to reflect the recent policy announcement at the Autumn Statement 2013.
- The safety net threshold remains at 7.5% of an authority's baseline funding level.
- There remain no changes to individual levy rates, including the 50p cap on the levy rate.

<sup>1</sup> <https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2014-to-2015>

<sup>2</sup> Settlement funding assessment (SFA) is the term that replaces "Start-up funding assessment" which was used in the 2013-14 LGF Settlement. It comprises revenue support grant and the local share of business rates.

<sup>3</sup> Defined by the government as the aggregate of: council tax; SFA; other special and specific grants; and NHS funding to support social care and benefit health.



## Overview

Today, Government has published the provisional Local Government Finance Settlement for 2014-15 and illustrative figures for 2015-16. The full announcement and accompanying detail is available here: <https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2014-to-2015>

This year's settlement is the second under the business rates retention (BRR) system. It provides provisional allocations as well as updating key figures relating to the business rates retention system for 2014-15 and illustrative figures for 2015-16.

Section 1 below outlines the overall funding allocations, including the impact on London; Section 2 looks at the changes to the key business rates retention figures for London; Section 3 details the special and specific grant allocations and Section 4 covers the Council Tax Referendum Principles.

## 1. Overall Funding Allocations

### Spending power

At the national level, spending power (defined by Government as the aggregate of council tax, SFA, other special and specific grants, and NHS funding to support social care and benefit health) has been reduced by £1.4 billion or 3%. The Government will continue to pay the "Efficiency Support Grant" to authorities experiencing a reduction of more than 6.9%. Although, there will be certain criteria attached to the receipt of this grant and no London boroughs are eligible.

In London, spending power will fall by £328 million (3.9%) in 2014-15 and £268 million (3.3%) in 2015-16.

It is worth noting that these figures include:

- £70m of anticipated NHB that will need to transfer from the boroughs to the GLA in 2015-16. We are currently discussing this with CLG officials,
- The pooled NHS and local authority Better Care Fund of £3.46bn which is part of the total Better Care Fund (overall worth £3.8bn). The Better Care Fund is a pooled budget, for which spending plans must be agreed locally through Health and Wellbeing Boards.
- Individual forecasts of the amount of income an authority will raise through council tax. This is based on an historic average and is liable to change.
- 100% take up of the council tax freeze grant.

Annex C contains further detail on changes to spending power.

### Local Government Control total

Government has confirmed the local government control total (Settlement Funding Assessment) to be £23.8bn in 2014-15<sup>4</sup> (annex B). This comprises £12.7bn of Revenue Support Grant (RSG) and £11.1bn of Baseline Funding (i.e. the amount assumed to be retained locally under the business rates retention scheme).

These figures are different from those used during the summer consultation on the scheme. Primarily, this is due to the following policy decisions:

- *Capitalisation*: Due to lower than expected demand from local authorities, the Government has decided to remove the holdback of £100 million in 2014-15. £50 million of this will be used to fund an increase in the safety net, £10 million will be used to fund the Efficiency Support Grant, £10 million will fund a new grant for rural areas and £28 million will be returned to local authorities as part of the control total.

---

<sup>4</sup> CLG figures show the illustrative 2015-16 control total is £20.65 billion

- *New Homes Bonus Topslice*: Previously, it was proposed that there would be a holdback of £800 million in 2014-15. In the interests of prudence, the overall level of the topslice is likely to exceed the anticipated level of the NHB grant with any unused funding returned to local authorities as the NHB adjustment grant. Based on the latest grant projections, it is thought that £700 million, rather than £800 million, would be a more accurate assessment of the resources required to fund the scheme in 2014-15. As a result, the holdback has been reduced by £100 million with a corresponding increase in the control total.
- *Capping the small business multiplier*: The recent Autumn Statement announced that the small business rates multiplier would be capped at 2% rather than increase by September RPI (3.2%) as in previously years. The result of this policy is that top up, tariffs and baseline funding will only increase by the 2% cap with a subsequent lowering of the Settlement Funding Assessment (SFA). A separate S31 grant will be established to ensure this does not impact on the overall level of funding for local government.

Figure 1 below provides reconciliation between the figures provided during the summer consultation and those provided as part of today's announcement.

**Figure 1: Reconciliation between Figures in the Summer Consultation and the Provisional Settlement**

	Revenue Support Grant (£m)	Baseline Funding (£m)	Settlement Funding Assessment (£m)
<b>Summer Consultation</b>	12,534	11,254	<b>23,788</b>
Reduction in NHB Topslice	100	-	<b>100</b>
Efficiency Support for Rural Areas	9	-	<b>9</b>
Reduction in capitalisation holdback	28	-	<b>28</b>
Adjustment for 2% Business Rates Cap		(143)	<b>(143)</b>
<b>Provisional Settlement 2014/15</b>	<b>12,671</b>	<b>11,111</b>	<b>23,782</b>

Whilst 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 (LGDEL). At present, the breakdown of this is not known and a fuller reconciliation will be shared in due course.

### Settlement Funding Assessment

Each authority will receive a Settlement Funding Assessment (SFA), which combines formula funding and a number of rolled-in grants. At a national level, SFA will reduce from £26.3 billion in 2013-14 to £23.8 billion in 2014-15 and reach £20.7 billion in 2015-16. Overall, this represents a reduction in local government core funding of £5.6 billion (21%) across the two years.<sup>5</sup>

Annex A provides more detail on the changes in Settlement Funding Assessment (SFA) at the national level from 2013-14 to 2014-15.

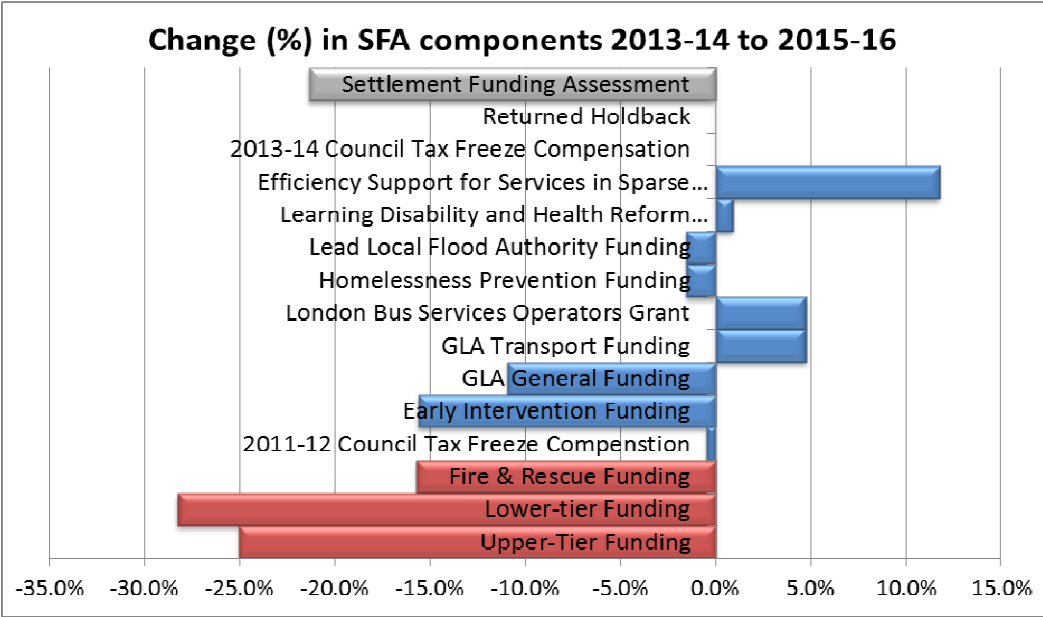
London boroughs have seen an overall reduction in SFA of £480m or 9.9% in 2014-15. This is split between an increase of £38m or 1.9% in funding baselines and a reduction in RSG of £517m or 17.8%. Annex C provides more detail.

For 2015-16, there is a further overall reduction in SFA of £628m or 14.4%. This is split between an increase of £54m or 2.8% in funding baselines and a reduction in RSG of £682m (28.6%).

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

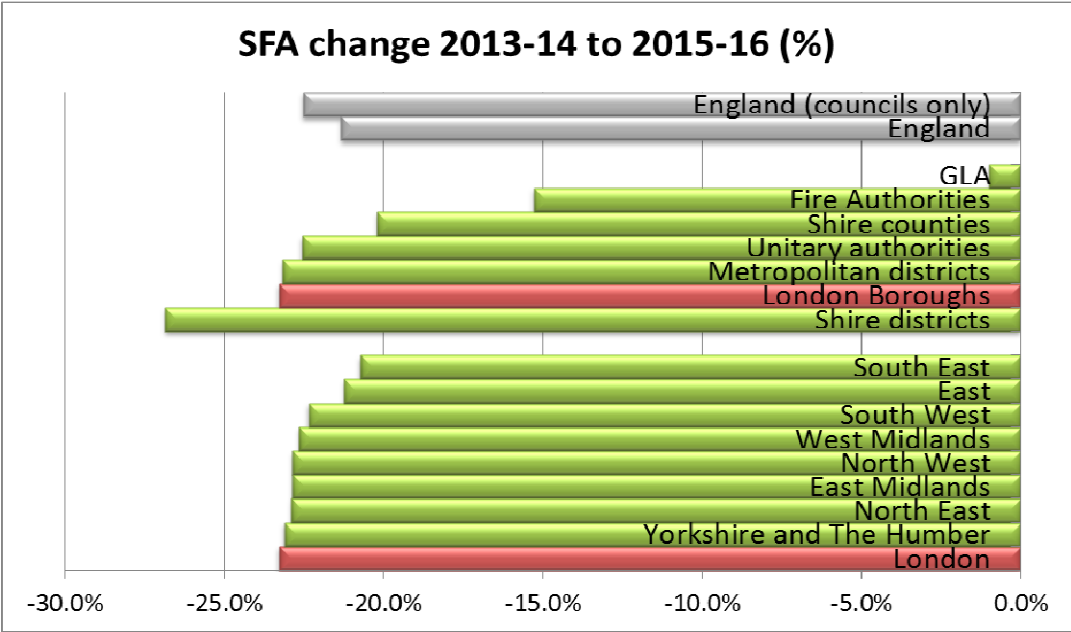
As proposed in the summer consultation, the Government has chosen to focus the majority of the funding reductions through changes to both the upper and lower tier funding elements (chart 1). Funding for the rolled-in grants will remain on their previous trajectories, as set out in Spending Review 2010.

**Chart 1 - Changes to SFA by individual component 2014-15**



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 old ‘formula grant’) and so will face greater funding reductions in 2014-15 and 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 – SFA will be reduced more in London than other regions in the next 2 years**



## 2. Business rates retention figures

There is very little change to the overall architecture of the business rates retention scheme. As in 2013-14, 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 all tariff and top-up payments will increase by 2% (as outlined in the 2013 Autumn Statement and confirmed today). This also increases business rates baselines and funding baselines by 2%.

The size and extent of safety net payments for 2014-15 are not yet known – these will be determined by local forecasts reported in the NNDR1 returns in January 2014. The retrospective levy payments due from tariff authorities for 2013-14 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.

**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

Government has also confirmed that the safety net threshold will remain at 7.5%. This means an authority is guaranteed 92.5% of its funding baseline each year. 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 £7.5m.

### Pooling

Nationally, CLG has received expressions of interest from 151 authorities in 2014-15 comprising 24 pools. The final pooling arrangements will be agreed as part of the final settlement.

### 3. Specific and general grants

Beyond core SFA funding, the settlement also provides details for a range of other special and specific grants. Based on the latest available information, London boroughs will receive close to £2.6 billion from a range of non-education, revenue funding across the two years. Further funding announcements are likely to emerge over the coming months. It is also worth noting that DfE capital allocations were also announced today. Further information is set out in annexes E and F.

### 4. Council Tax Referendum Principles

In contrast to previous years, CLG are not publishing council tax referendum principles as part of the provisional settlement. It could be that this is because the Local Audit and Accountability Bill has yet to complete the legislative process. The Bill proposes that levies should be included in council tax referendum calculations and had its third reading and report stage in the House of Commons on 17<sup>th</sup> December. It will now go back to the House of Lords for consideration of amendments with royal ascent is expected in early 2014. CLG are also seeking views on the referendum levels.

### Timeline for Response

The Government is consulting on the draft settlement figures and has requested comments by 15 January 2014. London Councils will be responding to the consultation and Members are kindly asked for their comments by 6 January 2014.

Please contact the Fair Funding team, [LGF@londoncouncils.gov.uk](mailto:LGF@londoncouncils.gov.uk) or phone 020 7934 9961.

**London Councils**  
**Fair Funding Team**  
**18 December 2013**