

Provisional Local Government Finance Settlement, 2013/14 and 2014/15: *On the day briefing*

Introduction

The provisional 2013/14 and indicative 2014/15 Local Government Finance Settlements were announced on 19 December 2012 by the Rt Hon Eric Pickles MP, the Secretary of State for Communities and Local Government. It can be found on the DCLG website¹.

These incorporate legislative changes resulting from the Local Government Finance Act 2012 which replaces the current formula grant system with a business rates retention (BRR) system, which locks in many aspects of this settlement until 2020 (subject to any earlier 'reset' as a result of 'exceptional' circumstances). The settlement outlines provisional start-up funding assessments² for local authorities and their funding and business rates baselines within the retention system going forward. It also gives special and specific grants and capital grant allocations for 2013/14 and 2014/15.

This briefing details the main headlines from the settlement for London boroughs and outlines how the system is set up. The overall allocations can be found at Annexes A to E. The key figures relating to the BRR system can be found at Annex F. London Councils will produce a separate briefing on the education settlement tomorrow and one on public health funding when the allocations are announced in the New Year.

Key points

Funding levels

- The Local Government control total is £26.1bn – down from £27.2bn in 2012/13 on a like-for-like basis. This is a reduction of 4%.
- The average reduction in spending power³ across England in 2013/14 is 1.7%
- The average reduction in London is 1.2%
- There is a cap on the reduction of spending power of 8.8%
- Within the new funding system, start-up funding assessment for the London boroughs totals £4.835bn
- Revenue Support Grant for the London boroughs totals £2.903bn

Business rates retention

- The Estimated Business Rates Aggregate (EBRA) for 2013-14 is £21.797bn
- London has 9 tariff authorities (including the GLA) and 25 top-up authorities
- Safety net payments will be triggered by a 7.5% decline on baseline funding
- Safety net trigger points vary across London with one borough having to decline by over 42% to trigger a payment while one would receive a payment with less than a 1% decline in business rates
- Levy rates vary across London from 5p/£ to 50p/£
- Had all London boroughs and the GLA entered a pool the overall tariff would be £329.1m, with a levy rate of 10p/£

¹ <http://www.local.odpm.gov.uk/finance/1314/settle.htm>

² Start-up funding assessment (SUFA) is the amount of money being awarded to a local authority at the start of the new business rates retention system i.e. the combined formula grant funding and grants that are being 'rolled in' to the BRR system.

³ Defined by the government as the aggregate of: council tax; start-up funding; other specific grants; and NHS funding to support social care and benefit health.

Overview

Today the government has published the provisional Local Government Finance Settlement for 2013/14 and 2014/15, available here: <http://www.local.odpm.gov.uk/finance/1314/settle.htm>
It contains:

- Covering Letter
- Statement by Secretary of State
- Plain English Guide to Business Rates Retention and the Settlement
- A Practitioners Guide: Business Rates Retention and the Settlement
- Special and Specific Grant Allocations for 2013-14 (more information to follow)
- Special and Specific Grant Allocations for 2014-15 (more information to follow)
- Capital Grant Allocations for 2013-14 (to follow)
- Capital Grant Allocations for 2014-15 (to follow)
- Equality Statement
- Frequently Asked Questions

This year's settlement is the first under the new business rates retention (BRR) system and is, therefore, different from previous years as it includes detail about how the new system will be set up. Section 1 below outlines the headline funding allocations and section 2 looks at how the BRR system is being set up and how this affects London boroughs.

Section 1 – Headline funding allocations

Local government control totals

The government has confirmed the local government control totals to be £26.074bn in 2013/14⁴. This is higher than originally outlined in the July BRR consultation, mainly because of the change to an in-year £500m NHB top-slice rather than the £2bn steady state top-slice originally proposed. Other changes affecting the control totals include the reduction of the safety net top-slice from £250m to £25m; the inclusion of the London Bus Services Operators' Grant (£44m); the downward revision of the 2013/14 GLA transport grant to £758m (from £920m); the exclusion of the GLA's council tax support grant relating to the Metropolitan Police (£119m); the addition of the NHB surplus of £5.9m from 2012/13; and a reduction of around £20m relating to the Ordnance Survey.

Figure 1 shows an overview of the changes in the 2013/14 local government control total since SR2010. Annex A has a more detailed version.

Figure 1 – Changes to local government control total since SR2010 – 2013/14 only

	£m
SR2010 Formula grant	23,196
2011 Autumn Statement	-260
BRR - policy changes	-716
BRR - Grants being rolled in	7,959
BRR - Transfers out	-4,106
Final control total	26,074

Spending power

At the national level, spending power (defined by the government as the aggregate of council tax, start-up funding, other specific grants, and NHS funding to support social care and benefit health) has been reduced by 1.7% with the government paying "Efficiency Support Grant" to authorities experiencing a reduction of 8.8% or more, provided they fulfil particular requirements.

⁴ CLG figures show the provisional 2014/15 control total is £23.845bn subject to an upward adjustment of a maximum of £12m.

London boroughs have seen an overall reduction in spending power, as defined by government, of £100.7m or 1.2% (Annex B), which is lower than the national average. No authorities qualify for Efficiency Support Grant in London.

Start-Up Funding Assessments

Each authority will receive a Start-Up Funding Assessment (SUFA) which combines formula funding (effectively what formula grant would have been had it continued) and a number of rolled-in grants⁵. Annex C details individual SUFAs for London boroughs.

The formula funding element has been calculated on a similar basis to formula grant in 2012/13 incorporating technical changes to the formula that were consulted upon in July. These changes include:

- updating the concessionary travel element of the relative needs formula for Environmental Protective and Cultural Services (EPCS);
- increasing the sparsity top-up within RNFs to award more funding to super-sparse areas;
- restoring the Relative Resource Amount to the same figure as 2010-11 and consequently increasing the Central Allocation;
- updating where possible the data sources but not the method for grants rolled in using tailored distributions; and
- updating population, tax base and various other data indicators.

At present, it is still too early to assess the exact impact of these technical changes on local authority funding levels. In broad terms, the changes to sparsity and the restoration of the Relative Resource Amount have had a negative impact on funding levels for London. However, the use of updated data such as population estimates has greatly benefited a number of boroughs. Changes to the concessionary travel element of the formula may have had a limited positive impact as well.

Formula funding will be subject to damping applied to the damping bands as per previous settlements⁶. The government had proposed to damp formula funding in a different way, but has decided not to proceed with this. In London, the figures suggest 17 scaled authorities and 16 floor authorities. Two of these damping groups are split into four bands according to authorities' levels of grant dependency. (Grant dependency is defined as the proportion of each authority's 2010/11 budget requirement that was funded through the 2010/11 formula grant.) The floor level for the bands in the damping group with education and social services responsibilities is shown in Figure 2:

Figure 2 – Floor damping bands

Floor band	Social Services authorities	Shire district councils	Fire & rescue authorities	No. of London boroughs
Band 1 (most dependent)	-2.70%	-5.40%	-8.70%	17
Band 2	-4.70%	-7.40%	-9.20%	3
Band 3	-6.70%	-9.40%	-11.70%	9
Band 4 (least dependent)	-8.70%	-11.40%		4

⁵ These grants include: Council Tax Support; Council Tax Freeze; Learning & Disability Health Reform Grant; Early Intervention Grant; Lead Local Flood Authorities Grant; Preventing Homelessness Grant; SuDS Maintenance Grant; GLA General Grant; the London Bus Services Operators' Grant (BSOG); and a proportion of the GLA Transport Grant.

⁶ There are now three of these: fire authorities, shire districts, and authorities with education and social services responsibilities.

The national totals for the rolled-in grants were announced in July 2012 and have been scaled to their existing individual profiles for 2013/14 and 2014/15. Annex D lists the amounts being rolled in to the SUFAs for London boroughs in 2013/14 totalling £1,185m. The largest is Council Tax Support grant (£524m).

Specific and general grants

The settlement gives details of the overall quanta for specific and general grants. These have reduced considerably since 2012/13 because most of the main grants have been rolled in to the BRR system. Nationally the government will award an estimated £42.593bn of specific and general grants in 2013/14. This total excludes Public Health Grant which, at the time of writing, has not yet been announced. Excluding Dedicated Schools Grant total special and general grants are £4.633bn in 2013/14 and the comparable figure for 2014/15 is £5.094bn. The biggest grants are Dedicated Schools Grant (£37.959bn) and Pupil Premium (£1.875m). London Councils will produce a separate briefing on DSG and Pupil Premium shortly.

Annex E details individual borough allocations for Housing Benefit Admin Subsidy, New Home Bonus and Council Tax Freeze Grant.

Section 2 - Setting up the BRR system

This section outlines how the new funding system is being set up and what this means for London boroughs. It should be read in conjunction with Annex F.

Estimated Business Rates Aggregate (EBRA)

The EBRA for 2013/14 is £21.797bn. This is used to calculate individual local authority business rates baselines (by applying proportionate shares) and in determining the local and central shares and RSG amounts.

Figure 3 shows how the government has calculated EBRA. The notional local list yield is derived by applying the small business multiplier for 2013/14 to an estimated Rateable Value for September 2013. A number of adjustments are made for reliefs; losses and costs of collection and the City of London offset; a calibration adjustment (to account for the annual difference NNDR1 and NNDR3 returns); transitional protection payments; an amount estimated to be retained by authorities in enterprise zones; and a downward adjustment of £593m (2.6%) for losses on appeal.

Figure 3 - Calculation of EBRA

	£m
Notional local list yield	26,297
Adjusted for reliefs	
Mandatory reliefs: Empty Property & other	-2,169
Net Transitional arrangements	-125
Net Small business rate relief	-58
Discretionary reliefs	-49
Enterprise Zones & NDDs	-35
Net local list yield	23,860
Cost of Collection	-84
Losses in collection	-206
City of London Offset	-11
Net local list income	23,559
Calibration adjustment	-1,279

Adjusted for	
Transitional protection payments	125
Enterprise Zone retention	-15
Adjusted local list income	22,390
Appeals adjustment	-593
Estimated business rates aggregate	21,797

Business rates baselines

Business rates baselines have been calculated using NNDR3 data for individual authorities' contribution to the pool (net of transitional relief) averaged over the two years 2010-11 and 2011-12. These proportionate shares (column f of Annex F) are multiplied by the EBRA (calculated above) to give an indicative target business rates yield for each authority. Half of this goes to central government as the central share. In London the remaining half (the local share) is split between the boroughs 60% and the GLA 40%. Each borough therefore multiplies the target yield by 30% to get their individual business rates baseline (column g of Annex F).

The Revenue Support Grant:local share ratio

Authorities will receive their SUFA allocations as two separate elements: baseline funding and revenue support grant (RSG). The key calculation in determining individual funding baselines is the split between locally retained business rates (which remain inside the system) and RSG (which will remain outside of the system going forward).

Figure 4 outlines this important calculation.

- The GLA transport grants are subtracted from the overall control total ($a - b = c$). The EBRA (calculated above) is halved to represent the 'local share' ($d * 0.5 = e$).
- The GLA transport grants are subtracted to give the remaining local share ($e - b = f$).
- RSG is the difference between the remaining local share and the control total (less GLA transport grants) ($c - f = g$).
- The resultant split between funding outside of the system (RSG) and that inside the system is 60.1%:39.9%.
- An authority's funding baseline is therefore 39.9% of their start-up funding assessment and its RSG is 60.1%.

Figure 4 – Determining the RSG:local share ratio

Component	£m	% split
a) Control total	26,074	
b) GLA transport grants	803	
c) Control total (less GLA transport grants)	25,271	
d) EBRA	21,797	
e) Local share	10,899	
f) Local share (less GLA transport grants)	10,096	39.9%
g) RSG	15,175	60.1%

RSG amounts for 2013/14

Revenue support grant will remain outside of the system going forward. In 2013/14 this will amount to £15.175bn nationally and £2.903bn across London boroughs. Column (d) of Annex F shows the RSG amounts for each London Borough and the GLA. In 2014/15 RSG will amount to £12,613m nationally and £2,384m across London boroughs. In future this will change in line with the overall local government control total (being the difference between the local share and the control total).

Top ups and tariffs

Top ups and tariffs have been calculated by comparing funding baselines with business rates baselines. Where an authority's business rates baseline is higher than its funding baseline it will pay a tariff to central government: where an authority's business rates baseline is lower than its funding baseline it will receive a top-up from central government. Top ups and tariffs will balance at the national level and will increase with RPI inflation each year. London overall has 25 top up authorities and 9 tariff authorities (including the GLA which is a tariff).

Levy rates & safety net thresholds

Tariff authorities have to pay a levy on any growth in business rates. Individual levy rates have been calculated by the formula:

$$1 - \text{FB/BRB}$$

where FB is the funding baseline and BRB is business rates baseline. The levy rates for the 9 tariff authorities in London are outlined below. There is a 50p cap on the size of levy rate (as announced in the government's November policy statement) which applies to the City of London, Westminster and Hillingdon. Top-up authorities will retain all of their growth.

Figure 5 – 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 government confirmed the safety net threshold as 7.5% in its November policy statement. 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 G 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 largest any authority (excluding the GLA) can lose in funding before a safety net payment is triggered is £7.6m.

Pooling

London's Leaders decided in September not to enter a pool in 2013/14, but to assess and monitor the potential for pooling in London in future. London Councils will be running a 'shadow' pool throughout the year in order to monitor what would have happened had a pool been entered into. Under the current figures a London pool of all boroughs and the GLA would have a tariff of £329.1m and a levy rate of 10p/£.

Nationally, 139 authorities have declared an interest in pooling in 2013-14 comprising 20 pools, however some may no longer wish to pool following the publication of the provisional settlement

figures. The final pooling arrangements will be agreed as part of the final settlement. London Councils will monitor the progress of these pools as part of our shadow pool work in 2013/14.

Timeline for Response

The government is consulting on the draft settlement figures, as well as the data that underpin them. The timeline below shows how London Councils will respond to these consultations. Members are kindly asked for their comments by 11 January.

The Fair Funding team will be generating individual borough funding profiles summarising funding allocations for 2013/14 to be circulated in January.

Consultation response timeline

Latest date	Activity
11 January	Last date for boroughs and City to send comments on London data and settlement to London Councils
15 January	London Councils submits comments on London data and settlement. Note: authorities may also wish to comment on their own authority data direct to CLG.

Please contact the Fair Funding team, LGF@londoncouncils.gov.uk or phone 020 7934 9661.

London Councils
Fair Funding Team
19 December 2012