

Local government finance

Briefing for Leaders, Lead Members and Chief Executives

31 July 2013



On Thursday the 25 July 2013 the Department for Communities and Local Government (DCLG) published consultations on the local government finance settlement for 2014-15 and 2015-16; the New Homes Bonus; and the funding of transformation costs through application of capital receipts.

The *Local Government Finance Settlement 2014-15 and 2015-16: technical consultation* is available via this [link](#). Since the consultation is detailed and technical, a separate briefing with more detail is being circulated for local government finance officers. This briefing contains the main highlights for Leaders, Lead Members and Chief Executives.

The LGA would like to invite our members to share their responses with us so that we can best reflect your concerns to the Government. Please send your response or any queries you might have to lgfinance@local.gov.uk

FUNDING SETTLEMENT CONSULTATION

- The Spending Round announced a 10% real terms cut in overall funding for local government from the DCLG. The settlement consultation confirms that the total amount received by local government for 2015/16 will reduce by this amount. The latest settlement makes it clearer how this will feed through to local authorities.
- It is now clear from the latest consultation paper that £1 billion has been set aside from the settlement for allocation outside the main business rates retention system to some authorities but not others. It emerges that this includes much of the new money announced in the Spending Round. Therefore underlying the headline 10% real terms cut in funding announced by the Government at the Spending Round lies a 15% real terms reduction in the basic allocation affecting all authorities, the Settlement Funding Assessment or SFA (which comprises local business rates and Revenue Support Grant and is broadly analogous to the old Formula Grant). Authorities that do not get an allocation of any of the new money will suffer cuts on this scale.
- The difference, amounting to just under £1 billion, is explained by two key things:

1) Firstly, an amount of £800 million has been set aside by the Government for grants and other allocations included in the headline Local Government Departmental Expenditure Limit (DEL) figure, some of which involve extra costs to local authorities. These are listed in below in the table and detailed

Briefing

Lee Bruce, Public Affairs and Campaigns Adviser
 Local Government Association Email: lee.bruce@local.gov.uk
 Tel 020 7664 3097 Fax 020 7664 3030
 Information centre 020 7664 3131 www.local.gov.uk

in the technical briefing. This is effectively money that the Government has set aside for other priorities and that will not be allocated to all authorities.

	Amount £m	Note
Collaboration and Efficiency Fund	100	Announced in the Spending Round. Allocation will be to participating authorities on a basis to be determined
Fire transformation fund	30	Announced in the Spending Round. Allocation will be to fire authorities on a basis to be determined
Social care new burdens-(Dilnot)	335	Announced in the Spending Round. Allocation to social care authorities. £50m of this is capital
Independent Living Fund	188	Transfer from DWP to fund the costs of closing down the ILF.
	653	

The difference between this figure and the £800m, Government advises, is for allocations yet to be determined, including some of the additional funding for Troubled Families announced in the Spending Round.

It is evident that much of the 'new funding' announced in the settlement is contained within LG DEL resulting in a deduction in local business rates and Revenue Support Grant.

In particular the figure includes new burdens funding for Dilnot which, by definition, comes with additional costs for local authorities. Indeed it is anticipated that most of the allocations from these pots will come with some extra spending. Local government will argue that funding that comes with extra burdens should not be taken into account in reducing the calculation of a 'real terms' cut.

It is evident that new money for Troubled Families, which was said to have been drawn from across Government, is being met at least in part from local government's own settlement.

2) Secondly, additional funding is also being withheld for New Homes Bonus and business rates retention safety nets. The safety net in is the funding that Government sets aside to fund payments to authorities whose local business rates income reduces by more than 7.5%. The amounts held back in 2014/15 and 2015/16 are set out below in the table.

Holdbacks	2014/15 Original £m	2014/15 Revised £m	2015/16 £m
New Homes Bonus	800.0	800.0	1100.0
Capitalisation	100.0	50.0	
Safety Net	25.0	120.0	50.0
Total holdbacks	925.0	970.0	1150.0
Change in holdbacks		45.0	180.0

It is understood that the increase in safety net holdbacks is due to concern over the impact of successful rates appeals on a few authorities. We would argue that this risk is created by long drawn-out process for appeals operated by the Valuation Office Agency (VOA) and that is a problem for the Government to fix. This is not therefore a risk that local government should be required to fund.

In addition, it is understood that there may be a final surplus on the former national business rates scheme. The backdated impact of business rates appeals before April 2013 should be charged to that pot, and any balance should then be allocated back to local government via the settlement.

Any funding held back but not allocated to authorities will be redistributed later to all authorities but not until later in the planning process. The New Homes Bonus holdback figure for 2015/16 in the settlement paper and reflected in the table above is £210m higher than the one quoted in the New Homes Bonus consultation. Local government should ask for a consistent figure to be used, returning £210m to the settlement for 2015/16.

Taking these two changes together (the £800m in allocations outside SFA and the holdbacks), the actual reduction in Revenue Support Grant and the local share of business rates (known together as the Settlement Funding Assessment) is 13.1% or 15% in real terms.

	2014/15 £bn	2015/16 £bn	Cut £bn	Cash reduction	Real terms reduction %
Figures as per the Spending Round (Local Government DEL)	25.6	23.5	2.1	8.2%	10%
Consultation figures (Settlement Funding Assessment) after holdbacks	23.6	20.5	3.1	13.1%	15%
Difference	2.0	3.0	1.0		

In the absence of further information on the allocation of £800m and the holdbacks, authorities are in the position of having to plan for a share of the 15% real terms reduction in SFA in 2015/16.

The Government has also been quoting a 2.3% real terms reduction in 'Local Government Spending' which we understand includes £3bn of the £3.8bn NHS Social Care money negotiated and announced as part of the

settlement. The Government has been unable to explain this figure but in any case it is now clear that the headline SFA figure for many authorities at 15% will be very much higher than people have been led to understand.

The Settlement Funding Assessment is the funding which is analogous to Formula Grant under the older system, so it a share of this pot that is distributed to all authorities. The impact will therefore vary between authorities.

The following table is summarised from DCLG exemplifications on its website, accessible via this [link](#).

Local Authority	Settlement Assessment		Funding	% cash reduction
	2014-15 Settlement	2015-16 Settlement (including 2013-14 Council Tax Freeze)	2015-16 Settlement	
	(£ million)	(£ million)		
England	23,614.095	20,693.383		-13.0%
London area	5,486.898	4,899.548		-11.3%
Metropolitan areas	6,356.737	5,480.434		-14.1%
Shire areas	11,767.159	10,310.101		-13.3%
Inner London boroughs incl. City	2,147.116	1,838.247		-14.7%
Outer London boroughs	2,182.650	1,895.069		-13.8%
London boroughs	4,329.766	3,733.316		-14.3%
GLA - all functions	1,157.131	1,166.232		0.0%
Metropolitan districts	6,068.799	5,216.279		-14.4%
Metropolitan fire authorities	287.937	264.155		-8.3%
Shire unitaries with fire	420.649	365.906		-14.0%
Shire unitaries without fire	4,480.147	3,875.184		-13.9%
Shire counties with fire	2,165.802	1,927.593		-12.1%
Shire counties without fire	3,162.789	2,796.342		-12.9%
Shire districts	1,082.596	923.688		-15.3%
Combined fire authorities	455.176	421.387		-8.2%

A real terms reduction can be arrived at by adding 1.8% to these figures

Key points to raise:

1. The process has been opaque so far. To aid transparency and decision-making, Government should explain that the initial impact of 2015/16 cuts on most authorities will be in the region of 15%. This will help people understand the actions authorities will need to take. Expressing the real terms cut as 10%, let alone 2.3%, is misleading for the majority of authorities. It is particularly misleading that some of the funding taken into account is matched by new burdens of

expenditure. It is wrong in principle that new burdens funded should be presented as if it is real terms funding growth.

2. Where money has been held back, the amounts held back should not be too cautious on the Government's part. Authorities cannot budget for redistributions of unspent contingencies they may not receive. The NAO's estimate of New Homes Bonus for 2015/16 should be used, allocating an extra £210m to local authorities at the outset.
3. The Government should carry the financial risk of appeals where these are due to the long-winded VOA appeals system because only the Government is in a position to manage this risk by fixing the system. Backdated appeals before 2013/14 should be charged to the pre 2013 business rates pot.

NEW HOMES BONUS CONSULTATION

The Government has also published a consultation on passing £400m to Local Enterprise Partnerships from the New Homes Bonus.

The consultation which closes on 19 September 2013 can be accessed via [this link](#).

Implementing the £400 million transfer

DCLG announced that £400m (estimated at 35%) of all New Homes Bonus will be given to the lead authority for the LEP in the area. In London this will go to the Greater London Authority.

The Government proposes two options for mechanism to be used to pool New Homes Bonus. In the first, all authorities would have their New Homes Bonus reduced by the same proportion (35% in the estimate). In two tier areas this would mean Districts providing 80% of the pooled amount with counties providing 20%, in accordance with the New Homes Bonus split.

In the second option, in two tier areas the first call for the pool would be from counties, with districts making up the difference. On the basis of a 35% topslice, counties would lose all of their New Homes Bonus in 2015/16, with the remainder coming from districts (approximately 19% of their allocation). Where an authority belongs to more than one LEP, DCLG proposes to split their share equally between the LEPs to which they belong; no choice is offered to individual authorities on this point.

The Government suggests that LEPs should take into account committed spending out of New Homes Bonus for 2015-16 by authorities in their area.

All authorities affected by this are encouraged to fill in a survey.

PROPOSALS FOR THE USE OF CAPITAL RECEIPTS FROM ASSET SALES TO INVEST IN REFORMING SERVICES

The Government is consulting on the proposals for the use of capital receipts from asset sales to invest in reforming services and responses need to be submitted by the 24 September 2013. This is an opportunity to comment on and shape the Government's proposal to allow some one-off "transformational" revenue expenditure, which will deliver longer term savings, to be funded through the use of capital receipts. The

documentation can be accessed via this [link](#).