BUSINESS SUPPORT
OVERVIEW AND SCRUTINY COMMITTEE
25 SEPTEMBER 2012
MEDIUM TERM FINANCIAL PLAN 2013/16

Report from/author: Mick Hayward, Chief Finance Officer

Summary

This report reviews the major financial issues facing the Council in this and the next three years. It also provides a framework for the more detailed preparation of the draft Revenue Budget for 2013/16.

1. Budget and Policy Framework

1.1 The Council's annual budget and council tax setting establishes the Council's budget framework, and sets out the funding of services. The Medium Term Financial Plan (MTFP) identifies the key issues that need to be addressed as part of that budget preparation. This MTFP will mesh with the review of the Council Plan for 2013/16 to integrate budget setting with service planning and ensure priorities and funding are matched.

2. Background

2.1 The MTFP approved by Cabinet last September identified a 3-year scenario and quantified the issues in some detail such that it formed a robust basis for the budget that was agreed in February this year and importantly became a crucial reference for future financial planning. The approved budget for 2012/13 of necessity focussed on the immediate need to produce a balanced budget in the face of a continued squeeze on public finances. However there were clear future dimensions in respect of some high spending services of the Council (notably the Special Educational Needs (SEN) strategy and social care transformation measures), and the commencement and funding of the 'Better for Less' transformation project. However, it is realised that there is still some way to go before a robust long-term plan is fully developed and this is not assisted by national uncertainty around funding, both in terms of the public sector control totals and distribution methodologies.

2.2 2011/12 once again saw the Council underspend against the budget set, reinforcing the robustness of the budget set and effectiveness of control processes. This and the ability to date to deal with sizeable deficits at draft budget stage has demonstrated the strength of the Council's existing financial management but must not be allowed to lead to complacency in consideration of future budget positions for 2013/14 and beyond against a backdrop of continued reductions in Government support.

2.3 The Council's financial position remains challenging with an acknowledged low resource base both in terms of per capita grant and council tax. For Dedicated Schools Grant (DSG) the underlying rise in primary pupil numbers continues but is overshadowed by the migration to Academy status and the consequent reduction in level of grant. However there is a negative impact from academies seceding from Council control. The terms of their set up mean that the Council loses both the delegated budgets for those schools but also a share of central budgets by way of a 'top-slice' of central funding. Currently the funding of academies for the 'central support' functions is by way of grant (LACSEG), which in turn is funded by the top-slice from all Local Authorities (LA) allocations. The new funding arrangements for schools will also apply for 2013/14 and beyond and present challenges to the Council in ensuring that these are understood together with the implication for core Local Education Authority (LEA) activity.

2.4 As has become the norm, the Council's budget has been prepared against a backdrop of a serious deficit in resources and inevitably the focus has been on achieving the necessary balance for the immediately forthcoming year with less of a focus on future needs. A succession of Medium Term Financial Plans have prophesied the very deficits that manifest, usually to a greater degree, when the detail of budget preparation begins to become apparent.

2.5 It is also clear, even at this early stage, that the future budget requirement, incorporating investment in meeting strategic objectives allied with demographic change will exceed available resources, exacerbated by the certainty of significant reductions in Government support but confused by radical changes in the funding regimes both for schools and the wider Council budget.

3. Advice and analysis

3.1 The Spending Review 2010 (SR 2010) responded to the impact of the world wide economic recession and the massive growth in public sector borrowing in the UK. Deficit reduction is now a commonly understood term in the nation's language not least because of the severity of the austerity regimes in some of the Euro states. SR 2010 set out the Government's proposals to reduce public spending and the associated deficit and for Local Government in particular, that foretold of cuts totalling 28% over the 4-year review period.

3.2 SR 2010 was announced in October last year and the Financial Settlement that followed confirmed funding reductions of 11.9% and 8.3% for 2011/12 and 2012/13 respectively. The Local Government Resource Review foretold of changes to the distribution mechanism for resources but against a backdrop of further cuts in support. For Medway it was predicted that these could be a further 4% in each of 2013/14 and 2014/15. It is now anticipated that the ongoing battle to recover the deficit will require increased reductions and the latest forecast is now for a reduction of 4.3% followed by a further 9.8% with the likelihood of more to come in 2016/18 when the next SR is announced.

3.3 A further part of the SR announcement was a statement that the Government would work in partnership with local authorities in England to freeze council tax and this occurred in both 2011/12 and 2012/13 albeit the latter grant was specifically time limited to the current year. The initial funding period for the first 'freeze' grant is also scheduled to run out in the period covered by this review and will add to the pressures LA's will have to deal with.

3.4 SR 2010 also announced that public sector pay would be frozen for two years. In Medway this has happened with some lower paid staff having an element of protection in pay consequent to the decision to freeze locally awarded increments.

3.5 High level spending needs have been reviewed as part of the preparation of this report and are narrated and summarised in sections that follow but if the plans already in place are to be achieved then the MTFP for 2013/16 must encapsulate the strategic priorities for Medway as set out in the Council Plan and the two guiding principles or core values of:

- Putting our customers at the centre of everything we do; and
- Giving value for money.

The Council Plan is the council's business plan. It has five priority areas and sets out what will be done to deliver these and how we will tell what difference has been made. Those five priorities are:

- Safe, clean and green Medway;
- Children and young people in Medway have the best start in life;
- Adults maintain their independence and live healthy lives;
- Everybody travelling easily around Medway; and
- Everyone benefiting from the area's regeneration.

These priorities and the progress towards their delivery are monitored quarterly alongside the financial performance of the Council integrating measures of cost and service delivery success.

3.6 Over the life of this medium term financial plan, the policy context in which the council and its partners work will continue to change. This MTFP and the forthcoming Council Plan refreshes will need to be able to respond to these changes. Key dimensions include:

- Radical changes to the health system with new responsibilities for public health and health and well-being transferring to the council
- Continued reform of the education system with increasingly autonomous academies and free schools, but councils continuing to have responsibility for school improvement
- Decentralisation and localism with increased expectations about community and neighbourhood involvement in commissioning services
- Increase in personalisation and choice across all services areas
- Presumption against local authority direct provision of services, and increased emphasis on payment by results.

4. Assessment of Likely Available Resources

4.1 The size of the Council's revenue budget is determined by two major factors:

- The support from central government by way of Formula Grant, other Specific Grant and Dedicated Schools Grant (DSG); and
- The amount raised locally by council tax.

4.2 The Local Government Finance Settlement announced in January 2011 set out Formula Grant expectation for both 2011/12 and 2012/13 and these are now a matter of record. However for 2013/14 there are some significant changes to Government support calculations as a consequence of the Resource Review. The effect of these is still uncertain but specialist consultants, Local Government Futures (LGF), have been commissioned to advise on the potential consequence of these changes and particularly the impact of the revised arrangements for re-distributing the National Non Domestic Rate (NNDR) pool. Their report is attached as Appendix 2.

4.3 Currently the Council collects business rates (NNDR) on behalf of the Government, remits that collection to the exchequer and receives a distribution based on population. This will change and LAs will supposedly be able to retain 50% of NNDR collected with the remaining 50% being used centrally to fund a revised Revenue Support Grant mechanism.

4.4 Despite the implication of the title, business rates retained by local authorities will continue to be subject to calculation and adjustment through a complex model. This will ensure that even if rate collection increases significantly the total amount retained by Local Government will not exceed the national spending limits for Local Government set by Treasury. Any surplus will be returned to Central Government where it will be used to fund specific grants currently funded by Government from other sources. Any local increase in the business rate footprint (after taking into account Government thresholds) will be reflected in the amount that is retained locally but conversely any local decrease will impact on resources. The model includes a wide range of assumptions and also incorporates the tariffs and top-ups included by Central Government to try to protect those areas where there would be insufficient resources to provide the base line level of service assumed. In their calculation LGF anticipate Medway to be an area where 'top up' will be required and in each funding scenario a base 'top up' of £0.086 million is allowed for. The distribution model will only be finalised later in the financial year 2012/13 but to enable a reasonable projection of the resource base LGF were asked to base a further forecast on a nil growth scenario with a £7.015 million reduction in rateable value arising from the closure of Kingsnorth Power Station on the scheduled date of 1 April 2013 (Appendix 2a).

4.5 The original assumptions relating to resources for the coming years were driven by the CLG control total in SR 2010 but these have been revised in a variety of announcements since. The LGF document at Appendix 2 details the more significant changes from SR 2010 at paragraph 3.68. There are also a number of changes to shift resource out of the control total and also to incorporate resources into the figure, for example the Council Tax Freeze Grant. The impact of all these changes is to increase the reduction in CLG resource and there are possibilities that this may decrease yet further if reductions in the demand led budgets do not materialise as forecast.

4.6 Table 1 is an effective illustration of the complexity of the resourcing of the Council's spending requirement. The proposals for funding distribution changes further complicate this with the incorporation of a number of these separate funding sources into the revised mechanism. The LGF forecast does not incorporate all these changes but it will be the case that the eventual grant settlement will.

Table 1 Gross Budget and Funding 2012/13

		£ millions	**£ millions**
Total Budget 2012/13			**535.2**
Funded by:			
Fees, charges and other income			80.1
Council Tax			99.1
Use of reserves			1.2
Government Grants:			
Dedicated Schools Grant	DfE	126.9	
Housing / Council tax Benefit	DWP	111.8	
Formula Grant (NNDR)	CLG	79.2	
Formula Grant (RSG)	CLG	1.5	
YPLA	DfE	3.8	
Early Intervention Grant	DfE	11.1	
Learning Disability and Health Reform	DoH	9.3	
Council Tax Freeze Grant	CLG	2.5	
Pupil Premium	DfE	2.3	
Adult Education	BIS	2.1	
New Homes Bonus	CLG	2.4	
Flood Defence	LSSA	0.2	
Homeless Prevention	LSSA	0.1	
Other misc grant		1.5	
			354.8
Total Funding 2012/13			**535.2**

4.7 In respect to Council Tax levied, Medway's position in 2012/13 remains one of the lowest in both our peer group of Unitaries (6^{th} lowest) and nationally (25^{th}). However, for non-schools (DSG) expenditure, Council Tax represents only 24% of the resources supporting the 2012/13 budget; Fees and Charges 20%, Formula Grant 20% and other grants 36% (of which benefits is 27% and nets against payments made). Given a continued constraint on Government funding streams there is a balance to be struck between the aspiration for a low tax increase (or none) and the need to maximise a significant part of our funding resource when other sources are likely to reduce. In particular the removal of the one-off funding for the 2012/13 Council Tax Freeze Grant that equated to a deferred rise in Council Tax of 2.5% means that serious consideration needs to be given to a rise of circa 4% just to keep pace with inflationary pressures. For the purposes of this MTFP it has been assumed that a 4% increase in Council Tax will occur in 2013/14 with further increases of 4% and 2% in succeeding years to both catch up with the yield loss from the Council Tax Freeze grant and maximise contributions to the reductions in Government support.

4.8 The former capping regime is now replaced with a process for referenda for 'excessive' Council Tax increases. Essentially Government will determine the rate of increase above which increases are deemed to be excessive. This is similar to the old "capping" regime but the level will be announced before budget and council tax levels are set. Any proposal to exceed the set level will need to be supported by an alternate budget to meet the determined increase and subject to a local referendum. For 2011/12 and 2012/13 the position was complicated by a 'Council Tax Freeze' grant designed to encourage councils to set a zero increase and fund them an equivalent 2.5% uplift for doing so. The SR 2010 suggested that this grant for the 2011/12 zero increase, will be honoured through the 4-year SR period and this is now confirmed with it's inclusion in the Formula Grant calculation. However the grant provided as an additional incentive to declare another nil increase for 2012/13 was very explicitly funding for 2012/13 only and is an immediate pressure in 2013/14.

4.9 The taxbase upon which the current council tax is set was agreed as 88,531 Band D equivalents. As at the end of July the taxbase was 88,473 reflecting an increase in the rate of new properties being added. Original predictions were that 724 new properties would be completed this year and 311 have already been added since March so we remain on target to achieve the estimate. Growth for the next few years is predicted to be similar and whilst banding and discounts are unpredictable, not least because of the new Council Tax Support scheme, it is considered that a 0.5% growth rate is a reasonable assumption on current arrangements.

4.10 For the purposes of modeling the resource position the current arrangements have been assumed to continue and any changes arising from the Council Tax Support revisions are assumed to be a net nil effect. However the report to Cabinet on the 4 September, the proposals from which are currently being consulted upon, identified that the scale of the financial loss to the council was far greater than the original 10% suggested by Government. Direct grant loss of some £4 million has been estimated with potential further costs arising from reduced collection rates and loss of administration grant that could double the cost burden. The draft budget paper to be prepared for the Cabinet meeting on the 29 November 2012 will need to consider how these challenges are to be met.

4.11 Another significant change in 2013/14 will be the transfer of responsibility for Public Health Services from the current PCT to Local Authorities. A few weeks ago the PCT submitted the latest assessment of local costs to the Department of Health (DoH) and these indicate a spending requirement of some £10.6 million. For the purposes of this document and budget planning it is assumed that spending and resource transfers will be a net nil scenario but this will need to be closely monitored during the budget build for 2013/14.

4.12 For Dedicated Schools Grant (DSG) there is some logic in an expectation of a slightly better position overall given the predicted increase in pupil numbers from 40,285 in 2012/13 to 40,723 in 2013/14. However it is difficult to see an increase in the per pupil funding rate which means an effective real cut in funding equivalent to inflationary pressure. An added complication will be the transfer funding for Academies that is predicted to rise from £87.3 million in 2012/13 to £94.2 million in 2015/16 (inclusive of Pupil Premium and 6th Form funding). The table below summarises the expected position:

Table 2 – Schools Funding

	2012/13	**2013/14**	**2014/15**	**2015/16**
Pupil Numbers	40,285	40,723	40,933	41,416
DSG per pupil	£4,953	£4,953	£4,953	£4,953
DSG (gross)	£199,534,828	£201,704,277	£202,744,424	£206,146,667
Academy deductions	-£70,751,951	-£75,177,810	-£75,177,810	-£75,177,810
DSG (net)	**£128,782,877**	**£126,526,466**	**£127,566,613**	**£129,968,857**
Pupil Premium	£5,202,537	£7,372,613	£9,830,151	£9,830,151
Pupil Premium – Academy deduction (Est)	-£1,207,137	-£1,868,513	£2,491,351	£2,491,351
EFA (6th Form Funding)	£17,700,000	£17,700,000	£17,700,000	£17,700,000
EFA - Academy deduction (Est)	-£15,362,713	-£16,125,140	-£16,486,416	-£16,486,416
Net Schools Funding ex Medway Council	**£135,115,564**	**£133,604,426**	**£136,118,997**	**£138,521,241**

4.13 An overview of the changes affecting the financing of Education and more particularly schools funding is attached at Appendix 3.

4.14 Overall assumptions for inflationary increases are nil for pay, albeit in the Autumn Statement the Chancellor identified a 1% cap on public sector pay increases for next year; 2.5% for uplift on fees and charges; nil provision for general inflation where there is no contractual commitment; and 10% for utilities in 2013/14 (the new 3 year contract commences October 2012).

4.15 Table 3 below illustrates potential resources for 2012/16 based upon the assumptions in 4.2 to 4.12. Also reflected is the loss of one-off funding from reserves (£1.175 million) included in the 2012/13 budget with any ongoing spending requirement, such as the free swimming initiative, reflected as a pressure for future funding.

4.16 The resource assumptions in Table 3 below are as set out in the preceding paragraphs but in terms of sensitivity analysis a 1% change in Formula Grant (post 2012/13) is some £0.75 million and similarly a 1% variation to council tax assumptions is some £1 million.

4.17 In addition to the revenue resources referred to above the Council does have access to reserve balances. However, whilst the balance of General Reserves (i.e. those not allocated for an earmarked purpose) has increased in recent years as a result of budget underspending, it is still at a minimal level. As at 31 March 2012 the uncommitted general reserve and the contingency balance amounted to some £18 million. Taken in context to the recurrent saving requirement illustrated in this report, and the risks and costs that are likely in achieving financial balance, it is clear that they do not represent a solution to the financial equation.

Table 3: Potential Resources for 2012/2016

Description	**2012/13**	**2013/14**	**2014/15**	**2015/16**
	£m	**£m**	**£m**	**£m**
Formula Grant - % Increase		**-4.3%**	**-9.8%**	**-3.6%**
- amount	**80.743**	**77.273**	**69.728**	**67.229**
		+0.5%	+0.5%	+0.5%
Taxbase	88.531	88.974	89.419	89.866
Council Tax (£1,119.15 baseline)	**99.080**	**99.080**	**99.080**	**99.080**
Council Tax Freeze Grant (12/13)	**2.477**			
New Homes Bonus	**2.389**	**3.434**	**4.493**	**5.613**
Use of Reserves	**1.175**	**0**	**0**	**0**
School Specific Funding:				
DSG (based on forecast pupil numbers)	**199.535**	**201.704**	**202.744**	**206.147**
Pupil Premium	**5.203**	**7.373**	**9.830**	**9.830**
YPLA (6th Form Funding)	**17.700**	**17.700**	**17.700**	**17.700**
Academy Transfer	**(87.322)**	**(93.171)**	**(94.156)**	**(94.156)**
Pupil Numbers	40,285	40,723	40,933	41,418
Funding per pupil £	4,953	4,953	4,953	4,953
Other Specific Grants	**136.053**	**135.203**	**135.203**	**135.203**
Summary Resources:				
DSG and other Schools based funds	**135.116**	**133.606**	**136.118**	**139.521**
(Increase)/Decrease in resource		***1.510***	***(2.512)***	***(3.403)***
Non-DSG	**321.917**	**314.990**	**308.504**	**307.125**
(Increase)/Decrease in resource		**(6.927)**	**(6.486)**	**(1.379)**
Council Tax Increase @ +4%, +4%, +2%				
Increase in taxbase		***0.495***	***0.518***	***0.541***
Increase @ +4%, +4%, +2%		***3.983***	***4.163***	***2.176***

5. Spending Priorities

5.1 It is clear that for 2013/14 and beyond the Council will need to be restricting rather than identifying increased spending requirements. That is evident in the assumptions made for pay and prices in spite of the current situation where the Retail Price Index (RPI) continues to run at some 3%. However there will be areas where either for legislative reasons, uncontrollable demands, or contractual obligations, there will still be spending pressures that will serve to magnify the nature of the problem in balancing the budget equation as presented in Appendix 1.

5.2 Paragraph 4.15 identified the need to fund the recurring aspects of the reserve funded spending in the 2012/13 budget. The table below identifies the funded spend into recurring and non-recurring components and represents £1.175 million of the resources reduction in table 3. The recurring aspects are a first call against funding requirements for 2013/14 with the non-recurring elements removed in Appendix 1.

Table 4 – Reserve Funded Initiatives

Initiative	**£000's**	
Freedom Pass	11	Recurring
Free Swimming	200	Recurring
Apprentices	100	Recurring
Graffiti Team	70	Recurring
Christmas Parking	50	Recurring
Increment compensation (13/14 only)	300	Recurring
2012 Celebrations	200	Non-Recurring
Airport Campaign	50	Non-Recurring
Investment in Medway	50	Non-Recurring
Key Stage 2/ Governor Training	143	Non-Recurring
Total	**1,175**	

5.3 It is not the purpose of this document to plan the service needs of departments but nonetheless there are a number of key spending issues that sit alongside the priorities of the council. These are highlighted below and set out in Table 5 that follows.

Regeneration Community and Culture

- The cost of maintaining the Medway Tunnel after the exhaustion of the tunnel fund will result in a budget pressure of £0.74 million in 2013/14 and a further £0.25 million in 2014/15. Responsive maintenance requires £0.25 million to help reduce insurance claims, Highways requires £0.14 million for grass cutting and associated traffic management to achieve agreed service levels, and £1.0 million is needed to improve Medway's infrastructure in order to meet national indicators.

- For Parking Services there is a pressure of £0.1 million to maintain The Brook multi storey car park.
- For Waste Services there is a pressure of some £0.73 million in 2013/14 that is in part due to the contractual uplift based on RPI (£0.38 million) and additional costs from increases in Landfill Tax (£0.26 million). These pressures continue through 2014/16.
- Integrated Transport could have an overall budget pressure of £0.2 million assuming that the £0.25 million one-off budget given as an enhancement for the young persons concessionary fares scheme funded from Reserves is withdrawn after 2012/13.
- Development Management have identified a budget pressure of £0.1 million due to a forecast underachievement of income from planning application fees.
- Housing solutions have a budget pressure of £0.18 million for a predicted upward trend in homelessness in 2013/14 which is then forecast to increase further in 2014/15 (£0.15 million) and 2015/16 (£0.20 million).
- Regeneration has identified a budget pressure of £0.1 million to pay for the project manager for the regeneration projects.
- Leisure and Culture services have budget pressures totalling £0.14 million in 2013/14 which includes £0.1 million due to a forecast underachievement in libraries rental income. In 2014/15, there is a budget pressure of £0.1 million for variation works requested which are outside of the agreed terms of the Greenspace maintenance contract. 2013/14 sees a benefit of £0.44 million with the end of the Olympics project.

Children's and Adults

Children and Adult Services is the largest directorate, representing the greatest call on available resources. As always, the most significant financial risks for the directorate are within social care and the major forecast pressures are outlined below:

- The demographic pressures on demand-led, services for the elderly and disabled continue to be an issue. The Office of National Statistics predicts steady growth in Medway's population, but more significantly the growth in the number of people over 65 is expected to increase by 4% during 2013. This will inevitably be reflected in increasing numbers of people requiring care, however the demographic projections in the MTFP have been restricted to specific known pressures. In addition to further investment in reablement and the continuation of self-directed support, the emphasis will shift away from direct provision and towards better commissioning. The authority will also look to greater integration of health and social care and to enabling the voluntary sector;
- The Council's medium term financial plan assumes no general inflation, however this position would not be sustainable within Children's Care and so 2% has been applied to private and voluntary sector placement budgets.
- The growth in the number of looked after children in Medway continues and the current pressure, together with anticipated growth in 2013/14 has resulted in an estimated £887,000 increase in the budget requirement for next year. The directorate intends to focus on three principal workstreams to mitigate the effects of this demographic pressure – a strategy for preventing children from coming into care, a review of cases where there is a definite

health component and a refocusing of outreach and day care, with a view to eventually re-commissioning the service;

- A large proportion of the directorate's expenditure is funded through the Dedicated Schools Grant and the schools funding regime is subject to significant change for next year. A separate briefing for Members is included at Appendix 3.

Business Support/Corporate Issues

- The Council's energy budgets are still likely to face cost pressure of some 10% in 2014/15 despite tendering options for fixed price contracts to run from October 2011 for 3 years. This will add a pressure of £0.3 million in 2013/14.
- Legal services have a budget pressure in 2013/14 of £0.14 million from the loss of income as a result of a change in consistent legal charging and increased printing costs for court cases.
- Asset and Property Management have a budget pressure in 2013/14 from the loss of rental income of £0.13 million from commercial property due to properties being sold. However, these will be partly offset by the £0.1 million 2013/14 saving due from the end of the Kingsley House lease.
- Customer Contact have reported that the increase in housing benefit and council tax benefit will lead to a budget pressure of £0.1 million in 2013/14 as three additional staff will be needed to deal with the increased caseload.
- In line with pressures identified in Children and Adults as a result of increases in numbers of looked after children and those subject to child protection plans, Children's Independent Safeguarding and Review Service within Business Support which chairs looked after children reviews and child protection conferences faces a pressure of £0.1 million to keep pace with the statutory requirements for the service against a background of increasing cases.
- Communications & Improvement report a 2013/14 budget pressure of £0.1 million from the predicted underachievement of income from graphic design and Medway matters.
- Human Resource Services report income budget pressures for 2013/14 from the decreased usage of the temporary staff agency (£0.25 million) and the 'buy-back' of services by schools (£0.1 million).

5.4 It is almost inevitable that other issues may surface as the budget preparation moves into detailed formulation but, as last year, it is a comprehensive analysis. There will also be an aspiration to move at greater speed towards the priority areas but in that regard the challenge will be in re-directing resource as well as the overall balancing requirement. Tables 5 and 6 below summarise the net effect of these amounts when compared to resource assumptions set out in Table 3 and reveal a Gross Deficit for 2013/14 of £12.286 million rising by £8.928 million and £3.546 million in succeeding years.

Table 5: Summary Additional Resource Requirement – against 2012/2013 base

	2013/2014	2014/2015	2015/2016
	£m	£m	£m
Regeneration, Community and Culture			
Front Line Services	3.169	1.109	0.814
Development, Housing and Transport	0.215	0150	0.200
Leisure & Culture	(0.500)	0.040	0
Regeneration Partnership	0.066	(0.006)	0
Children and Adults			
Adult Social Care	0.813	0.759	0.759
Children's Care	1.086	0.303	0.307
Commissioning	0	0	0
Inclusion	(0.649)	0	0
Schools Retained Funding & Grants	0	0	0
Business Support/Corporate Issues			
Legal & Corporate Services	0643	0.100	0.100
Financial Services	(0.100)	0	0
Democracy & Customer First	0.090	(0.030)	(0.030)
Comms, Performance & Partnerships	0.160	0	0
Organisational Services	0.366	0.016	0.016
TOTAL -GENERAL FUND	**5.359**	**2.442**	**2.167**
Less- BfL savings	**(1.890)**	**(0.904)**	**0.000**
-DSG	**0.000**	**0.000**	**0.000**

Table 6: Net Resources

	2013/14	2014/15	2015/16
	£m	£m	£m
Summary Resources:			
School Specific Funding:			
(Additional) / Reduced Resources (based on forecast pupil numbers)	1.510	(2.512)	(3.403)
Additional Resource Demand	(1.510)	2.512	3.403
Net (Surplus)/Deficit	**0.000**	**0.000**	**0.000**
General Fund			
Reduced Resources	6.927	6.486	1.379
Additional Resource Demand	5.359	2.442	2.167
Gross Deficit	**12.286**	**8.928**	**3.546**
BfL Savings	(1.890)	(0.904)	0
Council Tax Increase (4%, 4%, 2%)	(4.478)	(4.681)	(2.717)
Net Deficit	**5.918**	**3.343**	**0.829**

6. Balancing Resources and Demands

6.1 The organisation has already embarked on a major transformation exercise to improve services to our customers and deliver efficiencies (Better for Less - BfL). The first four phases of that project which will deliver new ways of working in customer contact and administration will deliver savings estimated at approximately £5.6 million per annum by their completion from 2015/6 onwards. This is profiled over the four years as a saving of £0.404 million in 2011/12, a further £2.41 million in 2012/13, a further £1.89 million in 2013/14 and £0.904 million in 2014/15. The cumulative saving is just under £14 million.

6.2 There is a separate BfL Category Management project which is anticipated to deliver some £5 million to £10 million of savings by more effective commissioning and procurement over the MTFP period. Both these elements of the BfL programme will deliver progressively but given the urgent need to address the funding shortfall there is an imperative to maximise that delivery as early as possible. However although the initial four Strategic Sourcing Plans are well advanced with the invitations to tender having been issue on the first, at this stage, the scale and timing of category management efficiencies is not quantifiable.

6.3 In addition to this transformation programme there is a need to make immediate progress in a number of areas where there are potentially significant efficiencies to be gained without impacting significantly on service delivery to residents. Initial areas to be covered are:

- Tackling the growth in looked after Children numbers;
- Continued transformation of adult social care including delivery of enablement, extra care and personalisation agendas;
- Potential shared service arrangements with other councils and public agencies;
- Property rationalisation;
- Opportunities for market testing; and
- Implementation of Category Management.

6.4 Given the resource position it is equally important that the Council embarks upon a rational review of costs, performance and priorities. The Council's approach to managing performance has improved significantly over the past few years and our external auditors have acknowledged a "step change improvement" in the way the Council monitors itself and is able to report on and manage its performance. The development of the Council Plan forms the backbone of these improvements. It was not written for inspectors – it was written for the Council itself to use to deliver its priorities that were developed by services, drawing from consultation and evidence of quality of life in Medway and is monitored in a similar fashion using resident opinion from a number of sources to track success.

6.5 The plan is underpinned by a limited and high level set of measures of success, so that for each priority Members can track a cluster of indicators to gauge progress, to enable Members to see how well the Council's actions are making a difference and are giving value for money, and provide a way of communicating with the public about the difference the Council is making.

6.6 The current Council Plan includes the following specific actions relating to improving efficiency and delivering Value for Money (VFM) for our residents:

- Work proactively with partners to share services for greater efficiency;
- Continue to develop our workforce;
- Embed a VFM and performance culture in Medway and improve the effectiveness of the council's business planning and performance management systems; and
- Ensure our procurement delivers the best value for the council.

6.7 The integrated reporting of finance and performance information strengthens the VFM credentials by ensuring we focus on both outcomes and costs.

7. Timetable

7.1 The timetable for production of the Medium Term Financial Plan and Draft Budget Proposals is as follows:

Cabinet	2 October 2012
Portfolio/Directorate reviews	September to November
Initial budget proposals to Cabinet	27 November 2012
Reports to Overview & Scrutiny	December/January
Draft budget to Cabinet	12 February 2013
Budget proposals to Council	21 February 2013

7.2 Business and service planning will run in tandem with the budget setting process.

8. Conclusion

8.1 The Medium Term Financial Plan identifies our spending needs for 2013/14 and beyond. Whilst the Government support beyond 2012/13 remains in doubt, it is clear that there will be substantial savings still to be achieved against current costs and against the initial expectations of SR2010.

8.2 Whilst table 6 identifies a potential deficit for 2013/14 of some £5.9 million, this is after allowing for a potential council tax increase yielding almost £4.5 million and savings from the ‘Better for Less’ programme estimated at £1.9 million. Without these the gap would have been just over £12 million. Clearly any council tax increase will be a matter for political judgement closer to the time and that in turn will be influenced by decisions made by central Government. The savings from the BfL programme are a mix of delivered change and also estimates that have yet to be supported by the detail of delivery programmes and, whilst in the short-term these are underpinned by the non-recurring revenue saved, it is critical that the potential is pursued with vigilance. Against this background it is very clear that there is a need to both curtail aspirations and identify efficiencies and changes to service delivery to produce a balanced financial position over the next three years and this will not be an easy process given the efficiency programmes of previous years.

8.3 Irrespective of the eventual forecast shortfall in resources arising from the budget requirement, it must remain the Council's main strategic aim to achieve a sustainable budget without recourse to reserves. To that effect it is critical that both existing and emerging requests for pressures are challenged out of the process where possible and that due weight is given to driving forward the efficiency agenda and the search for more radical and cost effective means of delivery. This is consistent with the VFM strategy and the measures described in section 6 will be a key part of that process over the term of this plan.

9. Financial and Legal Implications

9.1 These are contained within the body of the report.

10. Risk Management

10.1 The risks exposed by a failure to effectively manage the resource planning and allocation process to achieve priorities and maintain effective service delivery are great. The uncertainties about recovery from the current recession and the consequences in terms of future financial assistance and targets imposed by Government will make this process difficult.

10.2 Formula Grant and DSG are but one aspect of Government funding with other significant sums being received through specific grants, and the importance of locally generated income from fees and charges and of course Council Tax must not be underplayed.

10.3 The transfer of responsibility from the Department for Work and Pensions (DWP) to the Council in respect of the 'localisation' of Council Tax Support means that the risks for demographic growth and council tax increases are similarly passed across together with a risk that proposed cost mitigation is insufficient or ineffective where Council Tax is uncollectable.

10.4 The transfer of responsibility for Public Health Services is a significant change and the resources and costs are yet to be defined. There is a risk that resources allocated by Government are insufficient to meet statutory obligations.

11. Diversity Impact Assessment

11.1 The council has legal duties to give due regard to race, gender and disability equality in carrying out its functions. This includes the need to assess whether any proposed changes have a disproportionately negative effect on people from different ethnic groups, disabled people and men and women, which as a result may be contrary to these statutory obligations. The Medium Term Financial Plan identifies the resources available, which will determine the service priorities within the Council Plan. Diversity Impact Assessments will be undertaken and reported to Members as part of the budget and service planning process as the quantum of resources and hence the impact on Council services unfolds.

12. Recommendations

12.1 The Committee is invited to comment on the report and forward the following recommendations to Cabinet on 2 October 2012:

- Endorse the underlying aims of the Medium Term Financial Plan;
- Endorse the forecast level of overall funding outlined in Section 4; and
- Instruct portfolio holders and directors to identify savings and efficiencies to achieve a balanced budget for 2013/14.

Background Papers

Medium Term Financial Plan 2012/15 – Report to Cabinet 6 September 2011
http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=8290

Capital and Revenue Budgets 2012/2013 – Report to Council 23 February 2012
http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=9542

Appendix 1a

Children and Adult Services Directorate

GENERAL FUND REVENUE BUDGET

General Fund Activities	2011/12 Outturn Variance £000's	2012/13 Q1 Forecast Variance £000's	2013/14 Pressures +/- £000's	2014/15 Pressures +/- £000's	2015/16 Pressures +/- £000's
Commissioning & Client Financial Affairs	147	(125)	0	0	0
- Full year effect of review of Supporting People contracts			(500)	0	0
Older People	(1,330)	478	0	0	0
- 2011-12 Star Chamber: Effect of review of in-house provision.			3,014	0	0
- Cost of Current Service: Residential Placements.			372	0	0
- Inflation: Older people (average 2% pa).			0	0	0
- Demographic Projections			331	331	331
Social Care Management	1,636	(506)	0	0	0
- 2011-12 Star Chamber: Effect of review of in-house provision.			460	0	0
- 2012-13 Star Chamber: Effect of review of Balfour Centre provision.			200	0	0
Physical Disability	418	776	0	0	0
- 2012-13 Star Chamber: Effect of review of Balfour Centre provision.			(200)	0	0
- Cost of Current Service: Across all types of provision			720	0	0
- Inflation: People with a physical disability (average 1%).			0	0	0
- Demographic Projections: 12 RTA's phased over twelve months.			325	325	325
Learning Disability	(865)	(21)	0	0	0
- Cost of Current Service: Principally Residential Placements			262	0	0
- Inflation: People with a learning disability (average 2%).			0	0	0
- Demographic Projections: Named individuals on the verge of transition.			103	103	103
Link Service Centres	(532)	56	0	0	0
- 2011-12 Star Chamber: Effect of review of in-house provision.			(4,274)	0	0
Mental Health	169	(217)	0	0	0
- Inflation: Mental health services (average 2%).			0	0	0
Adult Social Care Total	(357)	441	813	759	759
Safeguarding Team	(3)	93	0	0	0
CRAST Team	(136)	(55)	0	0	0
Specialist Childrens' Services	1,078	678	0	0	0
- Cost of Current Service: Higher than anticipated LAC nos.			787	0	0
- Inflation: Fostering and residential (2% pa).			199	203	207
- Demographic Projections: Adoption Fees			100	100	100
Children's Care Management Team	59	(4)	0	0	0
Child protection	(2)	(52)	0	0	0
Children's Care Training	(74)	16	0	0	0
Children's Care Total	922	676	1,086	303	307
Directorate Management Team	940	53	0	0	0
Commissioning, Contracts & Business Support	(383)	(2)	0	0	0
Schools Commisioning & Traded Services	(284)	(75)	0	0	0
School Organisation & Student Services	39	5	0	0	0
Commissioning Management Team	(20)	46	0	0	0
Commissioning Total	292	27	0	0	0
Health and Wellbeing	(203)	(2)	0	0	0
Integrated Youth Support Services	(208)	(158)	0	0	0
Psychology & Inclusion	597	62	0	0	0
Inclusion Management Team	(58)	81	0	0	0
Early Years	(333)	6	0	0	0
- Nursery places for two year olds will be a cost to the DSG from Sept 2012			(506)	0	0
School Challenge & Improvement	(292)	0	0	0	0
- Delete non-recurring budget for 1-2-1 tuition / governor training			(143)	0	0
Inclusion Total	(497)	(11)	(649)	0	0
Finance Headings	(107)	(4)	0	0	0
HR Headings	(68)	(448)	0	0	0
School Grants	(666)	0	0	0	0
Schools Retained Funding and Grants Total	(841)	(452)	0	0	0
DIRECTORATE TOTAL	**(481)**	**681**	**1,250**	**1,062**	**1,066**

Regeneration, Community & Culture Directorate

GENERAL FUND REVENUE BUDGET

General Fund Activities	2011/12 DMT **Outturn** £000's	2012/13(Q1) DMT **Variance** £000's	2013/14 +/- £000's	2014/15 +/- £000's	2015/16 +/- £000's
Highways	(216)	31			
- Term contract uplift			85	108	121
- Tunnel fund expires			738	248	(83)
- Responsive maintenance to address increasing insurance claims			250	10	10
- Grass cutting and associated traffic management to achieve expected service level			135	5	5
- Investment in Highways infrastructure to reverse deterioration of Medway's National Indicators			1,000		
Parking	259	38			
- The Brook MSCP 2 yearly inspection and maintenance option 1 adopted by DMT			100		
- General basic maintenance funding gap for replacement of P&D machines that are failing which is resulting in loss of income			35		
Major Projects	(51)	63			
- Increased income targets not achieved due to lack of major projects			100		
Road Safety	18	46			
Traffic Management	85	49			
Waste Services	64	21			
- Contract uplift - based on 2.5% (assuming no waste growth)			383	393	403
- Increase in Landfill Tax at £8 per tonne (assuming no waste growth)			264	264	264
- Increase in property numbers			38	39	52
- waste contract variation orders			41	42	42
Environmental Health Commercial	(45)	(64)			
Environmental Services	(11)	3			
Safer Communities Operations	(25)	1			
Strood Depot Services	(55)	(4)			
Safer Communities Support	3	8			
Front Line Support	83	102			
Front Line Services total	109	294	3,169	1,109	814
Housing, Development & Transport	34	80			
Economic Development	145	(9)			
Integrated Transport	(1,162)	(88)			
- Chatham Waterfront Bus Station			64		
- Concessionary Fares, young people			(244)		
- Concessionary Fares, adults and disabled persons			189		
- Concessionary Fares, full card review			(54)		
Planning Policy & Design	(45)	(13)			
Development Management	88	216			
- Sustainability of income target for planning application fees			85		
Social Regeneration & Europe	29	36			
Building Control	(13)	(13)			
Housing Solutions	(306)	197			
- Increase In homelessness - Temporary accommodation			175	150	200
Homechoice	(28)	0			
Private Sector Housing	(14)	37			
Housing Disabled Adaptations	(2)	1			
Property Management	7	(7)			
Housing Strategy	(12)	(52)			
Housing Performance	(13)	1			
Housing, Development & Transport total	(1,292)	387	215	150	200
L&C Management Group	36	66			
Leisure & Sports	21	(15)			
- Removal of Olympic funding requirement (per saving proposal 11/12 Star Chamber)			(440)		
- Removal of non-recurring budget for 2012 Celebrations			(200)		
Arts, Theatres & Events	328	242			
Tourism	5	11			
Greenspaces and Country Parks	(336)	(15)			
- General maintenance contract - cleansing costs				70	
- Greenspace Grounds Maintenance contract re-tendering costs			30	(30)	
- Tree safety survey			40		
Heritage	54	29			
Libraries	(205)	(34)			
- Rental Income target shortfall			70		
Leisure & Culture total	(97)	284	(500)	40	0
Regeneration, Community & Culture Directorate Support	(36)	82			
Regeneration	189	75	66	(6)	
Regeneration, Community & Culture Directorate Support total	153	157	66	(6)	0
DIRECTORATE TOTAL	**(1,127)**	**1,122**	**2,950**	**1,293**	**1,014**

Appendix 1c

Business Support Department

GENERAL FUND REVENUE BUDGET

General Fund Activities	2011/12 DMT **Outturn** £000's	2012/13(Q1) DMT **Variance** £000's	2013/14 +/- £000's	2014/15 +/- £000's	2015/16 +/- £000's
Example - recurring change to base budget			100		
Example - non-recurring change to base budget				40	(40)
Legal Services	100	156			
- Loss of income as a result of consistent legal charging.			90		
- Court case printing.			50		
Land Charges and Licensing	(168)	(51)			
Building and Design	(27)	480			
- Over recovery of Building Design Services			100	100	100
Energy cost Increases			300		
Asset and Property Management	(558)	(172)			
- Property rents			127		
- Kingsley House running costs			(84)		
- Unachievable facilities management saving target			60		
Centralised budgets	(140)	9			
AD H&CS Vacancy	102	88			
Housing & Corporate Services total	(691)	510	643	100	100
Benefit Payments	(87)	(19)			
- impact of benefit reform					
Revenues and Benefits Admin Total	(635)	(10)			
NNDR Discretionary Relief	(5)	1			
Rural Liaison Grants	(23)	0			
Ward Improvements	(4)	0			
Corporate Management	36	(61)			
Non Distributed Costs	(2)	0			
Corporate Provisions	(808)	(32)			
- Removal of non-recurring funding for the Airport Campaign			(50)		
- Removal of non-recurring funding for Investment in Medway Campaign			(50)		
Business Support Management Team	7	(19)			
Financial Management	(140)	(186)			
Financial Systems	(4)	0			
Financial Support	(29)	8			
Creditors and Income Services	(19)	0			
Audit Services	(84)	(33)			
AD CFO Vacancy	25	106			
Financial Services total	(1,772)	(246)	(100)	0	0
Democratic Services	(39)	(19)			
Members and Mayoral Services	2	(30)			
Electoral Services	48	(21)			
Community Interpreters	(115)	(30)			
Registration Services	(83)	(37)			
Bereavement Services	(105)	(45)			
- 2.5% fee increase in excess of agreed Medway Council % increase for fees overall			(30)	(30)	(30)
- NNDR (Crematorium) (assumes zero increase for 2013. However, if % increase is same as last year then this figure should be £49,000)			28		

Business Support Department

GENERAL FUND REVENUE BUDGET

General Fund Activities	2011/12 DMT **Outturn** £000's	2012/13(Q1) DMT **Variance** £000's	2013/14 +/- £000's	2014/15 +/- £000's	2015/16 +/- £000's
- RPI increases Grounds Maintenance (4 years catch up and 3% increase this Sept)			28		
Customer Contact	0	(20)			
- Additional staffing required to deal with increased caseload			64		
Customer First	6	12			
AD CF, D&G Vacancy	0	150			
Democracy & Customer First total	(286)	(39)	90	(30)	(30)
Research & Review	(126)	(117)			
Management Information	(59)	(11)			
Childrens Review Services	176	58			
- Additional Independent Review Officer required to deal with increased workload			80		
Communications and Improvement	78	47			
- Under-delivery of Graphic Design Income			50		
- Under-delivery of Medway Matters income			30		
Better for Less	957	0			
Administration Hub	0	48			
AS CP&P Vacancy	43	99			
Communications, Performance & Partnerships total	1,069	124	160	0	0
Human Resource Services	(40)	178			
- Temporary staff			250		
- Under-delivery of income from Academies			70		
Adult Education	(68)	1			
ICT	(181)	(0)			
- Better for Less upgraded software Licence costs			46	16	16
AD OS Vacancy	177	107			
Organisational Services Total	(112)	286	366	16	16
DIRECTORATE TOTAL	**(1,792)**	**635**	**1,159**	**86**	**86**

Appendix 2

Lee Geraghty
Consultancy Manager

lee.geraghty@lgfutures.co.uk
T. 07738 000 368

Medway

Five-Year General Revenue Resource Projection

August 2012

Contents

LG Futures, Technology House, 151 Silbury Boulevard, Milton Keynes MK9 1LH | www.lgfutures.co.uk | T. 01908 424387
LG Futures Ltd. Incorporated in England and Wales under registration number: 05308266 | VAT registration number: 855940493

1. Introduction

1.1 As part of the authority's subscription to LG Futures' Financial Intelligence Toolkit Forecasting tool, this briefing note provides analysis on the potential financial implications of the government's current business rates retention proposals and includes a five-year general revenue resource projection under the proposed scheme, based upon assumptions set out later in this note.

1.2 In August 2011, following the first release of information from the Department for Communities and Local Government (DCLG), LG Futures developed a model which forecast individual local authority resources, in terms of retained income, considering a range of potential scenarios in relation to business rates retention options. This model has been updated as further national information has been released, including:

- CLG's response of 19 December 2011 to the business rates retention consultation
- CLG's five additional papers on the business rates retention scheme, published on 17 May 2012
- 2012/13 NNDR 1 data (published on 23 May 2012)
- CLG's paper "Business Rates Retention – Technical Consultation", published on 17 July 2012

1.3 The subscription also ensures that relevant figures within this note will be updated as government makes further material announcements affecting these figures.

2. Simplified Summary of the Proposed System

2.1 Given the complexity inherent in the business rates retention proposals, this section provides LG Futures' view in terms of a simplified summary of the proposed system, using example figures. A more in-depth explanation is set out in section 3 of this report (including explanations of the terminology used). The diagram and table below provide a step-by-step guide as to how the scheme is intended to operate.

2.2 For illustrative purposes, it is assumed that the business rate retention scheme is comprised of only four authorities. It should be noted that this simplified example represents LG Futures' best understanding of the information contained in CLG's most recent July 2012 consultation. Some aspects of the scheme remain unclear, requiring LG Futures to make assumptions about the operation of the scheme, by drawing inferences from information provided.

Simplified example of how the Business Rate Retention Scheme might work

	1	3	9	9	4	5	10
	Share of needs	**Start-up allocation**	**Baseline Funding Level**	**RSG**	**NDR**	**Individual Authority Business Rate Baseline**	**Top up (tariff)**
Authority A	35%	8.8	4.0	4.7	2.0	1.0	3.0
Authority B	20%	5.0	2.3	2.7	4.0	2.0	0.3
Authority C	30%	7.5	3.5	4.1	8.0	4.0	-0.6
Authority D	15%	3.8	1.7	2.0	9.0	4.5	-2.8
	100%	**25.0**	**11.5**	**13.5**	**23.0**	**11.5**	**0.0**
		Ratio:	*0.46*	*0.54*			

2 8 6 7

Step	Description
1	Each authority's share of funding is calculated based on the Formula Grant model and the distribution of grants being transferred into the business rate retention scheme.
2	The **local government control total** for 2013/14 is established (in this example, £25 billion).
3	Each authority's **start-up funding allocation** is identified, based on its share of needs applied to the **local government control total.**

Step	Description
4	Total NDR collected by each authority is identified. In 2013/14, this is forecast at around £23 billion nationally.
5	50% of NDR gives each authority's i**ndividual authority business rate baseline** (for simplicity, all these authorities are assumed to be billing authorities). Nationally, this sums to £11.5bn in 2013/14.
6	At the England level, this is the amount of funding that will be derived from retained business rates. It is identified by summing every authority's **individual business rate baseline.**
7	Total **Revenue Support Grant** is calculated as the **local government control total** minus the sum of every authority's **individual business rate baseline**.
8	Nationally, this gives a **ratio** of the local share (46%) to RSG (54%). (This has been simplified from the worked example given on page165 of the consultation document, where the ratio was 44% to 56%).
9	Every authority's **baseline funding level** and share of **Revenue Support Grant** is calculated based on this ratio, as applied to its **start-up funding allocation.**
10	Every authority's tariff/top up is based on the difference between its **baseline funding level** and its **individual business rate baseline.** Tariffs and top ups are self-financing, and so sum to zero at the national level.

Additional notes

- Steps 8 and 9 are not explicitly stated in the consultation document. However LG Futures believes that this is a sound interpretation, and the one that is most consistent with the information provided in other parts of the consultation document (in particular, pages 165 and 167)). The example above has been simplified for illustrative purposes.
- Step 1, in particular, is more complicated, as each authority's formula grant and rolled-in grants are kept separately identifiable in the total **start-up funding allocation**. In this way, each of these funding streams can then be split between **Revenue Support Grant** and **baseline funding level**, based on the ratio. This is consistent with CLG's diagram, presented on page 167 of the consultation.

Table: The Distribution of Revenue Support Grant in 2013-14 and 2014-15

Funding Element	Individual authority's start-up allocation		
	Revenue Support Grant	Baseline (local share)	
Lower-tier services	✔	✔	Distributed using the 2012/13 formula grant system
Upper-tier services	✔	✔	
Fire and Rescue services	✔	✔	
Council Tax Support	✔	✔	Grants transferred in and distributed using a tailored distribution
Council Tax Freeze	✔	✔	
Early Intervention Grant	✔	✔	
Learning Disability & Health Reform	✔	✔	
GLA Transport Grant		✔	

3. Features of the Proposed System

3.1 CLG launched its business rates retention consultation on 18 July 2011 and subsequently published eight 'technical papers', to supplement and provide further detail on the initial consultation paper, on 19 August 2011. The consultation period ended on 24 October 2011.

3.2 CLG's response to the consultation was published on 19 December 2011, with this response setting out the proposals for the final design of the scheme. The response outlines the decisions made by government and their rationale for these. In certain instances, further decisions are still to be made.

3.3 In spring 2012, CLG established three working groups to assist in the development of the business rates retention scheme, these being:

- *The Baseline Sub-Group* - for central and local government representatives to consider any technical issues relating to the needs baseline
- *The Accounting and Information Sub-Group* – to look at the changes needed to accounting systems and the information required by and from local authorities in connection with the scheme
- *The Systems Design Sub-Group* - to look at the issues needed to set business rates baselines for each local authority and the technical issues associated with setting up and running the rates retention scheme

3.4 The legislative framework required to introduce the business rates retention scheme forms part of the Local Government Finance Bill, introduced on 19 December 2011.

3.5 On 17 May 2012, CLG released information regarding the design of the scheme, setting out proposals for the central share, the levy and the safety net, as well as providing the timetable for authorities considering establishing a pool.

3.6 On 17 July 2012, CLG published the paper, "Business Rates Retention – Technical Consultation". This paper releases further information in relation to how the proposed business rates retention scheme will operate. It also seeks views on a range of detailed technical issues concerning practical implementation of those proposals. The paper includes sections regarding:

- Establishing baseline funding levels (baseline funding)
- Allocating Revenue Support Grant (RSG)
- Determining individual local authority business rates baselines (NDR baseline).
- How the system will operate from 2013/14 onwards

3.7 The consultation paper includes 83 questions that CLG is seeking responses on. The closing date for responses is 24 September 2012. The paper also includes a glossary of terms associated with business rates retention; this has been included within Appendix A of this report.

3.8 The latest position on the main elements within the proposed system are as follows:

General

3.9 Local authorities will still need to operate within the existing NDR system. They will not have control over how the level of tax is determined for ratepayers i.e. the rateable value of properties or the national multiplier (the rate of tax).

3.10 Under the scheme, those authorities that see increases in their business rates taxbase and associated revenues compared to their initially assessed position should be rewarded through the scheme, as they will be able to retain an element of the associated increased NDR revenues. However, authorities that have a decline in their business rates taxbase will see relative reductions in resources.

The central share

3.11 The original consultation stated that the business rates retention scheme would operate within the original Spending Review 2010 (SR10) control totals. In order to achieve this, the government was intending to take back the difference between the (higher) forecast NDR receipts and the control totals. To do this, the government would “set aside” a share of forecast national business rate income. This set aside amount is now known as the central share.

3.12 Within the original consultation, government proposed that this would be a fixed amount (that had yet to be determined). This would mean that, if the level of receipts varied from the forecast, central government would still receive its fixed cash amount. Local authorities’ responses objected to this approach and the government have responded by proposing that it instead takes a percentage of actual receipts. This percentage would be determined in the same way as the original central share, but, would offer local authorities certainty regarding the percentage of business rates that would be retained locally.

3.13 The change, from a fixed amount to a proportional share, transfers some of the risk of NDR receipts not being as high as forecast (nationally) from local authorities back to central government. However, the change also reduces the level of “reward” for local authorities of NDR growth, with central government taking a proportion of the growth.

3.14 The government has indicated that it intends to set the central share at 50%. This percentage will be fixed until any reset of the system i.e. re-assessing individual authorities’ baseline funding levels, potentially on the basis of a different assessment of need.

3.15 The creation of a 50% central share will mean that the amount that local authorities are able to retain in business rates (i.e. the remaining 50%) will be lower than the SR10 amounts for 2013/14 and 2014/15. The intention is, therefore, for government to provide the remaining Spending Review allocation for local government through Revenue Support Grant (RSG). In effect, this arrangement extends what was going to be the 2013/14 adjustment grant, with grants for both the remaining SR10 years.

3.16 By reducing the amount of funding that local authorities are receiving through the scheme and creating a separate funding stream (i.e. RSG), this does, however, provide CLG with greater flexibility to reduce local government funding.

3.17 Budget 2012 indicated a potential 3.8% real terms deduction in Departmental Expenditure Limits (DEL) across central government; therefore, given CLG's perceived lower priority compared to other higher profile Departments, such as Education and Health, its own DEL reduction could potentially be higher.

3.18 Under the business rates retention scheme, local government (as a sector) will retain 50% of any NDR growth (or decline) achieved locally. However, as considered below (on the levy and safety net), there is the potential for individual authorities to receive only a small proportion of any growth, due to the operation of the levy.

Establishing the business rates baseline

3.19 In order to set individual authorities' business rates baselines, the government has decided to adopt an average income approach i.e. take the average business rates income over a number of years, rather than at a single point in time. The government believes that this will help smooth some of the natural volatility inherent within business rates. The consultation paper states that the government intends to use a five-year average, with the latest five years of "actual" NDR receipts being 2007/08 to 2011/12.

3.20 The consultation paper sets out how CLG proposes to determine individual authority business rates baselines. These steps have been followed, wherever possible, in determining your authority's business rates baseline, as part of our modelling. Where assumptions have been required within our modelling, these are set out in section 4 of this report.

Establishing baseline funding levels

3.21 In order to set individual authorities' needs baselines, the government has decided to scale back the 2012/13 Formula Grant allocations to reflect future funding levels. Government is also proposing to make some "limited technical updates" to the formula grant process, including:

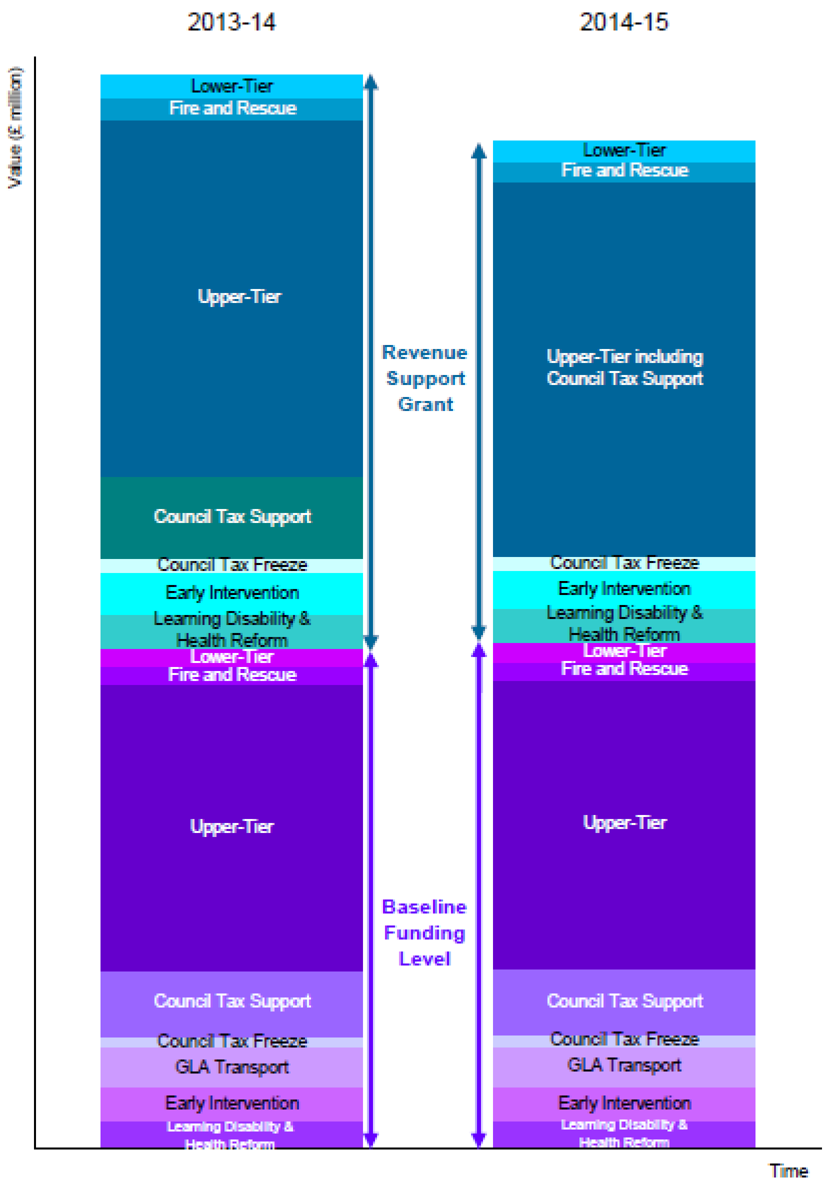
- Changes to the concessionary travel formula
- Changes to the funding of rural services
- Changing the relative size of the formula grant 'blocks'

- Updating population, council taxbase and other data

3.22 The potential options for changes to these areas are set out in the latest consultation paper, including exemplifications for individual authorities.

3.23 The government has also decided to use the Formula Grant figures after floor damping, in order to try to ensure a stable starting point for the scheme. Authorities' needs baselines will also include a number of separate grants which are to be rolled into the business rates retention scheme from April 2013. These grants are described in more detail below (see para 2.67).

3.24 The government's December 2011 response document stated that, "the 2011/12 council tax freeze grant . . . will be included in the baseline. We will consult more fully on the mechanism for this next year". Within the latest consultation paper, it would now appear that government intends to roll council tax freeze grant into the business rates retention system, alongside the other specific grants. The proposed methodology would see the freeze grant included within local authorities' baseline funding level and RSG payment, as per the diagram below (taken from page 168 of the July consultation paper).



3.25 The inclusion of the council tax freeze grant (and other specific grants) within individual authorities' relative share of the baseline funding level and RSG does not alter funding levels in the first instance (as any change in the baseline funding level for an individual authority would be offset by a corresponding increase in RSG). However, by changing the relative share of baseline funding (compared to that determined by existing Relative Needs Formulae), it would alter three aspects of the proposed scheme; these being (i) the potential for local authorities to qualify for the safety net, (ii) the distribution of Revenue Support Grant and (iii) the top up/tariff amounts (and therefore the levy rate, where applicable).

3.26 As funding for the New Homes Bonus scheme was to be partly top-sliced from Formula Grant (under the current scheme), it is also necessary to make a deduction to the needs baseline to fund New Homes Bonus. As the needs baseline is required to be set at the lowest level of funding in future years, a deduction is needed to fund New Homes Bonus in year 7 of the scheme (in 2017/18), at the start of the new business rates retention scheme in 2013/14.

3.27 Between 2013/14 and 2016/17, this will require authorities to be refunded annually, for the amounts taken out that were not required to fund the scheme. We have assumed, as per the latest consultation paper, that these amounts will be paid in proportion with authorities' baseline funding levels. DCLG has now indicated that the proposed national level of New Homes Bonus deduction is £1.655bn per annum (with unused amounts being refunded annually). This amount is higher than our previous forecasts, at £1.392m, which was based on the amount that would be needed based upon existing growth in new homes). An analysis of this higher amount and its implications for your authority are set out in section 5 of this report.

Tariffs/Top Ups

3.28 A system of 'tariffs' and 'top ups' will be introduced, in order to allow for the fact that authorities have significantly different capacities to generate NDR income, depending upon their NDR taxbase.

3.29 A tariff will be paid by an authority to government where their NDR income exceeds their needs baseline. A top up will be received by authorities from government where their NDR income is below their needs baseline.

3.30 This approach would allow all authorities, irrespective of the actual amount of NDR that they collect, to be at the same starting point in terms of resources i.e. authorities' business rates collected will either be reduced by a tariff, or increased by a top up, to arrive at the level of assessed need. However, the actual funding received from 2013/14 onwards will then be dependent upon whether a council receives more or less NDR than its baseline, due to a growth or reduction in their NDR taxbase.

3.31 Tariff and top up amounts will be uprated by the Retail Prices Index (RPI) each year, to reflect the annual RPI increase in the nationally set business rates multiplier. This approach avoids the possibility of tariff authorities seeing income levels increase year on year at a higher rate than RPI, without the need for NDR growth (as their NDR income will be increasing by RPI and this is a higher amount than their calculated level of need).

3.32 Under this approach, all authorities' funding would therefore increase at the same rate if there was no change in their NDR taxbase. For tariff authorities (with large NDR taxbases compared to needs), the increase in business rates receipts is partially offset by increased tariff payments. For top-up authorities (with small NDR taxbases relative to needs), the small increase in business rate yields is augmented by an increase in its top up grant.

Resets

3.33 There will be a reset mechanism, designed to keep resources broadly in line with need. Without resets, there is the potential for authorities' levels of need (based upon population and socio-economic factors, for example), to become significantly higher or lower than the amount that is being received through business rates retention. Each year between resets, individual authorities will either pay the same tariff or receive the same top up. There were two options presented for the reset, these being:

- **A partial reset**. Individual local authority tariffs and top-ups would be reset, and the national business rates baseline is likely to be uprated by RPI, but any growth against the original national business rates baseline, *"would continue to sit with the authorities that achieved it."* Therefore, local authorities would continue to benefit from growth in business rates obtained before the reset.
- **A full reset.** All authorities would be set back to zero growth (through reduced top ups or increased tariffs), with an increased national business rates baseline being used to inform new individual local authority figures. Therefore, local authorities would only benefit from any growth in their local business rates obtained in the time period between two resets. The government has yet to respond on this issue.

3.34 Within its consultation response (19 December 2011), CLG indicated that resets would be every 10 years, but reserved the right to have an earlier reset in exceptional circumstances. CLG has now indicated that they intend to have the next reset in 2020, to coincide with a business rates revaluation (in order to avoid having the turbulence caused by a revaluation at a separate point from a reset).

Safety net

3.35 The government proposed that a baseline safety net would be introduced. This is triggered if an authority sees its income in any year decline by more than a set percentage below its baseline funding level. The baseline could be increased by RPI each year, so that the level of protection offered by the safety net remains constant over time.

3.36 As indicated in the 17 May 2012 statement of intent, the government proposes to set a safety net threshold in the range of 7.5% and 10.0% below an authority's baseline funding level (and is seeking views as to the precise level of the safety net). The statement of intent also confirmed that this baseline would be indexed to RPI.

The levy

3.37 There will be no cap on the amount of resources that an authority can receive through the scheme. However, the scheme will include a levy on additional receipts due to NDR growth.

3.38 As indicated in the 17 May 2012 statement of intent, the government proposes to set a proportional levy ratio at a 1:1 level. This means that, for every 1% increase on the individual authority business rates baseline, the authority would see no more than a corresponding 1% increase against its baseline funding level. At the 1:1 levy ratio, only tariff authorities would be levied.

3.39 For top up authorities (where the NDR baseline is less than the needs baseline) this will mean that no levy is payable. For tariff authorities, the rate of the levy will be determined by the following formulae:

= 1 – (baseline funding level for the year / individual business rates baseline)

The safety net and levy

3.40 On the basis of the estimates of business rates income in NNDR1 returns, it will be possible to determine authorities' provisional eligibility for safety net payments for the forthcoming financial year. The government will confirm provisional safety net payments to authorities on the strength of the provisional NNDR1 forms returned in mid-December. Authorities can then include the sums in their budgets and the government will build them into the schedule of payments. The final safety net allocation for each authority will be based on NNDR3 (outturn) data. Any difference between the provisional allocations and final allocations will be notified to individual authorities "as soon as practicable".

3.41 Levy payments will only be determined/required based upon NNDR3 data (i.e. they will not be required during the year based on forecast NDR income).

3.42 The level of the safety net and levy ratio are linked, as it is intended that the amounts raised through the levy will be used to fund the safety net. However, in order to guarantee the level of the safety net for the early years (it has not yet been identified what this means in practice) of the scheme, the government is planning to top-slice £252m from local government funding (£245 from local authorities and £7m from fire authorities). The intention is that, even if the levy did not raise sufficient resources, the safety net would be fully funded.

3.43 The government also intends to top-slice £100m for capitalisation i.e. the means by which government, exceptionally, permits local authorities to treat revenue expenditure as capital. This will now be funded directly from the local government finance settlement.

3.44 It is the government's intention to refund amounts that are not used for the safety net (£252m) and capitalisation (£100m) to local government, in proportionate share to the **start-up funding allocation**[1]. In later years, the government reserves the right to scale down the support through the safety net to 'affordable' levels.

3.45 The government is yet to decide how funding would be returned to local government (its intention) if the levy were to raise additional resources (i.e. beyond those needed for the safety net). The government intends to consult on the basis for this distribution (no timescales given, although the relevant legislation is be set out "later this year").

Major precepting authorities

3.46 Each billing authority business rates baseline will be further split between the billing authority and any relevant major precepting authorities in its area, in order to produce, for every authority, an individual authority business rates baseline. The split will be undertaken on the basis of the proposed major precepting authority shares:

3.47 **Two tier areas – shire counties with fire** – The previously announced split of 80% district and 20% county is still planned.

3.48 **Single purpose fire and rescue authorities** – As previously indicated, government proposes to include single purpose fire and rescue authorities within the business rates retention scheme. The proposal is that single purpose fire and rescue authorities should receive a **2%** share of the local share of the business rates. This share will ensure that each single purpose fire and rescue authority will be a **top-up** authority

3.49 **Two tier areas** – **shire counties without fire** – The same split as those authorities with fire will apply (i.e. the district receiving 80%); however, the county council share will be reduced by the percentage share that will be paid to single purpose fire authorities e.g. if this is set at the proposed 2% figure, the split would be District 80%, County 18% and Single Purpose Fire 2%.

3.50 **London** - The government is considering the appropriate proportion of business rates that should be allocated to the London Boroughs and to the Greater London Authority. It is discussing with key partners, such as London Councils and the Greater London Authority, the consequences of different splits and will set out its proposals on the shares shortly. For the purposes of our forecasts below, it has been assumed that the GLA's transport allocation for 2014/15 will be funded from business rates; further details of this assumption are set out in section 4 of this report.

---

[1] Start-up funding allocation - 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.

3.51 Appendix B sets out the major precepting authority shares for authorities outside London and shows how they determine the precepting authority's share of annual business rates income collected by its billing authority/authorities.

Police

3.52 Police authorities will remain outside the business rate retention scheme, in recognition of the fact that they have limited levers to influence growth.

3.53 In 2013/14, CLG will continue to calculate the portion of Police funding that was previously distributed through the local government finance settlement using the existing methodology. This will now be published in a separate document.

3.54 An informal consultation is currently underway regarding the methodology for setting the floor in 2013/14 and 2014/15. If the floor is set at its maximum, then every police authority will see an identical change in cash funding. In this case, there will be no need to recalculate formula grant in 2014/15. If other damping arrangements are put in place, CLG will use the same methodology in 2014/15 as was used in 2013/14.

Revaluation

3.55 There will be no changes to how the revaluation process currently works (i.e. once every five years, rateable values are re-assessed and the national multiplier is adjusted, so that there is no increase in yield nationally from revaluation). Top up/tariff amounts will be adjusted following a revaluation. This adjustment will offset any change in the taxbase due to revaluation alone i.e. only physical changes to NDR taxbases are taken into account for the purposes of business rates retention, not changes due to revaluation.

3.56 The government proposes to adjust the notional gross yield figure to fully reflect the aggregate cost to local authorities of losses incurred as a result of successful appeals against the rateable value of a property (leading to a reduction in the business rates income collected by authorities).

3.57 The adjustment will be calculated to reflect the historic differences between NNDR1 and NNDR3 contributions to the rating pool between 2007/08 and 2011/12. The same methodology, employed in order to determine the 2012/13 Distributable Amount, resulted in a downward adjustment of 5.34% and government anticipates a similar sized adjustment to the notional gross yield figure for 2013/14. The figure of 5.34% has therefore been used within our model.

Pooling

3.58 The pooling prospectus, published on 17 May 2012, summarised the government's views on the potential benefits of pooling and the process for formally designating pools. It should be noted that local authorities were invited to come forward with expressions of interest for their pooling proposals by 27 July.

3.59 The prospectus identifies that pooling offers opportunities in terms of encouraging joint working, sharing the benefits from economic growth investment across the wider area and managing volatility in NDR income levels. It considers existing examples of joint economic activity/working between authorities and Local Enterprise Partnerships, identifying that pooling could be a potential mechanism to support the delivery of economic growth.

3.60 Pooling effectively combines the tariffs/top ups of individual authorities within the pooling area and treats the area as a single authority (although individual authorities would still be notified of their tariffs/top ups). A single levy rate applies to the sum of the pool's income and growth levels (a 1:1 proportional levy, as considered previously). Similarly, safety net eligibility (between 7.5% to 10% below the NDR baseline, as considered previously), is also calculated at aggregate pool level.

3.61 Local autonomy to distribute resources amongst pool members is confirmed; for example, authorities could decide that each member will receive at least the same amount as they would have if a pool had not been in place, and additional resources could be distributed through local discretion or weighted (potentially according to the level of benefit received).

3.62 Key issues identified in relation to pooling within the paper are that:

- Pooling will be entirely voluntary and not imposed by government
- Local authorities will themselves determine the pool's geographic coverage, including wider than within a county-region, although government will have the ability to refuse pooling proposals where they perceive that there is no clear rationale for the proposed pool. Government will also have the right to consider whether the operation of pools could impact the level of funding available for the safety net and (in exceptional circumstances) consider such affordability, when making decisions on pools.
- One pool member will need to act as the lead authority, in terms of payment/administrative arrangements
- Pools can be any size, although authorities can only be a member of one pool. Those authorities that are affected by pool proposals e.g. neighbouring authorities in a county/region who are not included within the pool and who may be disadvantaged, will be consulted by CLG
- Pools will need to determine their own governance arrangements and transparently publish their pooling arrangements and financial information on how the pool will operate
- There will be no specific additional financial incentive for pooling, although the government has the option to consider this in future

3.63 From a practical perspective, the pooling designation must be made by CLG in advance of authorities being notified of the basis of the calculation of top ups/tariffs i.e. before the Local Government Finance Report is published (usually late November/early December). The government intends to allow authorities the chance to withdraw from pooling arrangements once the draft Local Government Finance Report is published (if the request is made within 28 days of the draft report being published).

3.64 CLG will also be able to attach specific conditions to a pool e.g. in relation to publication of financial information and to dissolve a pool if conditions of pool designation are breached.

3.65 The specific timetable set out in relation to pooling was originally set out as follows:

- 27 July 2012 - Deadline for submission of pooling proposals
- September 2012 - Pooling proposals consultation
- November 2012 - Pooling proposals designation
- April 2013 - Business rates retention scheme commences

3.66 In a letter to local authority Chief Executives (6 June 2012), CLG provided further guidance regarding the timetable requirements; these being:

- By 27 July, CLG would like expressions of interest from groups of authorities who seriously think they might want to be part of a pool for 2013/14
- CLG will then work with those authorities to support the development of proposals for consultation in September.
- CLG does not expect confirmation of all the details of the governance arrangements until late autumn, shortly before the designation process

Local government funding

3.67 The business rates retention scheme need to operate within the **local government spending control totals**. These control totals were set out in the 2010 Spending Review. Within the latest consultation document, CLG have revised the control totals, using original Spending Review 2010 figures and then showing the funding implications of subsequent announcements.

3.68 The main changes to the control totals are as follows:

- **New Homes Bonus** – £1,655m will be set aside each year, a fixed amount deemed sufficient to fund the New Homes Bonus. In the early years, this will remove significantly more money than is actually required, so the surplus will be returned to local authorities.
- **Safety Net** – £252m will be set aside to ensure that there is sufficient funding available for the safety net in the early years of the business rates retention scheme.
- **Capitalisation** – £100m will be held back to fund capitalisation, the means by which government, exceptionally, permits local authorities to treat revenue expenditure as capital. This will now be funded directly from the local government finance settlement.
- **Fire Grants** – £50m worth of fire grant funding, which was going to be rolled into formula grant, will now remain a specific grant outside of the business rate retention scheme.
- **Neighbourhood Planning** – Funding for Neighbourhood Planning, included in the original control totals, will not be incorporated into the scheme until a later date.

- **Public Sector pay increase limit** – There have been reductions to reflect the planned deductions by HMT to local government funding in 2013/14 and 2014/15, due to the 1% public sector pay increase limit (i.e. of £240m in 2013/14 and £497m in 2014/15).

3.69 A number of separate grants will be rolled into the business rates retention scheme (and therefore be included within authorities' RSG funding) from April 2013. This means that, rather than being paid from central government, authorities will receive an amount equivalent to these grants through locally retained business rates.

3.70 The consultation outlines how each of these transferred grants will be allocated to authorities' start-up funding allocation (after floor damping). A list of the grants that will be transferred, the amount to be distributed, and the methodology to be used to allocate them to each authority is summarised in the table below.

Grants to be rolled into the business rates retention scheme from 2013/14

Grant	Amount to be transferred (£m)		Proposed distribution method
	2013/14	2014/15	
2011/12 Council Tax Freeze Grant	593	593	Will use the same distribution method as for the 2011/12 Council Tax Freeze Grant.
Council Tax Support Grant	3,387	3,383	A consultation on the distribution methodology has recently closed.
Early Intervention Grant (EIG)	1,726	1,632	Will use the same distribution method as for the 2012/13 EIG (with population and other data updated), including the use of floor damping.
GLA General Grant	46	44	N/A: Funding is exclusive to GLA
GLA Transport Grant	920	771	N/A: Funding is exclusive to GLA. This funding will only be allocated to the local share of business rates.
Homelessness Prevention Grant	80	80	CLG will publish proposals in advance of the local government finance settlement but, "expect the pattern of distribution to be broadly similar to the current year".
Lead Local Flood Authorities Grant	21	21	Distributed according to the 2011/12 allocation set out in December 2010.
Department of Health Learning Disability and Health Reform Grant	1,408	1,439	The basis of distribution will remain unchanged from 2012/13.

3.71 The forecasts below **do not include** the changes in RSG that will result from these changes in function, as the methodology for determining individual authority allocations is still to be determined/finalised.

3.72 Funding for Local Authority Central Spend Equivalent Grant (LACSEG) will be removed from the business rate retention scheme and transferred to the Department of Education (DfE). The amounts to be transferred are £1.22bn in 2013/14 and £1.19bn in 2014/15. DfE will then administer and distribute a separate grant to local authorities and to academies, proportionate to the number of pupils for which they are responsible.

3.73 CLG set out proposals for removing LACSEG from each authority's **start-up funding allocation**. The amount deducted from each authority would be calculated on the same basis as that used by DfE to distribute the funding to authorities and academies from 2013/14. CLG therefore intends to use whichever option the DfE decides on, which is currently subject to consultation. The same data as DfE (the October 2012 pupil census) would also be used.

3.74 This funding will be removed from each authority *after* damping, to ensure that the funding being deducted is the same as the amount of the new DfE funding provided to authorities and academies within the local authority area.

3.75 For each authority, it will also be necessary to adjust the previous year's (or base) position for floor damping purposes, details of which are referenced in a separate sub-group paper.

3.76 Taking into account transfers and adjustments, CLG has stated that the final **local government spending control total** is estimated at £24,759m in 2013/14 and £23,046m in 2014/15. A table, provided by CLG following the publication of the consultation document, provides a reconciliation from Spending Review 2010 to these latest control totals. This is shown in Appendix C.

Distribution of Revenue Support Grant

3.77 At the national level, **Revenue Support Grant** is calculated as:

- The local government spending control total for 2013/14 and 2014/15, less;
- The local share (i.e. 50%) of aggregate business rates in 2013/14.

3.78 Each authority's **start-up allocation** (its share of the national spending control total) is comprised of two components:

- Its share of Revenue Support Grant, plus;
- Its share of the local share, also known as its baseline funding level.

3.79 CLG appear to be proposing that the **start-up allocation** for each authority will be apportioned between these components, based on the ratio of the **local share** to **Revenue Support Grant** at the national level. (The exception is the GLA Transport Grant, which is allocated entirely through the **local share)**.

3.80 An illustration of how this works is provided by DCLG (page 166 of the consultation paper) and has been reproduced below.

Estimated business rates aggregate (England) in 2013-14	£23 billion
Local share (which is 50% of the *estimated business rates aggregate (England)* in 2013-14)	£11.5 billion
2013-14 *local government spending control total* (includes the grants rolled in for 2013-14)	£25 billion
Revenue Support Grant (i.e. 2013-14 Local Government Spending *Control Total – Local Share*)	£25bn - £11.5bn = £13.5 billion
Greater London Authority Transport Grant	£0.9 billion
Remainder of the *Local Share* (i.e. *Local Share* –Greater London Authority Transport Grant	£11.5bn – 0.9bn = £10.6 billion
Local Share to *Revenue Support Grant* Ratio	10.6 : 13.5

3.81 In 2014/15, the reduction in spending control totals will be met entirely through a reduction in **Revenue Support Grant**. The **baseline funding level** for each authority will remain constant.

3.82 CLG are proposing to distribute **Revenue Support Grant** in 2014/15 by scaling the 2013/14 authority-level allocations to the new total.

3.83 CLG are also intending to scale different elements of each authority's **Revenue Support Grant** at different rates, depending on whether it was (1) a grant transferred into the business rate retention system in 2013/14, or (2) funding which was calculated on the basis of the 2012/13 formula grant system.

3.84 For transferred grants, these will be scaled back separately in 2014/15 to maintain their individual visibility. For funding calculated on the basis on formula grant (as well as the Council Tax Support element), funding will be scaled back based on the profile of each service tier (upper-tier, lower-tier, police, and fire), as set out in the Spending Review.

3.85 The diagram below illustrates LG Futures' interpretation of these proposals. The highlighted elements are those which will be scaled down in 2014/15. Those highlighted dark blue will be scaled back in line with the service tier profiles across the Spending Review period; those highlighted light blue will be scaled down at a uniform rate.

Table: The Distribution of Revenue Support Grant in 2013-14 and 2014-15

Funding Element	Individual authority's start-up allocation		
	Revenue Support Grant	Baseline (local share)	
Lower-tier services	✓	✓	Distributed using the 2012/13 formula grant system
Upper-tier services	✓	✓	
Fire and Rescue services	✓	✓	
Council Tax Support	✓	✓	Grants transferred in and distributed using a tailored distribution
Council Tax Freeze	✓	✓	
Early Intervention Grant	✓	✓	
Learning Disability & Health Reform	✓	✓	
GLA Transport Grant		✓	

4. LG Futures' Methodology

4.1 LG Futures' business rates retention model was originally designed using the guidance provided by CLG in the August 2011 technical papers. It has been updated to take into account subsequent announcements and now reflects the latest position, as set out in the 17 July consultation document.

4.2 In order to estimate your authority's level of income form the scheme (and the associated income streams), it is necessary to make a series of assumptions. These assumptions are typically needed due to data (that will eventually be used in the provisional/final settlement) not being available at present.

4.3 The data and assumptions used in arriving at your authority's five-year forecasts are set out below. The assumptions are split, showing individual authority assumptions first and then national level assumptions.

Individual local authority level

NDR Baseline

4.4 In order to determine individual authority baselines, as per CLG guidance, it is first necessary to determine aggregate estimated business rates for 2013/14. This was determined by applying CLG guidance from the consultation document. In arriving at this figure, two key assumptions were necessary, due to data availability; these being:

- The total rateable value on local lists at 30 September 2012 - as this figure is not yet available, the March 2012 figure was used instead. Based on our analysis of expected growth (see below), between 1 April 2012 and 30 September 2012, no further adjustment has been made to the March 2012 figure.
- The change in the rateable value for England from 1 April 2012 to 30 September 2012 – as this figure is not yet available, growth in each quarter since March 2010 was examined to allow a forecast level of growth to be applied. Since March 2010, the average level of growth per annum has been 0.51%. However, for the six-month period between January-June 2012, the level of NDR growth was only +0.03% (net effect of January-March 2012 of +0.13% and April-June 2012 of -0.10%). Within our estimates, we have therefore made an assumption that, for the six-month period that CLG will base their figure on, the "change in rateable value for England from 1 April to 30 September 2012" will be 0%.
- The 2013-14 small business non-domestic multiplier - the 2012/13 figure has been used and adjusted for our assumed level of RPI for September 2012 (that will be used to determine the 2013/14 multiplier).

Needs Baseline

4.5 The actual 2012/13 Formula Grant allocations were used as the starting point for the needs baseline (further details on how these were applied are provided below).

NDR Income 2012/13

4.6 The forecast income figure provided by authorities in the 2012/13 NNDR1 form has been used to estimate 2012/13 NDR income levels. This is the figure which authorities' NDR income for 2013/14 to 2017/18 is based upon, subject to the NDR growth assumptions below (used for Resource Forecasts 1 to 3).

4.7 A further resource forecast has been prepared (Resource Forecast 4). This assumes your authority's NDR baseline will match your authority's NDR income figure for 2013/14. It therefore eliminates any potential gains or losses from DCLG's methodology for determining your proportionate share / starting point for the scheme.

NDR Taxbase Growth – 2012/13

4.8 In order to remain consistent with the assumptions that determine the NDR baseline, no taxbase growth has been assumed for 2012/13 (see NDR baseline above).

NDR Taxbase Growth - 2013/14 onwards

4.9 This has been based upon three assumptions i.e. -0.5%, 0% and +0.5% growth per annum, to enable local authorities to see the effect and materiality of changes in levels of taxbase growth (or decline) upon future resource levels (Resource Forecasts 1 to 3). Resource Forecast 4, based assumes 0% NDR growth per annum).

National level

4.10 The assumptions relating to the national level figures are set out below.

2015/16 Local Government Funding

4.11 For 2015/16 and beyond, the national control totals for local government (and therefore the individual control totals for the different tiers), have been assumed to remain at cash 2014/15 levels. This assumption is based on the Chancellor's 2012 Budget Statement, where there are planned reductions to government expenditure of -3.8% (in real terms) for 2015/16 and 2016/17. Therefore, given RPI inflation, if this is forecast to be between 2.6% and 4.0% (see below), a cash freeze would be broadly comparable to a real terms reduction of this magnitude.

4.12 Whilst using a 0% funding figure for 2015/16 onwards is consistent with projected inflation rates, it is important to note that funding for local government may actually be reduced. This reduction could be due to CLG receiving a higher savings target (i.e. the 3.8% reduction in real terms is for the whole of central government and other more high profile departments, such as Education, may not receive the same level of reduction). Furthermore, the government, in referring to “real terms”, is basing reductions on CPI inflation (Consumer Price Index inflation), which is forecast at only 2% for 2014 onwards.

4.13 There is also the potential for the 3.8% real terms cut to be lower. The Budget report suggests that, if the level of planned AME (Annually Managed Expenditure – i.e. on demand-led benefit budgets) within the next Spending Review is lower, this will “lessen the reductions required from DEL”. However, significant reductions in planned AME would be required in order to even achieve the level of average annual real growth of DEL during SR 2010 (i.e. a 6.6% reduction in AME would be needed to reduce the real growth in DEL for 2015/16 from -3.8% to -2.3%).

RPI inflation

4.14 RPI inflation forecasts are based upon the latest official figures from the Office of Budget Responsibility[2]. The following RPI forecasts have therefore been applied within the forecast:

	RPI
2013/14	3.0%
2014/15	2.3%
2015/16	2.6%
2016/17	3.7%
2017/18	4.0%

RSG deductions

4.15 In order to keep the amount of funding retained by local government (excluding changes due to NDR growth in 2013/14 onwards), within the Spending Review control totals (actual SR 2010 and assumed levels for future years), the increase in income from RPI (for the local authority share) has been deducted from the national RSG amount. This approach is consistent with how CLG plans to determine local authority baselines for 2013/14. For future years, similar deductions have been assumed, based upon RPI forecasts; with deductions made from RSG. The table below (para 3.23) shows the impact of these deductions.

[2] http://budgetresponsibility.independent.gov.uk/category/topics/economic-forecasts/

4.16 The methodology for determining the estimated business rates aggregate for 2013/14 projects forward current growth levels into the baseline (see para 3.4 above). It is only because the period chosen to base this growth projection on is likely to have very little change in NDR levels, that authorities are not faced with having to increase business rates in order to effectively stand still i.e. if any other six-month period over the past two years had been chosen, typically authorities would face the prospect of having to achieve growth of 0.5% in NDR between September 2012 and September 2013 in order for NDR income levels to reach the NDR baseline.

4.17 For future years (2014/15 onwards), it is likely that there will be an assumed level of growth within the NDR taxbase. This would be necessary to stay within the SR 2010 control totals for 2014/15. CLG's decision not to provide a two-year settlement (in terms of control totals) in December 2012 is possibly a reflection of intending to include an element of NDR growth in the 2014/15 assumptions (and therefore an equivalent deduction in RSG).

4.18 For the purposes of the forecasts in Section 5 below, there is an assumed level of national growth in NDR income of 0.5% per annum for 2014/15 onwards, with a corresponding reduction in RSG. The table below (para 3.23) shows the impact of these deductions.

New Homes Bonus

4.19 In previous forecasts prepared for local authorities using LG Futures' business rates model, historic New Homes Bonus allocations have been used to forecast future levels of expenditure. Using these assumptions, the assumed annual and cumulative cost of the New Homes Bonus scheme is shown in the table below:

	In-Year £m	Cumulative £m
2011/12	199	199
2012/13	226*	425
2013/14	238*	669
2014/15	232	895
2015/16	232	1,127
2016/17	232	1,359
2017/18	232	1,392**

*Actual amount for 2012/13 was £232m, but £6m of this will be funded from 2013/14 resources (as per CLG)

** For 2017/18, the allocations for 2011/12 will cease. Therefore, the cumulative figure is based upon the 6 years from 2012/13 to 2017/18.

4.20 However, in the 17 July consultation paper, CLG have indicated that they intend to deduct £1,655m to cover the cost of New Homes Bonus. This would suggest that CLG believe that the level of resources allocated through New Homes Bonus is likely to increase by higher amounts than current levels (i.e. the in-year allocation for 2013/14 onwards will be higher than the £232m in 2012/13). This view appears contrary to the feedback we have received from local authorities, where, if anything, increases in new homes are expected to fall in future years. However, given that CLG should be better placed to take a view on the future level of new homes, the forecasts below are based upon the DCLG estimate for the total cost of the scheme rising to £1,655m by 2017/18.

4.21 The following revised estimate of New Homes Bonus expenditure has therefore been used within your authority's resource forecast. The assumed higher level of expenditure has been distributed on a linear basis across subsequent years.

	In-Year £m	Cumulative £m
2011/12	199	199
2012/13	226*	425
2013/14	291*	716
2014/15	285	1,000
2015/16	285	1,285
2016/17	285	1,569
2017/18	285	1,655

*Actual amount for 2012/13 was £232m, but £6m of this will be funded from 2013/14 resources (as per CLG)

4.22 It should be noted that:

- If amounts deducted by CLG are too high, the additional amount taken will be refunded to authorities in the same way as it would have been allocated originally (i.e. as a proportion of authorities' baseline funding levels).
- If the CLG forecast level of new homes is accurate, this will mean authorities that are not forecasting increasing levels of new homes in future years will be losing resources (in comparison to if resources were being distributed based on need).
- CLG may have taken a cautious approach to determining its £1,655m figure to avoid having to take further amounts from RSG in future years (and therefore lower resource forecasts for those that had previously taken a worst case scenario of no refund in 2017/18).

4.23 In order to assist officers in quantifying the potential reduced resources from CLG's higher forecast level of New Homes Bonus Expenditure (than current expenditure patterns), an indicative table has been produced alongside the resource forecasts in section 5 to illustrate the reduction in resources locally for 2013/14 to 2017/18.

Levy

4.24 A proportional levy has been used, with a 1:1 ratio i.e. 1% taxbase growth allows up to 1% growth in resources (based on the baseline funding level). It is assumed that the amount raised from the levy will be sufficient to pay for the safety net, with no additional amounts left over.

Safety Net (£252m) and Capitalisation (£100m)

4.25 Within our forecast, the baseline has been set at -10% (from the range set out by CLG of between -7.5% and -10.0%). The refund due to local government from any "unused" element of the safety net and capitalisation pots has been assumed at 100% within the forecasts i.e. it is assumed that no authority will require the use of this funding, due to the levy raising sufficient resources. However, in order to assist officers in taking a different view, the value of the refund for your authority has been shown separately within the forecast.

Funding levels

4.26 Based upon SR2010 control totals and subsequent amendments and assumptions discussed above, the following year on year changes to local government funding have been assumed:

Local Authorities	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m	£m
Formula Grant	18,786					
Council Tax Freeze Grant 2011/12	551	551	551	551	551	551
Rates Retention - baseline		9,841	9,841	9,841	9,841	9,841
Rates Retention - RPI			226	488	870	1,299
Rates retention - assumed growth			50	102	159	221
RSG		7,056	5,308	4,994	4,555	4,065
Safety Net returned		245	245	245	245	245
Capitalisation		100	100	100	100	100
New Homes Bonus - funding	425	722	1000	1285	1569	1655
New Homes Bonus - returned		1,183	905	370	86	-
TOTAL	**19,762**	**19,698**	**18,227**	**17,977**	**17,977**	**17,977**
In year % change		-0.32%	-7.47%	-1.37%	0.00%	0.00%
Cumulative % change		-0.32%	-7.77%	-9.03%	-9.03%	-9.03%

Five-Year General Revenue Resource Projection – August 2012

Fire Authorities	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Formula Grant	988					
Council Tax Freeze Grant 2011/12	26	26	26	26	26	26
Rates Retention - baseline		553	553	553	553	553
Rates Retention - RPI			13	27	49	73
Rates retention - assumed growth			3	6	9	12
RSG		346	282	264	239	212
Safety Net returned		7	7	7	7	7
TOTAL	**1,014**	**932**	**883**	**883**	**883**	**883**
In year % change		-8.09%	-5.26%	0.00%	0.00%	0.00%
Cumulative % change		-8.09%	-12.92%	-12.92%	-12.92%	-12.92%

4.27 The resulting five-year resource forecasts, from 2013/14 to 2017/18, for your authority, are shown in section 5 of this report. It is important to note, when reviewing the resource forecasts, that:

- The forecasts assume that local government will retain the RPI increase on business rates (i.e. the increase in multiplier), for the local share element, but a deduction of equal value has been made to RSG
- The RSG allocation includes a further deduction to take into account local government benefiting from increases in NDR income due to assumed levels of NDR growth on the physical taxbase (based on historic growth patterns)
- The RSG allocation does not include the specific grants that will eventually be added in/ taken out from 2013/14 onwards
- No adjustment has been made for the academies transfer
- The local government Spending Review control totals for 2015/16 and beyond have been assumed to remain at 2014/15 cash levels
- Council Tax Freeze Grant is set to be included up to 2017/18. This assumption is based on a 0% cash increase for local government for 2015/16 onwards.

5. Analysis

5.1 Using the design of the scheme outlined in section 3 and the assumptions set out in section 4, four resource projections have been determined, using differing assumptions on the level of NDR growth per annum (Resource Forecasts 1 to 3) and an alternative forecast NDR income figure for 2013/14 (Resource Forecast 4).

Resource forecast 1: NDR change of 0% per annum

Medway Resource Forecast 1 NDR change of 0% per annum	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Individual authority business rates	-	40.461	41.392	42.468	44.039	45.801
Top up/(Tariff)	-	+0.086	+0.088	+0.090	+0.093	+0.097
Equals pre-levy income:	-	**40.547**	**41.480**	**42.558**	**44.133**	**45.898**
LESS Levy on growth above RPI	-	-	-	-	-	-
Equals post-levy income	-	**40.547**	**41.480**	**42.558**	**44.133**	**45.898**
PLUS New Homes Bonus returned	-	4.931	3.770	1.543	0.357	-
PLUS RSG (1)	78.280	29.402	22.120	20.810	18.981	16.940
PLUS Safety Net/ Capitalisation returned		1.438	1.438	1.438	1.438	1.438
PLUS 2011/12 CT freeze grant	2.463	2.463	2.463	2.463	2.463	2.463
PLUS Safety net payment	-	-	-	-	-	-
EQUALS Retained income	**80.743**	**78.781**	**71.271**	**68.812**	**67.372**	**66.739**
Annual % change		-2.43%	-9.53%	-3.45%	-2.09%	-0.94%

		2013/14	2014/15	2015/16	2016/17	2017/18
Annual business rates growth (%)		0.0%	0.0%	0.0%	0.0%	0.0%
RPI		3.0%	2.3%	2.6%	3.7%	4.0%
NDR Baseline	40.922					
Baseline funding	41.008					
Baseline safety net (percentage) at	-10%					
Levy rate (pence in the pound)	0%					

(1) For 2012/13, this figure reflects Formula Grant levels

5.2 The level of reduction in resources for your authority, due to the DCLG's forecast level of New Homes Resources (at £1,655m), compared to existing expenditure levels (£1,392m), is shown in the table below. LG Futures used existing expenditure levels within forecasts prepared for local authorities previously.

Medway New Homes Bonus	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Assumed cost of the scheme by CLG	472	750	1,285	1,569	1,655
Assumed cost (based on 2012/13 expenditure levels)	419	645	1,127	1,359	1,392
Difference	53	105	158	210	263
Estimated value to your authority (1)	**0.219**	**0.438**	**0.658**	**0.877**	**1.096**

(1) This is based upon the value nationally, multiplied by your authority's share of the baseline funding amount

5.3 The remaining two resource forecasts with alternative growth forecasts (-0.5% and +0.5%) are shown below.

Resource forecast 2: NDR change of -0.5% per annum

Medway Resource Forecast 2 NDR change of -0.5% per annum	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Individual authority business rates	-	40.259	40.979	41.834	43.165	44.667
Top up/(Tariff)	-	+0.086	+0.088	+0.090	+0.093	+0.097
Equals pre-levy income:	-	**40.345**	**41.067**	**41.924**	**43.259**	**44.765**
LESS Levy on growth above RPI	-	-	-	-	-	-
Equals post-levy income	-	**40.345**	**41.067**	**41.924**	**43.259**	**44.765**
PLUS New Homes Bonus Returned	-	4.931	3.770	1.543	0.357	-
PLUS RSG	78.280	29.402	22.120	20.810	18.981	16.940
PLUS Safety Net Returned		1.438	1.438	1.438	1.438	1.438
PLUS 2011/12 CT freeze grant	2.463	2.463	2.463	2.463	2.463	2.463
PLUS Safety net payment	-	-	-	-	-	-
EQUALS Retained income*	**80.743**	**78.579**	**70.858**	**68.178**	**66.498**	**65.605**
Annual % change		-2.68%	-9.83%	-3.78%	-2.46%	-1.34%

		2013/14	2014/15	2015/16	2016/17	2017/18
Annual business rates growth (%)		-0.5%	-0.5%	-0.5%	-0.5%	-0.5%
RPI		3.0%	2.3%	2.6%	3.7%	4.0%
NDR Baseline	40.922					
Baseline funding	41.008					
Baseline safety net (percentage) at	-10%					
Levy rate (pence in the pound)	0%					

Resource forecast 3: NDR change of +0.5% per annum

Medway Resource Forecast 3 NDR change of +0.5% per annum	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Individual authority business rates	-	40.664	41.807	43.108	44.927	46.958
Top up/(Tariff)	-	+0.086	+0.088	+0.090	+0.093	+0.097
Equals pre-levy income:	-	**40.750**	**41.895**	**43.199**	**45.020**	**47.055**
LESS Levy on growth above RPI	-	-	-	-	-	-
Equals post-levy income	-	**40.750**	**41.895**	**43.199**	**45.020**	**47.055**
PLUS New Homes Bonus Returned	-	4.931	3.770	1.543	0.357	-
PLUS RSG	78.280	29.402	22.120	20.810	18.981	16.940
PLUS Safety Net Returned		1.438	1.438	1.438	1.438	1.438
PLUS 2011/12 CT freeze grant	2.463	2.463	2.463	2.463	2.463	2.463
PLUS Safety net payment	-	-	-	-	-	-
EQUALS Retained income*	**80.743**	**78.983**	**71.686**	**69.452**	**68.259**	**67.895**
Annual % change		-2.18%	-9.24%	-3.12%	-1.72%	-0.53%

		2013/14	2014/15	2015/16	2016/17	2017/18
Annual business rates growth (%)		0.5%	0.5%	0.5%	0.5%	0.5%
RPI		3.0%	2.3%	2.6%	3.7%	4.0%
NDR Baseline	40.922					
Baseline funding	41.008					
Baseline safety net (percentage) at	-10%					
Levy rate (pence in the pound)	0%					

5.4 In addition to the three forecasts above (based on forecast NDR income for 2012/13 taken from your authority's NNDR 1 form), an additional forecast, with forecast NDR income set at the same level as your authority's forecast NDR baseline is shown below i.e. to remove any gains or losses from your forecast baseline being different to your forecast income. This forecast is based on 0% NDR growth per annum (i.e. as per Resource Forecast 1).

Resource forecast 4: NDR change of +0.0% per annum - using NDR baseline as 2013/14 forecast income

Medway Resource Forecast 4 NDR change of 0% per annum	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Individual authority business rates	-	40.922	41.863	42.952	44.541	46.323
Top up/(Tariff)	-	+0.086	+0.088	+0.090	+0.093	+0.097
Equals pre-levy income:	-	**41.008**	**41.951**	**43.042**	**44.635**	**46.420**
LESS Levy on growth above RPI	-	-	-	-	-	-
Equals post-levy income	-	**41.008**	**41.951**	**43.042**	**44.635**	**46.420**
PLUS New Homes Bonus Returned	-	4.931	3.770	1.543	0.357	-
PLUS RSG	78.280	29.402	22.120	20.810	18.981	16.940
PLUS Safety Net Returned		1.438	1.438	1.438	1.438	1.438
PLUS 2011/12 CT freeze grant	2.463	2.463	2.463	2.463	2.463	2.463
PLUS Safety net payment	-	-	-	-	-	-
EQUALS Retained income*	**80.743**	**79.242**	**71.742**	**69.295**	**67.873**	**67.261**
Annual % change		-1.86%	-9.46%	-3.41%	-2.05%	-0.90%

		2013/14	2014/15	2015/16	2016/17	2017/18
Annual business rates growth (%)		0.0%	0.0%	0.0%	0.0%	0.0%
RPI		3.0%	2.3%	2.6%	3.7%	4.0%
NDR Baseline	40.922					
Baseline funding	41.008					
Baseline safety net (percentage) at	-10%					
Levy rate (pence in the pound)	0%					

6. Conclusions and Next Steps

6.1 This briefing note initially provides an estimate of the authority's baseline funding and business rates baseline, and therefore its top up/tariff status.

6.2 The note then goes on to provide four five-year projections for the authority, based upon a set of assumptions regarding RPI, national control totals and three levels of NDR change i.e. 0%, -0.5% and +0.5%.

6.3 LG Futures is also able to offer authorities a range of further support. In particular, we can:

- Investigate the financial impact of different assumptions, including NDR change; RPI; New Homes Bonus deductions; safety net funding; and national control totals.
- Consider the potential increased resources that could be received by individual authorities through pooling and the effect/benefits of reduced volatility.
- Consider the impact of local issues such as Enterprise Zones, Tax Increment Financing and one off large developments/closures.
- Draft and present information to officers and members on the new scheme and its potential impact locally.

6.4 If you have any questions regarding this briefing note or would like to discuss further support, please contact Lee Geraghty, Consultancy Manager, on 07738 000368 or by email at **lee.geraghty@lgfutures.co.uk**.

Appendix A: Glossary[3]

Baseline funding level

The amount of a local authority's start-up funding allocation which is provided through the local share of the estimated business rates aggregate (England) at the outset of the scheme. It will form the baseline against which tariffs and top-ups will be calculated.

Billing authority

A local authority which bills and collects business rates, for example a district council or unitary council.

Billing authority business rates baseline

Determined by dividing the *local share* of the estimated business rates aggregate (England) between billing authorities on the basis of their *proportionate shares*, before the payment of any *major precepting authority share*.

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%. The *central share* will be re-distributed to local government through grants including the *Revenue Support Grant*. This replaces the previous 'set-aside' policy.

Damping

Damping' is used to describe the way limits are applied to the effect on grant funding of changes to the distribution formulae or data used year-on-year.

Estimated Business Rates Aggregate

The total business rates forecast to be collected by all billing authorities in England. This will include an adjustment for appeals losses.

Floor damping

A method by which stability in funding is protected through limiting the effect of wide variations in grant increase. A floor guarantees a lower limit to a year– on–year change in grant. The grant changes of authorities who receive more than the floor are scaled back by a fixed proportion to help pay for the floor.

Individual authority business rates baseline

Derived by apportioning the billing authority business rates baseline between billing and major precepting authorities on the basis of major precepting authority shares.

[3] Taken from "Business Rates Retention – Technical Consultation", DCLG, 17 July 2012, page 237

Levy

Mechanism to limit disproportionate benefit. This will be set on a proportionate basis so that an authority never sees more than a 1% increase in its *baseline funding level* for each 1% increase in its *individual authority business rates baseline*.

Local government spending control total

The total amount of expenditure allocated to the local government sector by HM Treasury for each year of a Spending Review.

Local share

The percentage share of locally collected business rates that will be retained by local government. This will be set at 50%. 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*.

Lower tier share

The percentage of the *local share* that is retained by a billing authority in two tier areas. This will be set at 80%.

Major precepting authority

A local authority that does not collect business rates but is part of the business rates retention scheme. They are county councils in a two tier areas, single purpose fire and rescue authorities and the Greater London Authority.

Major precepting authority shares

Used to establish the proportion of the *local share* that is paid by a billing authority to its major precepting authorities. Also applied to *billing authority business rates baselines* to establish *individual authority business rates baselines* for both billing and major precepting authorities.

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 and uprated annually by RPI. There will be no change to the way in which multipliers are set as a result of the introduction of the business rates retention scheme.

New Burdens

The Government uses the New Burdens Assessment to keep pressure on council tax bills to a minimum. It requires all government departments to justify why new duties, powers, targets and other bureaucratic burdens should be placed on local authorities, as well as how much these policies and initiatives will cost and where the money will come from to pay for them.

New Homes Bonus Adjustment

The amount removed from the total *Revenue Support Grant* to fund the New Homes Bonus over the whole *reset period* before individual allocations of *Revenue Support Grant* are calculated for local authorities.

National Non-Domestic Rates 1 Form (NNDR1)

The form submitted each January by a billing authority to its major precepting authority and central government to provide an estimate of its business rate income for the upcoming financial year.

National Non- Domestic Rates 3 Form (NNDR3)

The form submitted each June by billing authorities to its major precepting authority and central government to provide outturn data on its business rate income for that year.

Pre-levy income

An individual authority's business rates income minus/plus the *tariff* or *top-up*.

Pre-safety net income

An individual authority's business rates income minus/plus the *tariff* or *top-up*, minus any *levy*.

Proportionate Share

This is the percentage of the actual national business rates which it has collected - on the basis of the average rates collected by authorities over the five years to 2011-12. This percentage will be applied to the *local share* of the estimated business rates aggregate to determine the *billing authority business rates baseline*.

Rate reliefs

The rating system currently provides mandatory relief to charities and other categories of ratepayer (e.g. certain rural ratepayers) and permits authorities to grant discretionary relief to other rate payers. There will be no changes to mandatory and discretionary reliefs as a result of the introduction of the business rates retention scheme.

Relative Needs Formulae (RNFs)

These are the first stage in the calculation the Government used to distribute formula grant. The 2012-13 relative needs formula(e) for each service block are set out in Section 4 of the Local Government Finance Report (England) 2012/13.

Relevant shares

The percentage of the total business rates income of a billing authority that is paid to central government in respect of the *central share* and to major precepting authority in respect of *major precepting authority shares*.

Reset

New baseline funding levels, new individual authority business rates baselines (and therefore new tariffs or top-ups) are set for each authority to take account of changes in relative need and resource.

Reset period

The years between *resets* in which local authorities are able to retain (after taking into account the *levy* and payments owing to *relevant shares*) the growth in business rates income. It is the Government's ambition that the initial *reset period* will last between 2013 and 2020.

Revaluation

Business properties are re-valued every five years to reflect relative changes in rental valuations. There will be no change to the current revaluation process or timing as a result of the business rates retention scheme.

Revaluation adjustment

An adjustment to *tariffs* and *top ups* to ensure that authorities do not see their *retained rates income* change as a consequence of a *revaluation*.

Revenue Support Grant

All authorities will receive *Revenue Support Grant* from central government in addition to its *baseline funding level*. An authority's *Revenue Support Grant* amount plus its *baseline funding level* will together comprise its *start-up funding allocation*.

Safety net

Mechanism to protect any authority which sees its *retained rates income* drop, in any year, by more than a set percentage (final percentage will be set between 7.5% and 10%) below their *baseline funding level* (with baseline funding levels being uprated by RPI for the purposes of assessing eligibility for support).

Safety net payment

A payment made by central government to local authorities who are eligible for safety net support. These will be made at the end of the financial year.

Safety net payment on account

A safety net payment made to a local authority on the basis of forecast *retained rates income.* This means it will be made in advance of the formal calculation of *safety net payments* - which will be calculated on the basis of audited accounts data following the end of that financial year. Any difference between the two amounts will be reconciled.

Schedule of payments

The timings of payments across the financial year, for example in respect of the *central share*, *major precepting shares* etc.

Service tiers

There are four service tiers corresponding to the services supplied by the four types of authorities. These are upper-tier services – those services, other than fire, supplied by county councils in two-tier areas; police services; fire and rescue services; and lower-tier services – those services supplied by district councils in two-tier areas. Some authorities may provide more than one tier of service.

Start-up funding allocation

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.

Tariffs and top-ups

Calculated by comparing an individual authority business rates baseline against its baseline funding level. Tariffs and top-ups will be self-funding, fixed at the start of the scheme and index linked to RPI in future years.

Tariff authority

An authority with a higher individual authority business rates baseline than its baseline funding level, and which therefore pays a tariff.

Tariff payment

The payment made from tariff authorities to central government over the course of the financial year.

Top-up authority

An authority with a lower individual authority business rates baseline than its baseline funding level, and which therefore receives a top-up.

Top-up payment

The payment made from central government to top-up authorities over the course of the financial year.

Transitional arrangements

A relief scheme helping ratepayers who faced large increases in business rates bills at the revaluation. The relief is funded by holding back rates retention from those ratepayers who benefited from revaluation.

Transitional protection payment

An adjustment to ensure that authorities do not experience gains or losses in rates income as a consequence of the transitional arrangements.

Appendix B: Precepting Shares[4]

	Share of billing authority business rates baseline[22]	Share of business rates income collected [23]	Share of collection fund surplus/deficit
Unitary billing authority (with fire and rescue responsibilities)	100%	50%	50%
Unitary billing authority (without fire and rescue responsibilities)	98%	49%	49%
Billing authority in a two tier area	80%	40%	40%
County Council in a two-tier area (with fire and rescue responsibilities)	20%	10%	10%
County council in a two-tier area (without fire and rescue responsibilities)	18%	9%	9%
Single purpose fire and rescue authority	2%	1%	1%

[4] Taken from "Business Rates Retention – Technical Consultation", DCLG, 17 July 2012, page 251

Appendix C: Control Total Reconciliation

Element	2013/14				2014/15			
	Police	Fire	Other	Total	Police	Fire	Other	Total
SR	**3,093**	**953**	**19,150**	**23,196**	**3,051**	**909**	**17,896**	**21,856**
Autumn Statement and New Development Deals	-24	-5	-231	-260	-65	-9	-442	-516
Fire Grants		-42	-7	-50		-43	-8	-50
Neighbourhood Planning			-15	-15			-20	-20
Capitalisation and Safety Net Support (Fire)		-7		-7		-7		-7
New Homes Bonus			-2,000	-2,000			-2,000	-2,000
Of which:								
Capitalisation and Safety Net Support (LAs)			-345	-345			-345	-345
"Formula Grant"	**3,069**	**899**	**16,897**	**20,865**	**2,986**	**850**	**15,426**	**19,263**
Central Education Services currently within LACSEG				-1,218				-1,193
Council Tax Freeze Grant				593				593
Council Tax Support				3,387				3,383
Early Intervention Grant				1,726				1,633
GLA General Grant				46				44
GLA Transport Grant				920				771
Homelessness Prevention				80				80
Lead Local Flood Authorities				21				21
Learning Disability and Public Health				1,408				1,439
Police				-3,069				-2,986
TOTAL				**24,759**				**23,046**

Appendix 2a

The reduction in your NDR income of £1.5m approx. relates to the RV £7.015 X multiplier (45p + inflation at 3%) X Local Share (50%) X Your Share (98% - i.e. after 2% fire deduction)

Resource Forecast 1 NDR change of 0% per annum	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Individual authority business rates	-	38.953	39.849	40.885	42.398	44.094
Top up/(Tariff)	-	+0.086	+0.088	+0.090	+0.093	+0.097
Equals pre-levy income:	-	**39.039**	**39.937**	**40.975**	**42.491**	**44.191**
LESS Levy on growth above RPI	-	-	-	-	-	-
Equals post-levy income	-	**39.039**	**39.937**	**40.975**	**42.491**	**44.191**
PLUS New Homes Bonus returned	-	4.931	3.770	1.543	0.357	-
PLUS RSG (1)	78.280	29.402	22.120	20.810	18.981	16.940
PLUS Safety Net/ Capitalisation returned		1.438	1.438	1.438	1.438	1.438
PLUS 2011/12 CT freeze grant	2.463	2.463	2.463	2.463	2.463	2.463
PLUS Safety net payment	-	-	-	-	-	-
EQUALS Retained income	**80.743**	**77.273**	**69.728**	**67.229**	**65.730**	**65.032**
Annual % change		-4.30%	-9.76%	-3.58%	-2.23%	-1.06%

		2013/14	2014/15	2015/16	2016/17	2017/18
Annual business rates growth (%)		0.0%	0.0%	0.0%	0.0%	0.0%
RPI		3.0%	2.3%	2.6%	3.7%	4.0%
NDR Baseline	40.922					
Baseline funding	41.008					
Baseline safety net (percentage) at	-10%					
Levy rate (pence in the pound)	0%					

Appendix 3

School Funding Reforms

1 Summary

1.1 The coalition government announced its intention to reform the school funding system in its White Paper *The Importance of Teaching,* referring to the current arrangements as:

- opaque and extremely complex
- unfair as they lead to schools with similar intakes receiving very different levels of funding
- failing to reflect need accurately
- failing to support the new school system (i.e. academies and free schools)

1.2 In July 2011 the government launched its first consultation on school funding reform including the proposal for a national funding formula for schools and academies. Having considered the responses the government announced that a national funding formula will not be introduced until after 2014/15. However a further consultation paper issued in March 2012 set out some significant changes to be implemented from 2013/14, including:

- revised funding arrangements for local authorities
- simplification of the funding formula for schools and academies
- changes to the funding arrangements for pupils with high needs
- simplification of funding arrangements for Early Years
- changes to Schools Forum arrangements
- an enhanced role for the Education Funding Agency

2. Current Funding System

2.1 Currently funding for schools is provided by central government in the form of the Dedicated Schools Grant (DSG). The DSG is based on a fixed rate of funding per pupil multiplied by the total number of pupils on the rolls of Medway schools and academies. LAs can retain an element of the DSG to fund children who require a specialist placement to meet their special educational needs, children educated at pupil referral units, children accessing their free entitlement to nursery education in private, voluntary and independent settings and school support services. The total retained for these purposes is subject to consultation with the Schools Forum and is restricted by the government's central expenditure limit (CEL).

2.2 After funding retained services, the remainder of the DSG must be allocated to schools and academies using a formula that takes account of pupil numbers, special educational needs, pupil deprivation and factors relating to the school's buildings and grounds. Once the budgets for academies have been calculated the relevant funding is removed from Medway's DSG allocation, along with a pro-rata share of some school support services retained by the Council. The academies receive their funds directly from the Education Funding Agency (EFA) that was established in April 2012.

3. Revised Funding Arrangements for Local Authorities

3.1 Local authorities will continue to receive funding for schools through the DSG but from 2013/14 this will be split into three notional blocks:

- Schools block
- Early Years block
- High Needs block

Currently DSG allocations are based on pupil numbers from the January school census. To enable earlier budget setting the government proposes that from 2013-14, the notional Schools Block will be calculated using pupil numbers from the October school census. This will allow the DSG to be confirmed in December, enabling maintained school and academy budgets to be calculated earlier, although the statutory deadline of 31 March remains.

3.2 Funding within the Schools Block must be delegated to schools, with just a few exceptions:

- funding initially retained to support pupil growth and allocated to new schools or expanding schools in-year
- services that schools could choose to pool centrally e.g. behaviour support services
- historic commitments e.g. funding to defend SEN tribunals
- statutory functions of the LA including pupil admission arrangements and the Carbon Reduction Commitment.

In some cases funds can only be retained for these purposes with the approval of, or in consultation with, the Schools Forum.

3.3 The Early Years block will include the funding for providers delivering the universal free entitlement of 15 hours per week of nursery education for three and four year olds. It will also include the funding for early years support services run by the LA.

3.4 The High Needs block will cover funding for the education of high needs pupils and students from birth to 25 in line with the proposals set out in the Green Paper on special educational needs (SEN) and disability. The High Needs block will include funding for:

- SEN in mainstream schools and academies (where the cost of educating the pupil exceeds £10,000 per year)
- Post-16 pupils with high needs e.g. in further education colleges
- Special schools and hospital schools
- Placements in independent and non-maintained special schools
- Pupil referral units, home tuition and secure units
- SEN support services

3.5 LAs can vire between the three funding blocks after consulting with the Schools Forum.

3.6 Some education functions such as school improvement are excluded from the DSG and are funded through local government formula grant, although the grant is top-sliced to provide academies with a pro-rata share. The government is exploring options for transferring this funding from local government formula grant to the DfE so that it can be distributed as an un-ringfenced grant to LAs and academies proportionate to the number of pupils for which they are responsible.

4. Simplification of the Funding Formula for Schools and Academies

4.1 After taking account of the exceptions listed in paragraph 3.2 the rest of the funding in the Schools Block must be delegated to schools and academies using the LA's funding formula. However the government believes that current funding formulae are too complex and therefore wants to simplify them. Currently the regulations allow LAs to use up to 37 different factors in their funding formula but the government intends to reduce this to 11 factors from 2013/14, as follows:

- A basic per-pupil entitlement (different rates for primary and secondary aged pupils)
- Deprivation measured by entitlement to free school meals and/or the Income Deprivation Affecting Children Index (IDACI);
- Looked-after children
- Low cost, high incidence SEN (i.e. children with SEN who's education costs less than £10,000)
- English as an additional language
- Pupil mobility i.e. casual admissions
- A lump sum not exceeding £200,000
- Split sites
- Rates
- Private finance initiative (PFI) contracts
- London fringe area enhancements

4.2 The scope for local flexibility is limited but we established a working group of headteachers, governors and school business mangers to draft a revised funding formula for Medway schools and academies. It is clear that the new formula will result in significant gains and losses for individual schools, with initial modelling suggesting that 15 Medway schools and academies would experience a change in funding exceeding 10%.

4.3 The DfE recently revised the methodology for the SEN and deprivation elements of the formula and we have not modelled the impact of this yet. However, it is clear that there will be significant turbulence when the new arrangements are implemented in April 2013. Schools will be protected to a maximum loss of 1.5% per year for the next two years but the DfE has not announced whether any protection arrangements will continue beyond that. LAs will be able to set a percentage threshold for the maximum gain that schools can receive as a result of changes to the funding formula.

4.4 The working group's proposals will be reported to the Schools Forum on 25 September. Alongside discussions about the new funding formula the Forum will also debate a request from some primary school representatives that £1 million should be transferred from secondary schools to primary schools. This proposal would make the primary/secondary funding ratios in Medway equal to the average of our statistical neighbours but would exacerbate the gains and losses resulting from the new funding formula. The new formula must be agreed and reported to the Education Funding Agency by the end of October.

5. Changes to the Funding Arrangements for Pupils with High Needs

5.1 There is no precise definition of high needs but the government is referring to pupils or students whose education costs more than £10,000 per year.

5.2 Funding for pupils with high needs will be available both to schools with specialist SEN facilities and mainstream settings. The presumption is that schools will meet the first £10,000 of a child's educational provision and the LA will provide a top-up equal to the remaining cost. This is a change to the current arrangements in Medway where schools are responsible for funding all the costs. Consequently the LA does not have data on what each child's education costs and does not have a budget to fund the top-ups.

5.3 To address these issues, schools are being helped to prepare costed provision maps for children with SEN which, subject to moderation, will give the LA some reliable data on the support that schools are providing and the top-ups that will be needed. The total cost of the top-ups will be transferred from the Schools block to the High Needs block to provide the LA with the budget required for 2013/14. This exercise will need to be completed by the end of October to comply with the timetable set by the Education Funding Agency.

5.4 As well as paying top-ups the LA will act as the commissioning body for specialist SEN provision and will engage with providers to ensure pupils achieve agreed outcomes. Specialist SEN providers will have their funding reviewed every two years to ensure it is appropriate to the number of pupils who have been placed there and that empty places are not funded indefinitely.

5.5 For pupils placed in 'alternative provision' as a result of fixed-term or temporary exclusion, the base level of funding would be £8,000 rather than £10,000. If necessary, top-up funding would be provided above the base level of £8,000 and funding will follow the pupil or student if they move from one provider to another.

6. Simplification of Funding Arrangements for Early Years

6.1 In addition to the funding for the free entitlement to nursery education for three and four year olds, the Early Years block of the DSG will contain the funding for the early education of two year olds. Two year olds are currently funded within the Early Intervention Grant but this will be transferred to the DSG from 2013/14. A report on issues relating to the early education of two year olds will be presented to Cabinet on 4 September.

6.2 The DfE proposes bringing together early education funding for all providers under the management of local authorities. This would mean that wherever a child accesses their free early education, whether in an academy or a maintained school, or in the private, independent and voluntary sectors, they would all be funded and paid by local authorities using the Early Years Single Funding Formula.

7. Changes to Schools Forum Arrangements

7.1 The government believes that Schools Forums play an important part in the local decision making process but that some Forums are too large and unwieldy.

7.2 From 2013/14 the Schools Forum regulations will be amended to:

- remove the requirement to have a minimum of 15 people on a Forum
- limit the number of other local authority attendees from participating in meetings unless they are a Lead Member, a Director of Children's Services (or their representative) or are providing specific financial or technical advice (including presenting a paper to the Forum)
- confine the voting arrangements to allow only schools members and providers from the private, voluntary and independent sector to vote on the funding formula
- require local authorities to publish Forum papers, minutes and decisions promptly on their websites
- require Forums to hold public meetings – as is the case with other council committees

8. An Enhanced Role for the Education Funding Agency (EFA)

8.1 The EFA was formed in April 2012 to replace Partnership for Schools and the Young People's Learning Agency and to take over the operational functions of the Department for Education. The EFA will have a significant role in overseeing local funding arrangements and will have the right to attend Schools Forum meetings.

8.2 Once the LA has revised its funding formula in consultation with its Schools Forum it will need to send the details to the EFA who will check that it complies with regulations. The EFA will take account of any representations it receives from schools and academies in the area and could intervene if it feels the formula is unfair, even if it complies with the regulations. The EFA will then use the LA's funding formula to calculate the budgets for Medway academies.

8.3 The EFA will also have a role in overseeing the planning of specialist SEN provision to support the government's aim that providers that are in demand should be able to expand while empty places should not be funded indefinitely.

9. Next Steps

9.1 Headteachers will be briefed on the new funding arrangements on 20 September and the Schools Forum will meet on 25 September to agree the new funding formula for schools and academies with effect from 2013/14.

9.2 The agreed funding formula will be reported to the EFA by the end of October and schools will be notified of their allocations using the new formula by 31 March 2013.