

**CABINET**  
**15 JANUARY 2013**  
**PROVISIONAL LOCAL GOVERNMENT SETTLEMENT**  
**2013/2015**

Portfolio Holder: Councillor Alan Jarrett, Finance  
Report from: Mick Hayward, Chief Finance Officer

**Summary**

This report provides Cabinet with details of the provisional Local Government settlement announced by Government on 19 December 2012.

**1. Budget and Policy Framework**

1.1 The provisional settlement is an important step in the process of setting the 2013/14 budget in that it gives a firm base to the resource anticipation around which the draft budget has been based. This is a matter for Cabinet at this stage. Later it will be the role of Council to adopt the budget for 2013/14.

**2. The Settlement**

- 2.1 The Secretary of State announced the provisional financial settlement to the House of Commons on 19 December 2012. The settlement covers the concluding 2-year period of the Spending Review 2010. The announcement launched a consultation period on the proposals that will end on 15 January 2013.
- 2.2 This is the first Local Government Finance Settlement under the new arrangements for business rates that will come into place on 1 April 2013. This means that business rates have now been split into a central and a local share; each being 50% of the Expected Business Rates Aggregate in 2013/2014 (as predicted by the Office for Budget Responsibility - OBR); after deductions are made for expected appeals and reliefs.
- 2.3 In headline terms the overall settlement figure as announced as the 'Start-up Funding Assessment' is some £1.906 million better than that forecast in the draft budget report for 2013/14, and £0.963 million better than the forecast for 2014/15. Both of these figures exclude some important grants such as the Dedicated Schools Grant (DSG) and other DfE schools based grants, Public Health Grant (to be announced), New Homes Bonus, Adult Learning and a number of more minor grants.

- 2.4 However the settlement is somewhat illusory as a basis for the budget build process as the declared contribution from the local share of business rates is predicated on a baseline calculation founded on collections in 2010/11 and 2011/12. The actual contribution to be used as the basis for resourcing the budget will be an anticipated collection for 2013/14 and that is presently being worked upon.
- 2.5 Government have headlined 'Spending Power' as the basis of the comparison of funding levels. In that context the settlement heralded that local authorities will face an average reduction in spending power of 1.7%; and that no local authority would experience a decrease of more than 8.8%. This is a term that has been used before and whilst the construction is in a common form across all Authorities it includes not only Department of Communities and Local Government (CLG) funding for Local Government but also locally derived Council Tax, and NHS funds, the effect of which is to dilute the impact of Government funding reductions. Table 1 below sets out the derivation of 'Spending Power' and the changes across the next two years and compares this with the direct CLG grant distribution in the form of the Start-up Funding Assessment.

**Table 1: Spending Power Calculations 2012-15: Includes grants where equivalent 2014-15 figures are available, and New Homes Bonus**

	<b>2012/13 (adjusted)</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Council Tax Requirement excluding parish precepts	99.080	99.080	99.080
Start-up Funding Assessment	109.423	105.432	96.313
CT Freeze Grant 2012-13	2.477		
CT Freeze Grant 2013-14		1.000	1.000
Inshore Fisheries Conservation Authorities	0.032	0.032	0.032
Lead Local Flood Authorities	0.077	0.077	0.077
Social Fund Admin Grant	0.151	0.140	0.128
Community Right to Challenge	0.009	0.009	0.009
Community Right to Bid	0.005	0.008	0.008
New Homes Bonus	2.317	3.495	4.673
Local Reform and Community Voices DH revenue grant	0.162	0.175	0.180
NHS funding to support social care and benefit health	2.476	3.572	3.742
<b>Estimated 2012-13 Revenue Spending Power including NHS support for social care</b>	<b>216.209</b>	<b>213.019</b>	<b>205.242</b>
<b>% Change in estimated 'revenue spending power'</b>		<b>-1.48%</b>	<b>-3.65%</b>
<b>% Change in 'Start-up Funding Assessment'</b>		<b>-3.65%</b>	<b>-8.65%</b>

- 2.6 Table 2 below sets out the more familiar analysis of Government Funding in terms of the structure of the Formula Funding component but also introduces the changes in building up to the '**Start-up Funding Assessment**' which now effectively replaces the former Formula grant.
- 2.7 Of particular note are the changes between the illustrative figures for 2012/13 and the adjusted 2012/13 baseline. Key amongst these are the introduction of the LACSEG reduction (£5.902m); the new funding for Council Tax Support to reflect the localisation of the former Council Tax Benefit and the cessation of direct Government grant funding for the full cost of payments made; and the reduction of funding for EIG (£2.064m) reflecting the transfer of 2 year old funding into the DSG but it should also be noted that EIG reduced by a further £0.791m between the adjusted 2012/13 figure and the provisional 2013/14 allocation. The EIG reduction, which does not match our estimates of requirement for 2 year olds, is the subject of correspondence between the MP's and the Minister.

**Table 2: Adjusted and Provisional Settlement Analysis**

	2012/13 (illustr.)	2012/13 (adjusted)	2013/14 (Prov.)	2014/15 (Prov.)
	£000's	£000's	£000's	£000's
Grants Rolled In Using Tailored Distributions	7,963	7,963	8,369	TBA
Relative Needs Amount	65,110	65,110	61,396	TBA
Relative Resource Amount	-24,184	-24,184	-25,858	TBA
Central Allocation	31,691	31,691	37,135	TBA
Floor Damping	-2,300	-2,300	-4,894	TBA
LACSEG adjustment	0	1,324		TBA
Formula Funding	7,260	79,604	76,148	TBA
Less:				
Central Education Functions within LACSEG	0	-5,902	-5,859	TBA
General Fund Formula Grant	78,280	73,702	70,289	75,959
Council Tax Freeze Compensation	2,463	2,463	2,463	2,463
Council Tax Support Funding	0	14,517	14,496	0
Early Intervention Funding	11,191	9,127	8,336	7,805
Homelessness Prevention Funding	120	150	150	150
Lead Local Flood Authority Funding	209	132	132	132
Learning Disability and Public Health Reform Funding	9,319	9,332	9,566	9,605
<b>Start-Up Funding Assessment</b>	<b>101,582</b>	<b>109,423</b>	<b>105,432</b>	<b>96,313</b>
<b>% reduction</b>			<b>-3.65%</b>	<b>-8.65%</b>

- 2.8 The **start-up funding assessment** is then split between **Revenue Support Grant (RSG)** and Business Rates Retention (expressed as **Baseline Need**). The level of RSG is guaranteed throughout the year, whilst the Baseline Need element is not and ultimately, the level of business rates collected by authorities in 2013/14 will determine the funding received for this element. Table 3 below analyses the breakdown of the start-up funding assessment.

- 2.9 For authorities with a **Baseline Need** that is higher than their **NDR Baseline**, a **Top Up** grant is required (this is also guaranteed). Whereas, for authorities with a baseline need that is lower than their **NDR Baseline**, a **Tariff** is paid to central government – Medway is a **Top Up** council.

**Table 3 Analysis of the Start-up Funding Assessment**

	<b>Provisional 2013/14</b>	<b>Provisional 2014/15</b>
	<b>£000's</b>	<b>£000's</b>
<b>Start-Up Funding Assessment</b>	<b>105,431.8</b>	<b>96,313.4</b>
Formula funding	42,208.4	41,048.8
Grants rolled in:		
Council Tax Freeze	1,479.1	1,448.9
Council Tax Support Funding	8,704.8	0.0
Early Intervention Grant	5,005.9	4,372.5
Homeless Prevention	90.1	88.3
Lead Local Flood Authority Funding	79.2	77.6
Learning disability and health Reform	5,744.5	5,865.6
<b>Revenue Support Grant</b>	<b>63,312.0</b>	<b>52,901.8</b>
Formula funding	28,080.1	34,910.1
Grants rolled in:		
Council Tax Freeze	984.0	1,014.2
Council Tax Support Funding	5,791.1	0.0
Early Intervention Grant	3,330.3	3,432.4
Homeless Prevention	560.0	61.8
Lead Local Flood Authority Funding	52.7	54.3
Learning disability and health Reform	3,821.6	3,938.9
<b>NDR Baseline Funding Level (Baseline Need)</b>	<b>42,119.8</b>	<b>43,411.6</b>

- 2.10 To enable a comparison to current funding CLG provide an adjusted baseline that translates the 2012/13 funding to an equivalent figure in the new formula calculation. For Medway this revises the Formula Funding allocation from allocation from £78.280m to £79.604m – an increase of £1.324m attributable to the re-instatement of the previous transfer for Academies as Local Authority Central Support for Education Grant (LACSEG). In addition a number of grant funding streams are now consolidated in the revised funding assessment and the revised total for LACSEG is removed. In respect of the latter there will be a re-distribution back to the authority based on the number of non-academy pupil numbers as an Education Services Grant (ESG) and this is described in paragraph 4.3.2 below. Set against the adjusted 2012/13 figure the provisional settlement is a cut of 3.65% with a further cut of 8.65% expected for 2014/15.
- 2.11 At 3.65% Medway's loss of grant is lower than the Shire Unitary average of 4.3% and indeed is slightly less than the all England average reduction of 3.9%. The start-up funding allocations do assume that there will be a take-up

of the 2013/14 Council Tax Freeze Grant that is equivalent to a 1% Council Tax increase.

### 3. New Homes Bonus

- 3.1 Table 1 includes a reference to the New Homes Bonus for 2013/14 at £3.495m and 2014/15 at £4.673m. These figures do not include the affordable homes premium earned in the preceding year but since the number is known our accounting practice is to accrue the income. Obviously that is not possible for 2013/14 or 2014/15 at this stage so the potential funding is an estimate. The amounts available to support the budget are calculated as set out in Table 4 below.

**Table 4 New Homes Bonus analysis**

		Bonus earned			
		2011/12	2012/13	2013/14	2014/15
		£m	£m	£m	£m
<b>2010/11</b>					
New Homes added year to October 2010	767				
Band D equivalent	723.12	1.041	1.041	1.041	1.041
Affordable Component (year to March 2011)	350	0.122	0.122	0.122	0.122
<b>2011/12</b>					
New Homes added year to October 2011	811				
Band D equivalent	800.45		1.154	1.154	1.154
Affordable Component (year to March 2012)	334		0.117	0.117	0.117
<b>2012/13</b>					
New Homes added year to October 2012	824				
Band D equivalent	734.56			1.061	1.061
Affordable Component (year to March 2013 - est)	336			0.118	0.118
<b>2013/14</b>					
New Homes added year to October 2013 (est)	710				
Band D equivalent	674.50				0.971
Affordable Component (year to March 2014 - est)	443				0.155
<b>New Homes Bonus Earned</b>		<b>1.163</b>	<b>2.434</b>	<b>3.613</b>	<b>4.738</b>
<b>CLG Funding Declared</b>		<b>1.041</b>	<b>2.316</b>	<b>3.494</b>	<b>4.673</b>

- 3.2 New Homes Bonus is payable over a 6-year period thus the 2011/12 grant will cease in 2017/18 creating a revenue pressure of £1.163m increasing by the annual increments of grant so 2018/19 will have a pressure of £2.434m. What is unclear, as it is beyond the view of this settlement, is the longevity of the scheme and whether the 2011/12 loss in 2017/18 will be replaced by a new bonus payment for 2017/18.

#### 4. Department for Education (DfE)

##### 4.1 *Dedicated Schools Grant (DSG)*

- 4.1.1 There will be a new methodology for calculating the DSG from 2013/14 with separate funding blocks for Schools, Early Years and High Needs. The High Needs block will be used to support children with high-cost special educational needs. The remainder of the 2012/13 DSG has been split between early years and school-age pupils to establish a funding rate per-pupil for these two groups. The per-pupil rates are unchanged from 2012/13 but are multiplied by the latest pupil number data to generate the DSG allocation for 2013/14. The October 2012 school census shows that pupil numbers for 2013/14 will be slightly higher than 2012/13 leading to an increase in the DSG on a like-for-like basis. Other adjustments have been made to the DSG in relation hospital education, students aged 16-24 with high needs, nursery education for two year olds, and funding to support newly qualified teachers. Consequently the DSG for 2013/14 has been calculated as set out in Table 5 below:

**Table 5 Schools Based grant Funding (DSG)**

	<b>2012/13</b>	<b>2013/14 DSG Allocation</b>			
	Funding Allocation	Schools Block	Early Years	High Needs	<b>Total DSG</b>
Pupil Numbers	40,272	36,825	2,542.2	-	
DSG per pupil	<u>£4,953.08</u>	<u>£4,351.77</u>	<u>£4,495.99</u>	-	
<b>DSG (£million gross)</b>	<b>£199.470</b>	<b>£160.258</b>	<b>£11.429</b>	<b>£29.429</b>	<b>£201.116</b>
Transfers into DSG					£2.706
<b>DSG (£million gross)</b>					<b>£203.822</b>
Academy transfers	£69.613				£76.191
<b>Net DSG (£million)</b>	<u><b>£129.858</b></u>				<u><b>£127.631</b></u>

- 4.1.2 The DSG is calculated initially using the pupil numbers for all schools in Medway, including academies. Subsequently the DfE will reduce the Council's DSG allocation in respect of schools that have converted to academies. Academies are expected to account for £76.191 million, leaving Medway's net DSG allocation at £127.631 million.

##### 4.2 *Pupil Premium*

- 4.2.1 Schools receive a separate grant to improve the attainment of pupils from deprived backgrounds based on pupils eligible for a free school meal, Looked-After Children, and children with a parent in the armed forces.

4.2.2 The funding rates for 2013/14 are a significant increase on the current rates as follows:

	2012/13	2013/14
Free School Meals	£600	£900
Looked-After Children	£600	£900
Service Children	£250	£300

4.2.3 These rates will produce a total grant for Medway schools (excluding academies) of about £5.275 million in 2013/14.

#### 4.3 *Education Services Grant*

4.3.1 The Education Services Grant (ESG) is a new grant provided to fund education services outside of the DSG. This includes local authorities' statutory responsibilities and funding for services such as school improvement and education welfare. The ESG has been formed from funds transferred out of formula grant under the LACSEG adjustment and is therefore not new money. The total deducted from formula grant is split between local authorities and individual academies in proportion to their pupil numbers.

4.3.2 Based on the funding rates per pupil issued by the DfE, the ESG for 2013/14 attributable to non-academies is estimated at £3.597 million.

### 5. **Capital Settlement**

5.1 The capital settlement announcements are often delayed and this is the case for the majority of this grant funding. However the DfT have confirmed LTP funding for 2013/14 and both the DoH and CLG (for Disabled Facilities Grants) have released provisional funding figures and the Medway elements are listed below in Table 6.

**Table 6 Indicative capital Grant Allocations**

	2013/14	2014/15
	£m	£m
Department for Transport (DfT)		
Highway Maintenance	2.153	N/A
Integrated Transport	1.576	N/A
Department for health	0.514	0.524
Department of Communities and Local Government (DFG's)	0.739	N/A

### 6. **Impact on the Capital and Revenue Budget 2013/14**

6.1 The draft budget that Cabinet approved on 27 November 2012 was predicated on the funding assumptions contained in the MTFP. Formula Grant in the guise of the new start-up funding assessments is slightly improved upon the expectation at that point but care needs to be taken as regards the likely actual collection of business rates as against the baseline need used in the assessment. There is scope for a significant margin of discrepancy in this comparison.

6.2 Council tax was forecast to increase by 2% reflecting a disregard of the proffered Council Tax Freeze Grant that would have restricted the revenue yield to the level of grant (£1 million) and even at the proposed 2% level the revenue yield will be £0.5 million less than the loss of grant in respect of the 2012/13 freeze on council tax. Any increase above 2% would require a local referendum.

## **7. Risk management**

7.1 There remains a small possibility that consultation changes could affect the overall position for the Council in terms of Government support. This is a low risk but in the event that it proves to materialise there will remain time between the final announcement in January and the presentation of the proposed budget by Cabinet in February to adjust for any adverse, or favourable impact prior to Council agreeing the budget.

## **8. Financial and legal implications**

8.1 The financial implications of this report are set out above. There are no direct legal implications.

## **9. Recommendation**

9.1 That Cabinet notes the provisional settlement as an essential part of the budget setting process for 2013/14.

## **10. Suggested reasons for decision(s)**

10.1 These provisional levels of grant form a fundamental component of the 2013/14 budget, and their announcement is a further stage in the process of preparing a balanced budget.

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## **Background papers**

Capital and Revenue Budget 2013/2014 report to Cabinet on 27 November 2012  
<http://democracy.medway.gov.uk/ielssueDetails.aspx?Ild=9190&Opt=3>

Medium Term Financial Plan 2013/2016 report to Cabinet on 2 October 2012  
<http://democracy.medway.gov.uk/ielssueDetails.aspx?Ild=8872&Opt=3>