

CABINET
14 JANUARY 2014
PROVISIONAL LOCAL GOVERNMENT SETTLEMENT
2014/2016

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 18 December 2013.

1. Budget and Policy Framework

1.1 The provisional settlement is an important step in the process of setting the 2014/15 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 2014/15.

2. The Settlement

2.1 The Secretary of State announced the provisional financial settlement to the House of Commons on 18 December 2013. The settlement covers the 2-year period of the Spending Review 2013 and encompasses announcements made in the Chancellor's Autumn Statement announced on 5 December 2013. The announcement launches a consultation period on the proposals that will end on 15 January 2014.

2.2 This is the second Local Government Finance Settlement under the new arrangements for business rates that will come into place on 1 April 2013. This split business rates into a central and a local share; each being 50% of the Expected Business Rates Aggregate. This is after deductions are made for expected appeals and reliefs, and in his Autumn Statement the Chancellor extended the scope and timing of a number of reliefs, some of which will require the Council agreeing to use its discretionary powers to grant such relief to local businesses.

2.3 The impact of many of the new announcements will depend on the Council's consent as described above, but also on the eligibility of local businesses for the new schemes. The Secretary of State for Communities and Local Government has assured authorities that they will be fully recompensed for any loss of revenue associated with the Chancellor's announcements and therefore for budget setting purposes it will be assumed that the business rate

share attributable to the Council will be in accordance with current predictions. In the draft budget presented to Cabinet on 26 November 2013 the Medway share was estimated at £44.586m for 2014/15 based upon June estimates of collection. This is a high risk area within the resource assumptions and will need to be reviewed for the Cabinet budget proposals in February 2014.

- 2.4 In headline terms the overall settlement figure, announced as the 'Settlement Funding Assessment' (SFA), is some £10.112 million less than the equivalent figure for 2013/14 and the 2015/16 SFA is a further reduction of £12.938 million. Table 1 below sets out the construction of these figures which are somewhat illusory as a basis for the budget build process as the upper and lower tier funding amounts include a contribution from the local share of business rates that 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 2014/15 and that will be informed by the actual collection, to date, in 2013/14. These figures also 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.

Table 1: Settlement Funding Assessment (SFA)

	2013/14 (adjusted)	2014/15 (Prov.)	2015/16 (Prov.)
	£000's	£000's	£000's
Upper-tier Funding	66,764	59,682	50,046
Lower-tier Funding	18,019	15,446	12,926
2011-12 Council Tax Freeze Compensation	2,463	2,452	2,451
Early Intervention Funding	8,336	7,690	7,033
Homelessness Prevention Funding	150	148	148
Lead Local Flood Authority Funding	132	130	130
Learning Disability and Health Reform Funding	9,566	9,657	9,654
Returned Holdback		113	
Settlement Funding Assessment	105,430	95,318	82,388
% reduction		-9.6%	-13.6%
Revenue Support Grant	63,311	52,379	38,263
Baseline NNDR Funding	41,706	42,940	44,125

- 2.5 Revenue Support Grant (RSG) is higher than that assumed in the Draft Budget (Cabinet 26 November 2013) in both 2014/15 and 2015/16 by £0.534 million and £0.420 million respectively. The Baseline NNDR funding is an irrelevance to budget setting for the reasons set out at paragraph 2.4 above.
- 2.6 Government have headlined 'Spending Power' as the basis of the comparison of funding levels for Local Government, declaring an average reduction of 2.9% for 2014/15 and 1.8% for 2015/16. 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 2 below sets out the derivation of 'Spending Power' and the changes across the next two years and compares this with the amounts pertaining to 'real' Central Government grant support.

Table 2: Spending Power Calculations 2013-16

	2013/14	2014/15	2014/15 (adj.)	2015/16
	£m	£m	£m	£m
Council Tax Requirement excluding parish precepts	87.565	88.068	88.068	88.574
Settlement Funding Assessment (SFA)	105.430	95.318	95.318	82.388
Add SFA adjustment for NNDR capped increase		0.456	0.456	0.456
Less Council Tax Support Funding to Parishes	(0.052)	(0.052)	(0.052)	(0.052)
Inshore Fisheries Conservation Authorities	0.032	0.032	0.032	0.032
Lead Local Flood Authorities	0.077	0.077	0.077	0.051
Local welfare provision Grant	0.803	0.792	0.792	
Community Right to Challenge	0.009	0.009	0.009	
Community Right to Bid	0.008	0.008	0.008	
Indicative Council tax Freeze Grant 2014/15		1.011	1.011	1.011
Indicative Council tax Freeze Grant 2015/16				1.017
New Homes Bonus	3.495	5.403	5.403	7.310
New Homes Bonus: Returned funding	0.357	0.147	0.147	0.373
Local Council Tax Support and Hsg Ben Admin Grant	1.995	1.799		
Council Tax Support New Burdens Funding	0.159	0.145	0.145	
Local Reform and Community Voices DH revenue grant	0.175	0.180	0.180	0.180
Public Health Grant (ring-fenced)	13.170	14.280	14.280	14.280
Adjusted Adult Social Care New Burdens Funding			1.185	1.185
NHS funding to support social care and benefit health	3.572	4.574	7.246	
Pooled NHS and LA Better Care Fund				16.154
Estimated Revenue Spending Power	216.795	212.246	214.304	212.960
% Change in estimated 'revenue spending power'		-2.1%		-0.6%
'Real' Central Grant Support	112.488	104.313	103.699	91.924
% Change in 'Central Grant Support'		-7.3%		-11.4%

2.7 The adjusted 2014/15 figure provides for additional funding transferred in from the NHS for the programmed creation of the Better Care Fund from 2015/16. It also provides for additional funding associated with new burdens attached to the recent reforms to Adult Social Care but somewhat more of a concern is the disappearance of grant support for Council Tax Support (formerly council tax

benefit - CTB) and housing benefit (HB) administration together with the Local Welfare Provision grant. The latter grant was only passed across to Local Authorities in 2013/14 and funded Community Care grants and Crisis Loans for living expenses that were formerly managed by the Department for Work and Pensions (DWP). The admin grant for what was CTB and HB was support from the DWP in respect of the agency role the LA provided for the calculation of national benefits. The localisation of CTB in the form of the new Council Tax Support scheme (CTRS) made this part of the grant vulnerable as the relationship with the DWP was removed albeit the resource to assess and pay the benefit remains a requirement and does not appear to be reflected in any alternative funding stream. HB administration remains presently with the Council but is designed to be transferred to the DWP with the implementation of Universal Credit. The latter scheme has, of course, been subject to problems and delays and it is a matter of debate as to when and for whom the scheme will be implanted.

- 2.8 The SFA reduction at 9.6% in 2014/15 is slightly greater than the Shire Unitary average of 9.2% although the 2015/16 position is reversed at 13.6% versus 13.8%. The all England average reduction is 8.8% and 13.2% for 2014/15 and 2015/16 respectively.

3. New Homes Bonus

- 3.1 Table 2 includes a reference to the New Homes Bonus for 2014/15 at £5.403m and 2015/16 at £7.310m. 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. The draft budget assumed £5.581m in 2014/15 and £3.081m in 2015/16 and the latest estimate, including affordable homes accrual, is for £5.462m in 2014/15 and £6.289 in 2015/16. The reduction in 2014/15 is attributable to fewer affordable homes being completed than expected and the increase in funding for 2015/16 is largely as a consequence of Government dropping the proposal to top slice the grant by 35%.
- 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 £2.432m. 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. Business Rates

- 4.1 The settlement announced no changes to the business rates retention scheme although there is a consultation on 13 new proposals for pooling in 2014/15.

The income from business rates, and the subsequent Council share, will be affected by the measures announced in the 2013 Autumn Statement. These are:

- The 3.2 per cent RPI increase for 2014/15 will be capped at 2 per cent;
- A £1,000 discount for all retail, pubs, cafes (excluding banks and betting establishments) with rateable values below £50,000 for 2 years;

- The doubling of Small Business Rate Relief will continue for a further year;
- Ratepayers will continue to keep their Small Business Rate Relief (SBRR) entitlement for a year where they take on a second property. New occupiers of former retail premises which have been unoccupied for a year will receive a 50 per cent discount for 18 months.

4.2 The Government has said that they these will be paid for through the section 31 grant arrangement albeit Councils have yet to see the similarly promised re-imbursement for the original SBRR extension announced in the Autumn Statement 2012. CLG is still working through the accounting and scheme complexities that the change created and there is no doubt that these measures will add further complexity.

5. Department for Education (DfE)

5.1. *Dedicated Schools Grant (DSG)*

5.1.1 DSG for 2014/15 continues to be calculated in three blocks for Schools, Early Years and High Needs. The per-pupil rates are unchanged from 2013/14, but are multiplied by the latest pupil number data to generate the DSG allocation for 2013/14. The October 2013 school census shows that pupil numbers for 2014/15 will be slightly higher than 2013/14 leading to an increase in the DSG on a like-for-like basis. The only other adjustment made to the DSG in 2014/15 relates to the decision to remove the local authority's responsibility in relation to carbon reduction. Consequently the DSG for 2014/15 has been calculated as set out in Table 3 below:

Table 3: Schools Based grant Funding (DSG)

	2013/14	2014/15	2015/16
Schools Block – Pupil Numbers	36,826	37,029	37,559
Schools Block Funding	£158,292,248	£158,929,426	£161,235,865
Early Years Block – Pupil Numbers	2,615	2,730	2,850
Early Years Block Funding	£14,407,014	£15,797,014	£16,853,572
High Needs Block Funding	£33,535,265	£33,659,265	£33,659,265
DSG (gross)	£206,234,527	£208,385,705	£211,748,701
Academy Deductions	(£77,184,439)	(£96,270,946)	(£110,645,827)
DSG (Net)	£129,050,088	£112,114,759	£101,102,874
Pupil Premium	£5,692,551	£6,151,760	£5,169,805
Sixth Form Funding	£3,123,422	£1,654,376	£468,909
Net Schools Based Funding	£137,866,061	£118,266,519	£106,272,679

5.1.2 The DSG is calculated initially using the pupil numbers for all schools in Medway, including academies. Subsequently the Education Funding Agency will reduce the Council's DSG allocation in respect of schools that have converted to academies. Academies are expected to account for £96.271 million, leaving Medway's net DSG allocation at £112.115 million.

5.2 *Pupil Premium*

5.2.1 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.

5.2.2 The funding rates for 2014/15 represent a significant increase on the current rates as illustrated below. It should be noted that whereas in the current year schools would attract both sums for a 'looked after child' who was also eligible for free school meals, in 2014/15 'looked after children' only attract the £1,900.

	2013/14		2014/15	
	Primary	Secondary	Primary	Secondary
Free School Meals	£953	£900	£1,300	£935
Looked After Children	£900	£900	£1,900	£1,900
Service Children	£300	£300	£300	£300

5.2.3 These rates will produce a total grant for Medway schools (excluding academies) of about £6.152 million in 2014/15.

5.3 *Education Services Grant*

5.3.1 The Education Services Grant (ESG) was introduced in 2013/14 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.

5.3.2 Based on the funding rates per pupil issued by the DfE and some reasonable assumptions about Academy conversions anticipated during 2014/15, the ESG attributable to non-academies has been calculated as:

2013/14	£3,610,981
2014/15	£3,205,939
2015/16	£2,259,788

6. **Capital Settlement**

6.1 The capital settlement announcements are often delayed and this is again the case, however both the Department for Transport and Department of Health announced 2014/15 allocations last year and these are reflected in Table 4 below. Also in his ministerial statement on 18 December the Secretary of State announced Basic Need Grant allocations for 2014/15, 2015/16 and 2016/17, together with new capital funding to help local authorities respond to the challenge of providing free school meals for all infant age children. Schools Capital Maintenance and Devolved Formula Capital allocations are yet to be announced. From 2015/16 capital funding for Adult Social Care and Disabled Facilities Grant will be included within the 'Better Care Fund' (BCF),

whilst Department for Transport capital funding will only be accessible via a bid against the 'Local Sustainable Transport Fund' (LSTF).

Table 4: Indicative Capital Grant Allocations

	2013/14	2014/15	2015/16
	£m	£m	£m
Department for Education			
Basic Need Grant	2.513	2.513	2.237
Targeted Basic Need Grant	10.050	0.000	0.000
Schools Capital Maintenance Grant	2.970	TBA	TBA
Schools Devolved Formula Capital	0.532	TBA	TBA
Universal Infant Free School Meals	0.000	0.567	0.000
Department of Health			
Adult Social Care Transformation Grant	0.537	0.547	BCF
Department for Transport (DfT)			
Highway Maintenance	2.153	2.122	LSTF
Integrated Transport	1.576	2.216	LSTF
Department of Communities and Local Government (DFG's)	0.739	0.766	BCF

7. Impact on the Capital and Revenue Budget 2014/15

- 7.1 The draft budget that Cabinet approved on 26 November 2013 was predicated on the funding assumptions contained in the MTFP, updated for changes to expenditure and funding that had surfaced in the interim. Changes to the business rates regime announced in the Autumn Statement should have no impact on the overall level of resource given the commitment to fully recompense authorities for the changes. However the Medway share of business rates is a high risk assessment as mentioned earlier.
- 7.2 Grant changes, against expectations, for 2014/15 and 2015/16 are set out in table 5 below:

Table 5: Settlement Grant changes against the draft budget

	2014/15	2015/16
RSG	0.534	0.420
Local welfare provision Grant		(0.792)
Community Right to Challenge		(0.008)
Community Right to Bid		(0.009)
CTRS/HB Admin grant	(0.196)	(1.799)
Council Tax Support New Burdens Funding		(0.145)
Adjusted Adult Social Care New Burdens Funding		1.185
New Homes Bonus	(0.119)	2.208

- 7.3 Council Tax is forecast to increase by 2% in 2014/15 reflecting a disregard of the Council Tax Freeze Grant that would have restricted the revenue yield to the level of grant (£1.011m). Any increase above 2% would require a local

referendum. A 1% increase in Council Tax now generates a £0.9m additional resource.

8. Risk management

- 8.1 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.

9. Financial and legal implications

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

10. Recommendation

- 10.1 That Cabinet notes the provisional settlement as an essential part of the budget setting process for 2014/15.

11. Suggested reasons for decision(s)

- 11.1 These provisional levels of grant form a fundamental component of the 2014/15 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 26 November 2013
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=21904>

Medium Term Financial Plan 2013/2016 report to Cabinet on 1 October 2013
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=21413>