

CABINET
13 JANUARY 2015
PROVISIONAL LOCAL GOVERNMENT SETTLEMENT
2015/2016

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 2014.

1. Budget and Policy Framework

1.1 The provisional settlement is an important step in the process of setting the 2015/16 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 2015/16.

2. The Settlement

2.1 The Minister for Local Government announced the provisional financial settlement to the House of Commons on 18 December 2014. The settlement only covers the period 2015/16 with a Spending Review anticipated post election in 2015. The settlement encompasses announcements made in the Chancellor's Autumn Statement announced on 3 December 2014. The announcement launches a consultation period on the proposals that will end on 15 January 2015.

2.2 This is the third Local Government Finance Settlement under the new arrangements for business rates that came 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 (the local share is subsequently split 49% Medway Council and 1% to the Fire and Rescue service). This is after deductions are made for expected appeals and reliefs, and in his Autumn Statement the Chancellor again extended the scope and timing of a number of reliefs announced last year and once again capped the multiplier increase for businesses at 2% with the difference between that and the 2.3% increase in RPI being funded separately by section 31 grant as in 2014/15,

2.3 For budget setting purposes the announcements will have no impact on the income share assumed in the Draft Budget presented to Cabinet on 2 December 2014. However this is a high risk area within the resource

assumptions and will need to be reviewed for the Cabinet budget proposals in February 2015.

- 2.4 In headline terms the overall settlement figure, announced as the ‘Settlement Funding Assessment’ (SFA), is some £13.889 million less than the equivalent figure for 2014/15 which incorporates an adjustment for Local Welfare Provision which was funded by a specific grant of £792,000 in 2014/15. This is a cut of 14.4% compared to a national figure of 13.9%. 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 and which is not scheduled for re-basing until 2020. The actual contribution to be used as the basis for resourcing the budget will be an anticipated collection for 2015/16 and that will be informed by the actual collection, to date, in 2014/15. These figures also exclude some important grants such as the Dedicated Schools Grant (DSG) and other DfE schools based grants, Public Health Grant, New Homes Bonus, Adult Learning and a number of more minor grants.

Table 1: Settlement Funding Assessment (SFA)

	2014/15 (actual)	2014/15 (adjusted)	2015/16 (Prov.)
	£000's	£000's	£000's
Upper-tier Funding	59,682	59,682	49,386
Lower-tier Funding	15,446	15,446	12,907
2011-12 Council Tax Freeze Compensation	2,452	2,452	2,443
Early Intervention Funding	7,690	7,690	7,004
Homelessness Prevention Funding	148	148	147
Lead Local Flood Authority Funding	130	130	130
Learning Disability and Health Reform Funding	9,657	9,657	9,621
Returned New Homes Bonus holdback	126	126	
Local Welfare Provision		792	596
Settlement Funding Assessment	95,331	96,123	82,234
% reduction			-14.4%
Revenue Support Grant	52,391	53,183	38,474
Baseline NNDR Funding	42,940	42,940	43,760

- 2.5 Revenue Support Grant (RSG) is slightly higher than that assumed in the Draft Budget (Cabinet 2 December 2014) by £0.412 million. The Baseline NNDR funding is an irrelevance to budget setting for the reasons set out at paragraph 2.4 above but for reference the figure assumed in the draft budget was £45.802 million which is £2.862 million greater
- 2.6 The SFA reduction at 14.4% in 2015/16 is slightly less than the Shire Unitary average of 14.9% The all England average reduction is 13.9%.

2.7 Government have headlined 'Spending Power' as the basis of the comparison of funding levels for Local Government, declaring an average reduction of 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 for next year 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	91.285	92.018
Settlement Funding Assessment (SFA)	105.430	95.318	96.123	82.234
Add SFA adjustment for NNDR capped increase		0.456	0.456	0.638
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	0.000	0.000
Community Right to Challenge	0.009	0.009	0.009	0.000
Community Right to Bid	0.008	0.008	0.008	0.000
Indicative Council tax Freeze Grant 2014/15		1.011	0.000	0.000
Indicative Council tax Freeze Grant 2015/16				1.052
New Homes Bonus	3.495	5.403	5.403	6.024
New Homes Bonus: Returned funding	0.357	0.147	0.143	0.142
Local Council Tax Support and Hsg Ben Admin Grant	1.995	1.799	1.799	1.583
Council Tax Support New Burdens Funding	0.159	0.145	0.145	0.059
Local Reform and Community Voices DH revenue grant	0.175	0.180	0.180	0.190
Public Health Grant (ring-fenced)	13.170	14.280	14.280	14.280
Adjusted Adult Social Care New Burdens Funding			1.156	1.156
NHS funding to support social care and benefit health plus adjustments for Carers, Reablement and new Care Bill Costs	3.572	4.574	7.346	0.000
Better Care Fund			0.000	16.154
Estimated Revenue Spending Power	216.795	212.246	218.390	215.562
% Change in estimated 'revenue spending power'		-2.1%		-1.3%
'Real' Central Grant Support	112.488	104.313	105.479	92.058
% Change in 'Central Grant Support'		-7.3%		-12.7%

2.8 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. The Local Welfare Provision grant has now been incorporated in the SFA albeit the 2015/16 figure at £82.234 million is actually £0.154 million less than £82.388 million provisionally allocated last year so the addition is more than lost in the transfer. The admin grant for what was CTB and HB is support from the DWP in respect of the agency role the LA provides for the calculation of national benefits. The localisation of CTB in the form of the new Council Tax Support scheme (CTRS) makes 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 implemented in its full form.

3. New Homes Bonus

3.1 Table 2 includes a reference to the New Homes Bonus for 2015/16 at £6.024 million. 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 £6.100million in 2015/16 and this remains the latest estimate and is consistent with the figure announced.

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 etc. 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 income from business rates, and the subsequent Council share as forecast in the draft budget, will not be affected by the measures announced in the 2014 Autumn Statement as these are all compensated for by section 31 grant and are a continuation of current arrangements. These are:

- The 2.3 per cent RPI increase for 2015/16 will be capped at 2 per cent;
- The current £1,000 discount for all retail, pubs, cafes (excluding banks and betting establishments) with rateable values below £50,000 will be increased to £1,500 for 2015/16; and
- The doubling of Small Business Rate Relief will continue for a further year.

5. Department for Education (DfE)

5.1. *Dedicated Schools Grant (DSG)*

5.1.1 DSG for 2015/16 continues to be calculated in three blocks for Schools, Early Years and High Needs and driven by pupil numbers. The per-pupil rates for the Schools Block for 2015/16 have increased by £6.12 and this is also

accompanied by an increase in pupil numbers. The Early Years Block in 2015/16 reflects the end of the 2-year old additional allocation of £4 million, and hence the reduction in total. Overall the DSG for 2015/16 is calculated as set out in Table 3 below:

Table 3: Schools Based grant Funding (DSG)

	2014/15	2015/16	2016/17
Schools Block – Pupil Numbers	37,029	37,680	38,180
Schools Block Funding	£158,929,150	£161,999,545	£164,178,045
Early Years Block – Pupil Numbers	2,717	2,817	2,917
Early Years Block Funding	£16,255,605	£12,925,779	£13,114,605
High Needs Block Funding	£34,445,265	£34,696,265	£34,696,265
DSG (gross)	£209,630,020	£209,621,589	£211,988,915
Academy Deductions	(£93,732,302)	(£102,428,012)	(£112,282,369)
DSG (Net)	£115,897,718	£107,193,577	£99,706,546
Pupil Premium	£6,406,426	£5,530,478	£4,699,086
Sixth Form Funding	£1,047,098	£689,761	£434,521
Net Schools Based Funding	£123,351,242	£113,413,816	£104,840,153

- 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 £102.428 million, leaving Medway's net DSG allocation at £107.193 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' (LAC), and children with a parent in the armed forces.

5.2.2 Only the primary funding rate for 2015/16 will be increased.

	2014/15		2015/16	
	Primary	Secondary	Primary	Secondary
Free School Meals	£1,300	£935	£1,320	£935
Looked After Children	£1,900	£1,900	£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 £5.530 million in 2015/16.

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 2015/16, the ESG attributable to non-academies has been calculated as:

2014/15	£3,052,118
2015/16	£2,236,436
2015/16	£2,133,760

6. **Capital Settlement**

6.1 The capital settlement announcements are often delayed and this is again the case. However both the Department for Transport (DfT) and Department of Health (DoH) have made announcements during 2014/15 and these are reflected in Table 4 below. The DfT allocation for Integrated Transport is reduced from previous years but this has been as a consequence of a top-slice to create the Local Growth Fund from which we are beneficiaries to the extent of £28.6 million. From 2015/16 capital funding for Adult Social Care and Disabled Facilities Grant will be included within the 'Better Care Fund' (BCF).

Table 4: Indicative Capital Grant Allocations

	2014/15	2015/16 Assumed	2015/16 Provisional
	£m	£m	£m
Department for Education			
Basic Need Grant	2.513	2.237	2.237
Schools Capital Maintenance Grant	2.543	1,935	TBA
Schools Devolved Formula Capital	0.472	0.359	TBA
Universal Infant Free School Meals	0.567	0.000	0.000
Department of Health			
Adult Social Care Transformation Grant – now BCF	0.557	0.556	0.556
Department for Transport (DfT)			
Highway Maintenance	2.216	2.122	2.545
Integrated Transport	2.122	2.389	1.589
Department of Communities and Local Government (DFG's) - now BCF	0.766	0.922	0.922

7. Impact on the Capital and Revenue Budget 2015/16

- 7.1 The draft budget that Cabinet approved on 2 December 2014 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 where known, against expectations for 2015/16, are set out in table 5 below:

Table 5: Settlement Grant changes against the draft budget

	2015/16 Draft Budget	2015/16 Provisional Settlement
	£m	£m
RSG	38.062	38.474
New Homes Bonus	6.100	6.100
Specific Grants		
Local Welfare Provision (now in RSG)	0.000	0.000
Council Tax Support New Burdens Funding	0.000	0.059
Local Reform and Community Voices	0.180	0.134
CTRS/HB Admin grant	1.619	1.583
Adjusted Adult Social Care New Burdens Funding	0.000	1.212
Education Support Grant	2.221	2.236

7.3 The new burdens funding for social care is associated with the following new requirements which will need reviewing by services in terms of cost but which are currently assumed to be budget neutral for 2015/16:

- Social care in prisons 2015-16 (revenue) - £0.056m
- Early assessments revenue grant 2015-16 - £0.561m
- Deferred payment agreement revenue grant 2015-16 - £0.364m
- Carers and Care Act Implementation revenue grant 2015-16 - £0.231m

7.4 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 (£1.052m). 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 2015/16.

11. Suggested reasons for decision(s)

11.1 These provisional levels of grant form a fundamental component of the 2015/16 budget, and their announcement is a further stage in the process of preparing a balanced budget.

Background papers

Capital and Revenue Budget 2015/16 report to Cabinet on 2 December 2014
<http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=25596>

Report author: Mick Hayward, Chief Finance Officer
T: 01634 332220, E: mick.hayward@medway.gov.uk