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| <p>CABINET MEETING – 16th January 2013</p> <p>EXECUTIVE SUMMARY SHEET – PART I</p> | |
| <p>Title of Report: The Provisional Local Government Finance Settlement for 2013/14 and Indicative Settlement 2014/15</p> | |
| <p>Author(s): Executive Director of Commercial and Corporate Services</p> | |
| <p>Purpose of Report: To set out the details of the Provisional Local Government Finance Settlement for 2013/14 and some key points in response to the consultation.</p> | |
| <p>Description of Decision: Cabinet is recommended to –</p> <ul style="list-style-type: none"> (a) note the content of the impact of the provisional Local Government settlement for Sunderland and the potential implications for the development of the Council’s Budget for 2013/14, 2014/15 and future years; (b) consider and comment on the key issues and concerns raised in the report, which will be developed into the City Council’s formal response by the consultation response date of 15 January. | |
| <p>Is the decision consistent with the Budget/Policy Framework? Yes</p> | |
| <p>If not, Council approval is required to change the Budget/Policy Framework</p> | |
| <p>Suggested reason(s) for Decision: The outcome of the Local Government Settlement informs the Council of Central government resources to be made available which helps inform the Revenue Budget proposals for 2013/2014.</p> | |
| <p>Alternative options to be considered and recommended to be rejected: No alternative options are proposed.</p> | |
| <p>Is this a “Key Decision” as defined in the Constitution? No</p> <p>Is it included in the 28 Day Notice of Decisions? No</p> | <p>Scrutiny Committee:</p> |

Cabinet report – 16th January 2013

The Provisional Local Government Finance Settlement for 2013/14 and Indicative Settlement 2014/15

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 To set out the details of the Provisional Local Government Finance Settlement for 2013/14 and proposed basis of response to the consultation.

2. Description of Decision

- 2.1 Cabinet is recommended to –
 - note the content of the impact of the provisional Local Government settlement for Sunderland and the potential implications for the development of the Council's Budget for 2013/14, 2014/15 and future years
 - consider and comment on the key issues and concerns raised in the report, which will be developed into the City Council's formal response by the consultation response date of 15 January.

3. Introduction

- 3.1 On 19 December the Secretary of State for Communities and Local Government announced the 2013/14 Revenue Support Grant and issued a consultation paper on 'Payments in Connection with Local Retention of Non-Domestic Rates and Revenue Support Grant for 2013/14; and Related Matters. In addition provisional grant figures for 2014/15 were also announced. The deadline for responses to the consultation paper is 15 January 2013.
- 3.2 The provisional settlement reflects the new approach to funding Local Government from 2013/14 arising from the Local Government Resource Review.

4.0 Summary Implications

- 4.1 Whilst the settlement information is still being analysed due to the lateness of receipt and information still outstanding our analysis of the impact on Sunderland shows that the figures for 2013/14 are broadly in line with planning assumptions but the grant funding cuts for 2014/15 are significantly higher than assumed. This could mean that our funding gap by the end of 2014/15 could be around £6m higher than had been assumed. If this then feeds through to 2015/2016 then at this stage the three year savings requirement for the City Council is likely to be in the region of £100million. However, as stated information is still outstanding and the position may change when further clarification is received.

- 4.2 The main elements of the settlement announcement are:
- Start Up Funding - the total amount of funding allocated to the authority provided through the estimated business rates share and formula funding including grants which have rolled into it
 - Specific grant funding not included in the Start Up Funding
 - Spending Power calculation - the Government has retained the spending power to establish the overall impact on local authority funding. This includes the Council Tax requirement, New Homes Bonus, the Start Up Funding, most Specific Grants and NHS funding for social care that also benefits health.
- 4.3 Analysis so far has revealed within the start up funding and for specific grants not included within the start up funding, areas such as Sunderland are impacted more adversely than others.
- 4.4 The Secretary of State's statement to the House of Commons referred to an overall reduction in spending power next year of 1.7 per cent. Spending power is made up of grant funding as well as income raised through council tax. DCLG have estimated that our spending power will fall by 1.6% (£4.8m in cash terms) in 2013/14 compared with a national average reduction of 1.7%. However an analysis of the detailed figures published since the announcement shows that the published cut in spending power is substantially understated, giving an inaccurate picture of the scale of cuts actually being made. This is similar to previous years when certain changes to grants were not included in the figures. It also ignores cost pressures from other funding transfers, such as the LACSEG Education transfer
- 4.5 Appendix 1 sets out the position in respect of the national settlement, local impact and response to the settlement (copy to follow). Paragraph 5 below gives a high level analysis of the impact on Sunderland together with the key points that it is proposed are raised as part of the consultation response.

5. Impact on Funding for Sunderland 2013/2014

5.1 Start up Funding Assessment and Government Funding 2013/2014

- 5.1.1 The Government have determined the Council's Start up Funding assessment level as £187.773m representing a reduction of £5.312m compared to 2012/13.
- 5.1.2 The Council is to receive Revenue Support Grant (RSG) of £112.758m in 2013/2014 from Government.
- 5.1.3 Sunderland's baseline funding level is therefore £75.015m. Within this the Government have assessed the level of Retained Business Rates income which the Council will collect and retain as £40.415m. The Council will therefore also receive Government Top Up Grant of £34.600m.
- 5.1.4 The Safety Net Threshold is set by Government at 92.5% of a Council's baseline funding level which equates to £69.389m for Sunderland.
- 5.1.5 However, it should be noted that the Council must determine for itself the anticipated level of Business Rate Income collection and the proposals for the level of retained income for inclusion within the Council budget for 2013/14 are reported elsewhere on today's agenda. That has been assessed at £41.067m compared to the £40.415m assessed level.

Significantly, the Start Up Funding Assessment includes Government assumptions about the level of collection of business rates which the government have assessed will be achieved. This represents a significant area of risk, the burden of which is transferring to local authorities from April 2013.

In relation to business rates collection, the Government will only fund losses on business rate collection after a certain level of loss has been incurred through the Safety Net mechanism. Based on our assumptions on business rate income collection, income retained by the Council could fall by up to £6.2m before the Government will provide 100% safety net funding. This means that business rates collected would have to fall by £12.4m circa 16% before the threshold is triggered. This therefore represents a significant area of risk.

5.2 Local Council Tax Support

Sunderland is to receive Local Council Tax Support Grant of £20.981m which represents a circa 11.5% reduction to the comparable figure for 2012/13. This is slightly better than originally anticipated.

Implementation of the Council Tax support scheme represents a further significant risk to the Council in setting it's budget. The risk of not being able to collect council tax income from those who might have benefited from the previous Council tax benefit support scheme falls fully to the Council from April 2013.

The way the new arrangements will operate in 2014/15 however is an additional issue as the new local Council Tax Support funding has not been protected in 2014/15 within the Councils Start Up Funding Assessment. This means the Council is potentially facing a further reduction of 8.8% in this funding.

5.3 Revenue Spending Power 2013/14

5.3.1 The Government has announced that no Council would lose more than 8.8% of its total revenue spending power in 2013/2014. Poorest areas are to be protected by an average reduction of less than 3%.

5.3.2 Appendix 2 shows the overall Revenue Spending Power according to the Government for Sunderland of £292.953m representing a reduction in funding resources of 1.6% (£4.8m) in 2013/14.

5.3.3 In 2013/14 the overall cut in funding takes into account increases in funding to support social care of £1.5m, New Homes Bonus funding increases of £0.552m and the potential 2013/14 Council Tax Freeze grant £0.967m.

5.3.4 The Council has received most of its other grant allocations within the Settlement details released (Appendix 3), however significant allocations for Public Health responsibilities and the Education Services Grant (replacing LACSEG) are still to be released. The PFI core grant has also not yet been confirmed but the allocation for the council is not expected to change from the previous year's allocation. Notification of the Extended Rights to Free Travel Grant is also outstanding.

The overall funding position is broadly as anticipated when taking into account the risks in respect of Business Rate and Council Tax Income collection referred to at paragraphs 5.1 and 5.2.

5.4 Council Tax Freeze Grant

The Council will receive approximately £0.967m in Council Tax Freeze Grant should it elect to agree a zero Council Tax increase for 2013/14. The amount will also be included within the base funding position in the next Spending Review (2013).

5.5 New Homes Bonus

The provisional total allocation for 2013/14 of £1.7m comprises:

| | |
|---------------------------------------|---------|
| 2011/12 - year 3 of allocation | £0.575m |
| 2012/13 - year 2 allocation | £0.577m |
| 2013/2014 - year 1 allocation (prov.) | £0.552m |

This was as anticipated within the budget planning assumptions.

5.6 Formula Grant – Academies Adjustment

- 5.6.1 As part of the funding changes £5.416m has been deducted from Sunderland's allocation in respect of the former Local Authority Central Spend Equivalent Grant funding required to pay for statutory central education functions. This will be distributed via a new Education Services Grant to Academies and Local Authorities for maintained schools. Provisional local authority Education Services Grant allocations will be issued in early 2013.

5.7 Schools Funding

5.7.1 Dedicated Schools Grant

The Funding Reform requires the funding baselines to be restated to manage the introduction of using the October Pupil count and the disaggregation of the Dedicated Schools Grant into 3 funding Blocks: Schools, Early Years and High Needs

Funding for Sunderland schools continues to be influenced by changes in pupil numbers. The October 2012 census data shows that pupil numbers have decreased by 330 and consequently school block funding has reduced by £1.495m.

Sunderland's Early Years DSG will be increased by £3.142m in respect the expansion of the offer of 15 hours free nursery education to a greater number of 2 year old children . Part of this funding is movement of funding from the Early Intervention Grant into the Dedicated Schools Grant.

The following table shows the restated 2012/2013 position and the indicative Dedicated Schools Grant 2013/2014 allocation:

| Dedicated Schools Grant | 2012/2013 | | 2013/2014 | | Change | |
|---------------------------|---------------|----------------|---------------|----------------|--------------|----------------|
| | Pupil No.s | Total Funding | Pupil Nos. | Total Funding | Pupil Nos | Funding change |
| | | £m | | £m | | £m |
| Schools Block | 35,403 | 160.586 | 35,073 | 159.091 | (330) | (1.495) |
| Early Years | 2,520 | 12.892 | 2,520 | 12.892 | | 0.000 |
| High Needs Block | | 21.135 | | 21.172 | | 0.037 |
| Disadvantaged 2 year olds | | | | 3.142 | | 3.142 |
| NQT | | | | 0.054 | | 0.054 |
| Total | 37,923 | 194.613 | 37,593 | 196.351 | (330) | 1.738 |

5.7.2 Pupil Premium Funding

Based on January 2012 pupil numbers Pupil Premium funding for Sunderland Schools and Academies would be £11.346m, representing an increase of £3.488m.

The pupil premium is paid to the local authority as part of the pupil premium grant. It must be passed on in its entirety to schools.

6. Impact on funding for Sunderland 2014/2015

6.1 Revenue Spending Power 2014/15

Appendix 2 shows Revenue Spending Power will reduce by a further 5.4% (£15.770m) in 2014/15 to £277.183m using the Government's measure.

The reduction in 2014/15 is higher than the national average reduction in spending power of 3.8% and £6m worse than anticipated in the Council medium term financial planning, even taking into account the additional 2% cuts announced in the Autumn Statement.

It is also be noted that the Revenue Spending Power net reduction includes Government assumed increases in core grants in respect of New Homes bonus £0.551m and funding to support social care of £0.268m, together with government assumed increases in Business Rate Collection at 3.1%. If these are excluded, Revenue Support Grant in isolation is reducing by £18.9m representing a reduction of 16.7%. This is a further significant decrease in government funding.

7. Proposed Draft Comments to Government on the Settlement

7.1 The lateness of the settlement data which was released just before Christmas, on 19th December 2012 has given very little time to properly analyse the settlement and also due to the unprecedented number of significant changes in the funding regime the process is much more complex than in previous years. Information has been drip fed therefore the analysis work is still ongoing. The main points to note at the time of writing this report are set out below. A full response will be included at Appendix 1:

- Fairness of the Settlement

The primary concern for Sunderland is the cumulative impact of some of the formula and system changes which are hitting deprived areas hardest. There are issues regarding the Governments Revenue Spending Power calculations released which may have understated the true position. This includes the omission of a number of revenue grants and not fully taking into account the impact of some funding transfers. The fair starting point takes on even greater significance as the basis of the system will not be changed until 2020 at the earliest if not addressed.
- Resource Equalisation – starting point

The Government committed to restore the Relative Resource block amount to -£6.550m (an increase of £988.8m) which was part of the formula grant system so that it reflected the 2010/11 level - which was something we supported as a council. Whilst this change has happened the way this has been adjusted by the Government has not produced the desired outcome and has actually led to the more deprived areas being affected most. This Government has adjusted the Relative Needs block by a reduction of £573.2m (which is distributed based on need) and has increased the Central Share block by £871.4m which is distributed on population numbers rather than a needs based approach. It would have been fairer if the government had made an equal proportionate change to both of these blocks of £298.2m (the difference between the two blocks of figures) instead to accommodate the change necessary to the Relative Resources element. Our response will seek to restore the balance between Relative Needs and the Central Share which would help address this area and provide for a much fairer starting point for the council.
- Business Rates – Baseline Funding Assessment

The Government mechanism for calculating the baseline funding assessment uses a national apportionment which takes no account of the Council's business rates collection resulting in a baseline funding assessment lower than the business rates collected. This means that the safety net threshold calculation is too low and increases the risk of income loss before Government intervention through the safety net mechanism.
- Safety Net Threshold

Based on the way the new system works the Council can incur a drop in retained Business Rates income in 2013/14 of almost £6.2m (gross drop of £12.4m) under the new system before the Government will step in with 100% safety net funding. Losses of income at this kind of level is a significant issue for the Council as a result of the threshold level being set at a much lower base than expected business rate levels ie 16% lower.
- Business Rate Revaluations

The amount of funding of £593m included by the Government in the national settlement, for businesses who appeal their rating valuations to the (independent) Valuation Office, may not be sufficient to fully address

the implications of these appeals if successful and means that Local Government will be carrying a significant risk to the amount of business rates they will be able to collect in future years. A fair modification to the system will be suggested whereby the Government reviews the cost of appeals annually to ensure that the full costs incurred by Local Government are fully funded by Central Government and that this risk is effectively transferred back to the Government.

- Council Tax Support Grant
A reduction in RSG funding of 8.8% in 2014/15 represents a significant further reduction in funding. This will mean that those grants rolled into the new start up funding assessment, in particular the Council Tax Support Grant which has not been separately identified and protected are likely to be reduced in future as RSG funding is reduced year on year. This may not have been intended by the Government but will, if left unaddressed, become a significant funding issue in future years.
- New Homes Bonus Grant
The Council does not support the above grant initiative unless the Government fully funds the grant. The way this funding works effectively top slices Government funding (that was previously needs based) for local government and redistributes this based on the number of new homes and empty properties brought back into by each council annually. This favours the more affluent parts of the country where new housing developments are in higher demand because of their better and/or growing economies which is in effect being paid for by the more deprived areas who can not grow at the same rate but are in effect having their funding top sliced to pay for this grant. We would call upon the Government to bring greater transparency into this area of funding so that each council can see clearly what impact this initiative has had and is having on their funding levels.
- Early Intervention Grant
There have been significant cuts to this funding with grant being transferred into schools. The council has seen its funding reduce by £4.720m in 2013/14 but the council is concerned that the government has held back £150m of this funding nationally and would request that the Government considers releasing this funding to councils.
- 2014/2015 – Potential flaw with the new arrangements
A key problem for 2014/15 has been identified in that there will be no separate calculation of relative needs under the new system from 2014/15 onwards. The needs figures, the resources amounts and the council tax support grant are all treated as a single figure in the new arrangements from 2014/15 and will, if not protected, be cut as a result by the standard percentage applicable for the authority when the government scale back Revenue Support Grant. For Sunderland this equates to 8.8% cut in 2014/15 and effectively means that needs (or resource equalisation) will be cut by 8.8%. It will have the impact of further significant funding redistributions from the poorest to the wealthiest councils each year unless this issue is addressed as the needs based assessment is eroded.

8. Suggested Reason for Decision

- 8.1 The outcome of the Local Government Settlement informs the Council of central government resources to be made available which helps inform the Revenue Budget proposals for 2013/2014.

9. Alternative options to be considered and recommended to be rejected

- 9.1 There are no alternative options recommended for approval.

To follow

Appendix 1

Appendix 2

a) Revenue Spending Power 2013/2014 compared to 2012/13 (Adjusted)

| | 2012/13 Adjusted £m | 2013/14 Provisional £m | Change £m | Change % |
|--|---------------------------|------------------------------|---------------|--------------|
| Council Tax excl Parish Precepts | 96.302 | 96.302 | 0.000 | 0.0% |
| Top Up Grant | | 34.600 | | |
| Assumed business rates based on proportionate shares | | 40.415 | | |
| Revenue Support Grant | | 112.758 | | |
| Start Up Funding Assessment | 193.085 | 187.773 | -5.312 | -2.8% |
| Council Tax Freeze Grant 12/13 | 2.408 | 0.000 | -2.408 | -100.0% |
| Council Tax Freeze Grant 13/14 | 0.000 | 0.967 | 0.967 | 100.0% |
| Inshore Fisheries Conservation | 0.014 | 0.014 | 0.000 | 0.0% |
| Lead Local Flood Authorities - adj | 0.037 | 0.037 | 0.000 | 0.0% |
| Social Fund Admin Grant | 0.273 | 0.254 | -0.019 | -7.0% |
| Community Right To Challenge | 0.008 | 0.008 | 0.000 | 0.0% |
| Community Right to Bid | 0.005 | 0.008 | 0.003 | 60.0% |
| New Homes Bonus | 1.152 | 1.704 | 0.552 | 47.9% |
| Local Reform and Community Voices DH | 0.272 | 0.275 | 0.003 | 1.1% |
| NHS Funding to Support Social Care and Benefit Healt | 4.154 | 5.611 | 1.457 | 35.1% |
| Revenue Spending Power | 297.710 | 292.953 | -4.757 | -1.6% |

b) Grants outside of Spending Power Calculation

| | 2012/13 £'m | 2013/14 £'m |
|---|----------------|----------------|
| Housing and Council Tax Support Administration Grai | 3.162 | 2.882 |
| New Burdens - Council Tax Support Scheme | 0.000 | 0.216 |
| Community Safety | 0.157 | 0.000 |
| Extended Rights to Free Travel | 0.191 | TBC |
| Weekly Collection Support Grant | 1.010 | 2.231 |
| Public Health Funding | 0.000 | TBC |
| Education Services Grant | 0.000 | TBC |
| Social Fund Set Up grant | 0.012 | 0.000 |
| Social Fund - programme | 0.000 | 1.202 |
| | 4.532 | 6.531 |

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Revenue Spending Power 2014/2015 compared to 2013/14

| | 2013/14 | | 2014/15 | | Change | | Change | |
|---|-------------------|----------------|-------------------|----------------|---------|----------------|--------|--------------|
| | Provisional £m | £m | Provisional £m | £m | £m | £m | % | % |
| Council Tax excl Parish Precepts | | 96.302 | | 96.302 | | 0.000 | | 0.0% |
| Top Up Grant | 34.600 | | 35.662 | | 1.062 | | 3.1% | |
| Assumed business rates - proportionate shares | 40.415 | | 41.653 | | 1.238 | | 3.1% | |
| Revenue Support Grant | 112.758 | | 93.881 | | -18.877 | | -16.7% | |
| Start Up Funding Assessment | | 187.773 | | 171.196 | | -16.577 | | -8.8% |
| Council Tax Freeze Grant 13/14 | | 0.967 | | 0.967 | | 0.000 | | ##### |
| Inshore Fisheries Conservation | | 0.014 | | 0.014 | | 0.000 | | 0.0% |
| Lead Local Flood Authorities - adj | | 0.037 | | 0.037 | | 0.000 | | 0.0% |
| Social Fund Admin Grant | | 0.254 | | 0.233 | | -0.021 | | -8.3% |
| Community Right To Challenge | | 0.008 | | 0.009 | | 0.001 | | 12.5% |
| Community Right to Bid | | 0.008 | | 0.008 | | 0.000 | | 0.0% |
| New Homes Bonus | | 1.704 | | 2.255 | | 0.551 | | 32.3% |
| Local Reform and Community Voices DH | | 0.275 | | 0.283 | | 0.008 | | 2.9% |
| NHS Funding to Support Social Care and Benefit Health | | 5.611 | | 5.879 | | 0.268 | | 4.8% |
| Revenue Spending Power | | 292.953 | | 277.183 | | -15.770 | | -5.4% |