

Appendix 1

Provisional Local Government Finance Settlement 2013/14 & 2014/15

This Appendix provides additional information as background to the settlement to support the main report

- Section 1 - A summary of the national position and its impact.
- Section 2 - Key issues that will be incorporated into the final response to DCLG on 15th January.

1. Summary of the National Settlement Position

1.0 This is the first local government finance settlement under the new arrangements for business rates retention that will come into place on 1st April 2013. The table below sets out the government's overall settlement for funding local government including fire services.

	2012/13 Unadjusted £'m	2012/13 Adjusted £'m	2013/14 £'m	Change %	2014/15 £'m	Change %
Total AEF	63,756	64,830	65,815	1.5%		
Specific and General Grants	40,341	41,234	42,592	3.3%		
Net AEF (SR10)	23,415	23,596	23,223	-1.6%		
Total Post-CSR Transfers	182	3,572	2,878			
Net AEF	23,597	27,168	26,101	-3.9%	23,856	-8.6%
<i>Estimated Business Rates Aggregate</i>			21,797			
Baseline Funding Level / Local Share (A)			10,899		11,233	3.1%
Revenue Support Grant			15,202		12,623	-17.0%
RSG for Specified bodies			28			
Total RSG For Receiving Authorities (B)			15,174			
Total Start Up Funding Allocation (A + B)			26,073			

1.2 The main points to note from the table are:

- In 2013/14 total specific grant funding of £42.6m is increasing by 3.3% primarily in relation to increases in schools funding.
- Once the increase in specific grants is removed funding has reduced in 2013/2014 by 3.9%
- In 2014/15 there is a further reduction in funding of 8.6%. However this takes into account growth in the local business rates share in line with RPI. If this is excluded RSG is reducing by 17%.

1.3 Start Up Assessment Methodology / Formula Grant Allocation

1.3.1 Start Up Funding Assessment (SUFA)

The Government have allocated the total Start up Funding Allocation to receiving Authorities using the following:

- Relative Needs Assessment
- Relative Resources Assessment;
- Central Allocation - a fixed amount per head of population;
- Floor Damping
- Local Authority Central Spend Equivalent Grant top slice
- Grants Previously Rolled in to Revenue Support Grant and new grants rolled in for 2013/14 - £7.298 billion nationally have transferred into SUFA for 2013/14

1.3.2 Formula Grant Changes

Changes to the Formula Grant have been implemented including:

- Relative Resources Block was put back to the level it was in 2010/2011 - this should benefit the more deprived areas
- Reflection of the higher costs of services in rural areas
- Concessionary fares - modelled rather than actual boardings
- Floor Damping - retained and the differential between bandings widened to 2%
- The latest data available including population changes

The impact of the above adjustments as follows:

Block	2012/13 £m	2013/14 £m	Change £m	Change %
Relative Needs	17,352.5	16,779.3	-573.2	-3.3
Central Share	9,115.3	9,986.7	+871.4	+9.6
Relative Resources	-5,561.2	-6,550.0	-988.8	-17.8
Total	20,906.6	20,216.0	-690.6	-3.3

Although the government has adjusted the relative resources total back to the 2010/11 level it has chosen to reduce the Relative needs block by £573.2m with a positive adjustment included in the central share, this has had a redistributive effect of redirecting funding away from high need authorities to those authorities with higher populations.

1.4 Funding Allocations

The assessed Start Up funding assessment is allocated to councils under the new Local Government funding arrangements from April 2013.

- **Business rates**
The estimated Business Rates Aggregate for 2013/14 has been determined by Government as £21.8bn. This is the total notional income yield from the local valuations list after deductions for reliefs, costs of collection and appeals.
- **Central and Local Shares**
The expected business rates aggregate is divided between the central and local share - 50% for each. The central share will be used to pay for Revenue Support Grant, Police funding and other Revenue Core grants.

For 2013/14 the national total of the local share is 50% of £21.8bn i.e. £10.9bn.

- **Top Up Grant / Tariff**
A system of top up grant and tariffs has been established to allow locally retained Business Rates to be redistributed from high business yield authorities (tariffs) to low yield authorities (top ups).
- **Safety Net Threshold**
All authorities will receive a safety net payment if their actual local share of business rates income is 7.5% or more beneath their business rates funding baseline.

Levy rates will be set individually for authorities, determined by the ratio of their expected local share income to their baseline funding level. They will not exceed 50% and cannot be negative. Levy rates will only apply to Tariff authorities.

Final levy and safety net payments will only be determined after the end of the financial year.

Although DCLG expects that levies and safety nets should balance in the long run, an additional top-slice of £25m has been taken from total funding for 2013/14.

1.5 Local Council Tax Support

Council tax benefit will be abolished from April 2013 when local council tax support is introduced. The Start Up Funding Allocation includes £3.295bn nationally to support this change.

The amount has not been separately identified in the 2014/15 settlement and as such is not a protected allocation other grants rolled into the start up funding allocation.

Revenue Spending Power

1.6 In presenting the provisional Local Government Settlement and its impact on local Council's the government use "Revenue Spending Power" to describe the changes to Local Government funding. From 2013/2014 a Local Authority's "Revenue Spending Power" is made up from the combined total of:

- Council Tax Requirement,
- Top up Grant
- Assumed Business Rates Income
- Revenue Support Grant,
- NHS funding for social care
- New Homes Bonus and
- Other Core Grants transferred into the SUFA

1.7 The government announced

- Revenue Spending Power for 2013/14 will see a reduction overall nationally of 1.7% with no authority incurring more than an 8.8% reduction in their total spending power.
- For 2014/2015 Revenue Spending Power will reduce by a further 3.8% nationally.

There is an issue with the way the government have presented this information which results in an understatement of the impact.

Council Tax

1.8 The settlement also confirms the third year funding for the 2011/2012 Council Tax freeze. This funding will be provided until 2015/2016 to compensate councils for not increasing their council tax in 2011/2012.

1.9 The Government has confirmed that one-off grant funding to allow local authorities to freeze council tax in 2012/13 has been removed and that they have provided funding to further freeze the council tax for 2013/2014 (based on a 1% council tax increase). This funding is to be provided for both 2013/2014 and 2014/2015 and the minister has confirmed this will then be built into the base funding position moving forward. The funding is offered to compensate those Authorities who decide not to increase their Council tax in 2013/2014.

1.10 The government has confirmed a 2% referendum limit for 2013/14 but with relaxations for certain low tax authorities. However, this only applies to a small number of authorities.

New Homes Bonus

1.11 Provisional amounts for the New Homes Bonus Grant totalling £661m for 2013/14 have been announced by CLG funded through £250m specific grant provided in the SR10 with the rest top-sliced from the total funding available for local government. The £500m top-slice which has been taken from (formula) funding in 2013/14 is £89m more than

will be required; the balance will be returned to local government in proportion to the Start-Up Funding Allocations.

Early Intervention Grants

- 1.12 The Early Intervention Grant was paid as a separate non-ring fenced grant in 2011/12 and 2012/13. It has been confirmed that from April 2013 it will be split as follows:
- £1.7bn in 2013-14 and £1.6bn in 2014-15 will be incorporated into the start-up funding assessment;
 - £525m in 2013/14 transferred into the ring-fenced Dedicated Schools Grant to expand provision for disadvantaged 2-year olds in schools.
 - £150m is to be retained by DfE for central purposes - although distribution has not yet been announced.

Public Health Grant

- 1.13 The total sum of Public Health Grant has been announced at £2.66bn for 2013/2014 and £2.79bn for 2014/2015. For Sunderland the figures are £20.656m in 2013/2014 and £21.234m in 2014/2015.

Capitalisation for Equal Pay

- 1.14 The Secretary of State announced that local authorities would be allowed to use the receipts from asset sales to fund equal pay claims although details of the application process are awaited.

2. Response to the Consultation – Key Issues

- 2.1 Paragraph 7 of the main report sets out the main points that are proposed for inclusion in the response to the DCLG consultation. The final response will incorporate the key issues that have been informed through meetings with ANEC Directors of Resources and the Resources Task and Finish Group, in early January that are set out below.

2.2 Key Issues:

- 2.2.1 The 1.7% reduction in spending power is not an accurate reflection of the overall position and for the North East is expected to be double this figure.

Based on current figures for 2013/14 on spending power, 11 out of 12 NE authorities have a percentage reduction higher than the England average for 2013/14.

Whilst 2013/14 is broadly in line with anticipated cuts, the 2014/15 figures are concerning, especially if these are reflective of the position for future years.

- 2.2.2 Analysis to date suggests that there has been an additional reduction in Council Tax Support which requires clarification from CLG. In effect,

Council Tax Support has been rolled into the central grant and has been cut by an average of 8.6% - an additional cut on top of the current reduction.

- 2.2.3 Whilst it is good news that, as a result of lobbying by ANEC member authorities, resource equalisation has been restored, it has nonetheless been cut for 2014/15 and will be locked in for future years.
- 2.2.4 Latest analysis also highlights missing detail in the cut for the Early Intervention Grant, which we need further clarity on from DCLG.
- 2.2.5 Nationally, the 30% cut in Children's Social Care funding is significant and, working with LGA, is an issue to continue to engage Government on, in the context of rising cost pressures in children's services, particularly looked after children. Budget reductions, rising cost pressures and increases in the numbers of looked after children in the North East is a growing concern.
- 2.2.6 The methodology for top slice and distribution of New Homes Bonus, result in substantial net losses to the North East and North West with significant gains for the South.

In response to the consultation on the grant settlement, the issues/asks are summarised as follows:

2013/14

- Re-think topslice of unnecessary cuts of £115 million.
- Review the Central Share/Relative Needs Block.
- Review operation of New Homes Bonus
- Business Rates Appeals issue to be resolved.
- Better Damping Protection solution.

2014/15

- Review NHB cuts approach.
- Separately identify Council Tax Support Grant in line with OBR figures.
- Separately identify and protect Council Tax Support Grant.