

# Provisional Local Government Finance Settlement, 2013/14 and 2014/15: *follow-up briefing*

## Introduction

The provisional 2013/14 and indicative 2014/15 Local Government Finance Settlements were announced on 19 December 2012 by the Rt Hon Eric Pickles MP, the Secretary of State for Communities and Local Government<sup>1</sup>. London Councils produced an on-the-day briefing which summarised the main headlines for London Boroughs and outlined the key elements of the business rates retention system.

This briefing provides additional information about the detail of the Settlement with further analysis of data at the London level. It also explores a number of issues raised by local government in response to the Settlement and clarifies what this means for London boroughs.

## Key points

- Council tax support appears to have been double-counted within the spending power figures, being included within both council tax requirement and SUFA
- London boroughs will see a -17.8% cut to RSG in 2014-15 compared to a -16.8% cut at the national level because of a higher dependence on formula funding and lower dependence on rolled-in grants. The size of cut to RSG in 2014-15 varies from 13.5% to 20.2% across London boroughs
- Nationally, council tax support will increase slightly in 2014-15 meaning cuts to formula funding are higher than had first appeared (-12.0% nationally)
- Technical changes to formula funding have had a mixed impact on London boroughs with most benefitting from improved population measures (+£201m) and changes to the RNF control totals (+£69m). Other changes have an overall negative effect e.g. the overall cut in grant (-£126m); restoring the central allocation to its 2010-11 value (-£46m) and changing sparsity measures (around -£75m)<sup>2</sup>
- While overall totals for council tax support & formula funding are given at the national level they cannot be separated in 2014-15 at the individual authority level
- Detailed allocations of around half of the special & specific grants for 2013-14 have now been published representing around 60% of the total value (£289m in London)
- Provisional forecast business rates returns (NNDR1s) were submitted by 31 boroughs. Of those that submitted returns, 3 boroughs would have to pay a levy on growth and 1 would qualify for a safety net payment from the outset
- Forecasts are likely to be revised following the Government's announcement to allow authorities to spread the cost of backdated appeals over 5 years

<sup>1</sup> <http://www.local.odpm.gov.uk/finance/1314/settle.htm>

<sup>2</sup> All figures are estimates and are calculated before damping

## Spending power

Analysis of the Settlement data suggests the Government's preferred spending power figure may have double-counted council tax support. Spending power is defined by the Government as the aggregate of council tax requirement, start up funding assessment (SUFA), and some special & specific grants (including NHS funding for spend on social care & health). It appears that Council Tax Support (CTS) has been included within both SUFA and council tax requirement, meaning spending power figures have been exaggerated and the size of the cuts therefore appears less than it should be. We are currently checking with DCLG officers what impact this will have.

Annex A sets out published spending power figures for 2012-13, 2013-14 and 2014-15 for all London boroughs. Table 1 shows the published spending power year-on-year percentage changes for London boroughs compared to other authority types. Taken as a whole, London boroughs see lower cuts to spending power in 2012-13 than other authority types, but generally larger cuts in 2014-15. Over the two years the cut to spending power of -6.0% (amounting to c.£500m) is larger than the England average and second only to metropolitan districts. This is largely down to cuts in formula funding which have a stronger effect on London than elsewhere.

**Table 1 – Change in spending power (%) by authority type 2012-13 to 2014-15**

|                        | 2012-13 to 2013-14 | 2013-14 to 2014-15 | 2012-13 to 2013-14 |
|------------------------|--------------------|--------------------|--------------------|
| <b>ENGLAND</b>         | <b>-1.7%</b>       | <b>-3.8%</b>       | <b>-5.5%</b>       |
| Metropolitan districts | -1.8%              | -5.1%              | -6.8%              |
| <b>London Boroughs</b> | <b>-1.2%</b>       | <b>-4.9%</b>       | <b>-6.0%</b>       |
| Unitary authorities    | -1.6%              | -4.0%              | -5.6%              |
| Shire counties         | -2.0%              | -2.8%              | -4.7%              |
| Shire districts        | -1.3%              | -3.0%              | -4.3%              |

## Cuts to RSG in 2014-15

In 2013-14, the proportion of SUFA made up by Revenue Support Grant (RSG) is the same for all authorities (60.1%). In 2014-15, however, RSG varies as a proportion of SUFA for each authority. This is because rolled-in grants are being scaled according to their individual grant profiles, while CTS and formula funding are being scaled by tier (upper, lower and fire). Baseline funding will increase by RPI inflation for everyone in 2014-15, but RSG is cut differently depending on the relative balance of formula funding and rolled-in grants.

London boroughs have a higher dependence on formula funding and lower dependence on rolled-in grants than the England average, which explains why the -17.8% cut to RSG in 2014-15 is worse than the -16.8% cut at the national level (see table 2). Across London boroughs the size of cut to RSG in 2014-15 varies from 13.5% to 20.2%. Annex B shows headline allocations of SUFA, and its key components, for all London boroughs including monetary and percentage changes between years.

**Table 2 - Cuts to SUFA 2012-13 to 2014-15 – England and London**

|                 | % change 12/13 to 13/14 |                 |                  | % change 13/14 to 14/15 |        |      | % change 12/13 to 14/15 |
|-----------------|-------------------------|-----------------|------------------|-------------------------|--------|------|-------------------------|
|                 | SUFA                    | Formula funding | Rolled in grants | SUFA                    | RSG    | BF   | SUFA                    |
| England         | -3.9%                   | -4.6%           | -2.3%            | -8.5%                   | -16.8% | 3.1% | -12.1%                  |
| London Boroughs | -3.0%                   | -3.1%           | -2.8%            | -9.5%                   | -17.8% | 3.1% | -12.2%                  |

## Formula funding

Formula funding is calculated in a similar way to formula grant in 2012-13 but with a number of changes, as described in our previous briefing. London Councils is in the process of modelling the impact of each of these changes separately. The necessary data to analyse some of them has only been released as separate web page tables for each authority in the country; we are awaiting a document from DCLG which compiles this all together.

For the changes where data is readily available, we are looking at the change from the 2012-13 allocations in formula funding before damping for each borough, had each change been implemented individually. This work is still in progress, but at present we estimate London totals for these to be as follows:

- Changing the total amount of grant, including changes to the amounts for each of the grants rolled in according to tailored distributions: -£126m
- Changing the Relative Needs Formula (RNF) control totals: +£69m;
- Restoring the equalisation for taxbase to its 2010-11 monetary value: -£46m;
- Updating population measures using the new Sub National Population Projections, based on the 2011 Census: +£201m;
- Updating taxbase projections, using projections for 2013-14: +£6m;
- Changes to the measures of sparsity and the ways they are used, other than the super sparsity weighting and the Fire and Rescue sparsity adjustment: -£36m.

These changes are not happening independently. Applying them simultaneously reduces London's formula funding before damping by a further £5m. The total effect of implementing them all together is an increase of £62m.

As the actual increase was £15m, this leaves a loss of £47m to be accounted for. We believe this to be due to the following:

- Changes to the super sparsity weighting and the Fire and Rescue sparsity adjustment (estimated to be around a reduction of £35-40m);
- Updating over a third of the remaining data indicators, in particular many of those based on benefit levels;
- Overhauling the concessionary fares RNF (unlikely to be significant).

While the figures here give a flavour of what is happening at the London-wide level, there are very large variations between boroughs in the effect of these changes. We are also working to identify the impacts of these changes after damping.

## LACSEG

The Government has decided to change the methodology for distributing LASCEG in 2013/14. In 2011/12 and 2012/13, this was done by reducing the control total for the central education functions Relative Needs Formula and making a corresponding adjustment to the baseline for damping. In 2013-14, this will not happen. Instead there will be a greater deduction **after** damping, to cover central education functions for all schools – both academies and those that remain under local authority control. This deduction totals around £1bn for both 2013/14 and 2014/15<sup>3</sup>, as shown in Table 3 below.

This money will then be distributed back to local authorities and academies, taking into account the number of pupils they have. For local authorities, it will be given in the form of an Education Support Grant. Local authorities are assumed to retain some statutory duties, for which they will receive £15 per pupil in 2013/14. The remaining funding will be split between academies and local authorities on the same per-head basis<sup>4</sup>.

<sup>3</sup> There is also an adjustment to the baseline for damping in 2013/14 on the basis of the grant that would have been received had the topslices in 2011/12 and 2012/13 not occurred.

<sup>4</sup> London Councils' briefing on the Education Settlement (20 December 2012) has further details.

## New Homes Bonus

New Homes Bonus (NHB) is granted for up to six years' worth of new homes from the date the scheme was introduced, meaning the amount to be distributed grows each year. In 2012/13, £432m was distributed: £176m from the formula grant topslice for 2012/13 and £250m from other budgets, with a deficit of £6m.

Under the Business Rate Retention system, the topslice is taken from the control totals used to determine the level of RSG. This is deliberately set at a level higher than the expected payout, to avoid a deficit occurring. Any surplus will then be distributed back to local authorities in proportion to baseline funding levels. In 2013/14, this topslice is £500m (with a further £6m for the deficit from 2012/13). Again, £250m will be provided from other budgets, giving a total pot for 2013/14 of £750m. The provisional allocations for 2013/14 show a national allocation of £661m, leaving £89m to be returned as a Section 31 grant in proportion to baseline funding levels.

In 2014/15, the topslice from RSG will be £800m. Together with £250m from other budgets, this provides a total pot of £1,050m. It is currently unknown how much of this will be distributed as New Homes Bonus and how much will be returned as surplus.

Table 3 summarises the impact of the LASCEG and NHB topslices on the England total for formula grant/formula funding. Bear in mind that the final distribution of formula funding is split between the baseline and RSG. It also shows the England total for CTB/CTS and the combined cut in funding before topslices. We have chosen to show the cut before topslices, as the topslices either flow back to local government in a different funding stream (see Annex C) or represent a transfer of responsibility to academies.

**Table 3 – Formula grant/funding England 2012-13 to 2014-15**

|  | 2012-13<br>(£m) | 2013-14<br>(£m) | 2014-15<br>(£m) |
|--|-----------------|-----------------|-----------------|
| CTB/CTS (estimated for 2012/13)                      | 3,661           | 3,295           | 0               |
| Formula Grant/Funding before topslices               | 20,215          | 19,659          | 21,071          |
| <b>Combined Formula Funding/CTS before topslices</b> | <b>23,876</b>   | <b>22,954</b>   | <b>21,071</b>   |
| Cut in combined funding before topslices             |                 | -3.9%           | -8.2%           |
| LACSEG topslice                                      | -265            | -1,039          | -1,029          |
| NHB topslice   | -176            | -506            | -800            |
| <b>Combined Formula Funding/CTS after topslices</b>  | <b>23,435</b>   | <b>21,409</b>   | <b>19,242</b>   |

Note - All figures excluding police authorities and CT freeze grant

Annex C shows the actual sums coming to each borough (and the England totals) as a result of the changes outlined above. We have included actual figures where they are known. The 2013-14 NHB surplus has been calculated based on the provisional 2013-14 NHB allocations that were published prior to the Settlement. The allocations of CTB subsidy in 2012/13 are estimated to be 90% of those used in CLG's calculation of 2013-14 SUFA. In addition to the funding streams shown in this table, there will be funding from the LACSEG topslice to academies. Due to the changes described above, all of these funding streams should be considered when trying to make a like-for-like comparison across the three years.

## 2014-15 Council tax support & formula funding

In 2013-14 CTS is treated as a rolled-in grant within SUFA, but in 2014-15 it is rolled into formula funding. The way this is done has caused a lot of confusion within local government and anger at the lack of transparency: a point raised by London Councils in our response to the Settlement consultation. It has prompted DCLG officials to clarify that the overall England total for CTS in 2014-15 will increase by 0.3% from £3,295m to £3,306m. This means that the cut to formula funding net of CTS nationally is -12.0%, which is larger than appeared when the Settlement figures were first published.

Unfortunately the method the government is using means it is not possible to establish individual authority allocations for CTS and formula funding in 2014-15. For each authority, total CTS and formula funding in 2013-14 is split into tiers (upper tier, lower tier and fire). Then each tier is scaled to the new control totals for 2014-15. Finally, these are added to give the total formula funding for 2014-15. As it is the sum of CTS and formula funding that is scaled, by combined control totals, it is not possible to calculate a CTS amount for 2014-15 for individual authorities.

## Special & specific grants

Since the Settlement, more information has been published about special and specific grants<sup>5</sup>. Detailed allocations of around half of the special & specific grants for 2013-14 have now been published representing around 60% of the total value (this represents £289m in London). Table 4 shows the total value for England and for London boroughs for each grant. Annex D lists the individual borough allocations. A full list of the national allocations can be found in Key table 2<sup>6</sup>. Allocations for the remaining grants are still to be announced

**Table 4 – 2013-14 Special & specific grant allocations – England and London Boroughs**

|  | England (£m)    | London Boroughs (£m) |
|--|-----------------|----------------------|
| HB Admin Subsidy                                   | 402.297         | 80.633               |
| New Homes Bonus                                    | 661.368         | 144.298              |
| Council Tax Freeze Grant                           | 265.067*        | 30.794               |
| Lead Local Flood Grant                             | 15              | 3.027                |
| Local Reform and Community Voices DH revenue Grant | 42.053          | 6.516                |
| Social Fund  | 30.47           | 5.743                |
| Weekly Collection Support Scheme                   | 112.198         | 17.128               |
| Community Right to Challenge                       | 3               | 0.288                |
| Community Right to Bid                             | 2.561           | 0.264                |
| Fire Revenue Grant                                 | 38.555          | 0                    |
| Local Enterprise Partnerships Core Funding Grant   | 9.75            | 0                    |
| Commons Pioneer                                    | 0.022           | 0                    |
| Efficiency Support Grant                           | 8.722           | 0                    |
| Inshore Fisheries Conservation                     | 3               | 0                    |
| <b>Total</b>                                       | <b>1,594.06</b> | <b>288.691</b>       |

\* CT freeze grant includes £24m for police authorities nationally

## Business rates forecasts (NNDR1s)

Provisional forecast business rates returns (NNDR1s) were submitted to DCLG by 31 boroughs. Annex E collates the information submitted in the provisional NNDR1 forms. Authorities were asked to forecast the change in rateable value of their business rates list between October 2012 and September 2013 (and the resultant change in rates income), as well as an assumption around the effect of future appeals. These two numbers are critical in understanding the results - as they are the lines boroughs can vary based on judgement.

In the provisional returns boroughs have used different assumptions to project their losses due to appeals<sup>7</sup>; the result of which produce a range of 0% to a -13.9% reduction in yield due to appeals. Boroughs are forecasting in-year changes in rateable value of between -9.5% to +7.3%.

<sup>5</sup> <http://www.local.communities.gov.uk/finance/1314/specgrant1314/index.htm>

<sup>6</sup> [http://www.local.communities.gov.uk/finance/1314/kt2\\_1314r.xls](http://www.local.communities.gov.uk/finance/1314/kt2_1314r.xls)

<sup>7</sup> Some use gross yield multiplied by a percentage; some use net yield (after deduction for collection and losses) multiplied by a percentage; and some use net yield after adjusting for change in RV multiplied by a percentage. Percentages vary by borough.



The business rates forecasts give a local share figure that can be compared against business rates baselines to measure growth or decline in 2013-14. Annex F shows the impact of the forecasts for each borough. Of those that submitted returns, 3 boroughs would have to pay levy and 1 would qualify for a safety net payment. Of the 31 boroughs, 17 are forecasting growth and 14 are forecasting decline against their business rates baselines.

### **Appeals announcement**

Following strong feedback from local government about the impact of appeals on business rates income, DCLG announced on 15 January that it will make regulations providing that the cost of such refunds (i.e. sums paid by billing authorities post 1 April 2013 in respect of refunds for rates paid in the years before 2013-14) can be spread over the five years 2013-14 to 2018-19, instead of being accounted for in their entirety in 2013-14. DCLG's intention is to make the regulations before the start of the financial year with further details "to be announced shortly".

The NNDR1 forecasts are, therefore, likely to change with authorities having the opportunity to revise the figure at line 35 of the NNDR1 in the final return they make to central government by 31 January. The result is likely to be smaller adjustments for appeals in forecasts, resulting in more retained funding for boroughs.

For further information please contact the Fair Funding team, [LGF@londoncouncils.gov.uk](mailto:LGF@londoncouncils.gov.uk) or phone 020 7934 9661.

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