



Report to Cabinet

Subject: Provisional Local Government Finance Settlement 2014/15

Date: Wednesday 15 January 2014

Author: Corporate Director and Chief Financial Officer

Wards Affected

Borough-wide

Purpose

The report provides details of the Provisional Local Government Finance Settlement and New Homes Bonus income for 2014/15. The report also seeks approval of an increase in Fees and Charges of 3% to be applied in 2014/15.

Once expenditure estimates have been set the Council will then need to determine its Council Tax increase, if any, at the Budget Council meeting on 3 March 2014.

Key Decision

This is not a key decision.

Background

- 1.1 The Local Government Finance Settlement determines how much grant funding Central Government provides to each local authority in England.
- 1.2 Comprehensive Spending Review Period 2011/12-2014/15

The 2010 Comprehensive Spending Review, which covers the 4 year period 2011/12 to 2014/15, determined the Local Government Spending Control Totals which form the basis of funding allocations. This indicated the level of anticipated spending reductions for the period. The Settlement announcements which followed provided grant figures for 2011/12, 2012/13 and 2013/14, equating to cash reductions of £2.2m. The forward projections included in the announcements initially suggested a 6.5% funding reduction

in 2014/15. A further 1% reduction in funding for 2014/15 was announced by the Chancellor in his 2011 Autumn Statement.

In the 2012 Autumn Statement the Chancellor confirmed his commitment to the previously announced spending reductions together with the addition of a further 2% reduction in 2014/15 bringing the total projected reduction to 9.5% for 2014/15. The Government also gave its first indication of public expenditure for 2015/16-2018/19. Totally Managed Expenditure is set to fall at the same rate as over the Spending Review 2010 period, equivalent to 30% in real terms.

In the 2013 Autumn Statement the Chancellor protected local government from any further cuts in Central Government grant in 2014/15. In addition Business Rates increases were limited to 2% with additional reduction schemes announced targeted at small businesses. It has subsequently been confirmed by the Secretary of State for Local Government that these changes will be fully funded by Government and will not impact upon resources available to local government.

1.3 Local Government Resource Review

During 2012/13 a number of changes were made affecting the way local government was to be funded from 2013/14 onward, namely being Business Rates Retention and Council Tax Reduction Scheme, both of which have been the subject of previous reports to Cabinet.

Business Rate Retention

Business Rates income has previously been paid into a national pool which the Government has then reallocated to Local Government on a needs based formula through Formula grant as part of the Local Govt Finance Settlement. The Business Rates Retention scheme has replaced the centralised funding system with 50% of income being retained locally whilst the remaining 50% continues to be distributed on the needs based formula system.

From April 2013 the portion of local authorities' income that comes from retained business rates will change according to movement in local business rates income, which could move up or down, to provide an incentive for economic development activity. The initial Business Rates Baseline was set in 2013/14 as part of the Local Government Finance Settlement 2013/14.

The future level of funding will be protected by Gedling's agreement to enter into a pooling arrangement with the other Nottinghamshire authorities, excluding the City, which will ensure the risk of reduction in funding from future business rate contraction is minimised. Overall, entering into a pooled arrangement should generate additional funding for the

Nottinghamshire area.

Council Tax Reduction Scheme

The Council Tax Benefit system was replaced on 1 April 2013 with the Council Tax Reduction Scheme (CTRS) which provides a discount on the council tax bill for eligible applicants. Gedling's scheme, which was approved by Council on 19 December 2012, was devised to ensure the most vulnerable are protected by making the discount receivable equivalent to the benefit which would have been payable under the previous system.

The new system is being funded partly by Government Grant, at a rate 10% less than previously available as benefit subsidy, and the remainder by introducing new tax charges for empty properties.

The impact of the new discount scheme is to reduce the Council Taxbase which therefore reduces the ability to raise additional revenue from Council Tax increases. For example a 1% increase in Council Tax based on the new Taxbase will generate approx £51,500 compared to £58,000 under the previous system.

It is the Council's intention to continue with the same Council Tax Reduction Scheme for 2014/15, although the element of transitional support to benefit claimants is subject to additional funding from Central Government. To date no announcement on the availability of this funding has been made.

Proposal

2.1 Local Government Finance Settlement Announcement 2014/15

2.1.1 2014/15 Settlement

The annual local government finance settlement is concerned with the distribution of revenue raised from business rates and other funding streams through Revenue Support Grant and Business Rates Retention.

The 2014/15 Settlement determines how much Revenue Support Grant Central Government will give to each local authority in England in 2014/15 and provides indicative information on the allocation for 2015/16. A full analysis of the Settlement has been completed by the Local Government Association and is attached at **Appendix A** for information.

For Gedling Borough Council the provisional settlement figure for 2014/15, now known as the **Settlement Funding Assessment**, totals £5,803,262. This represents the aggregate of Revenue Support Grant of £3,063,375 and estimated retained Business Rates of £2,739,887 (the actual amount of

business rates funding will be determined by the actual amount of rates collected and movements in the business rates base). The Settlement Funding Assessment of £5,803,262, which includes non-ringfenced specific grants, represents a cash reduction of £924,017 or 13.7% from the comparative 2013/14 figure.

Non-ringfenced specific grants are detailed below:

- the Council Tax Freeze grant of £138,280 was to be received for a period of 4 years to finance the Council Tax freeze implemented in 2011/12, this will now continue in baseline funding;
- Homelessness grant of £76,860 (a small reduction of 1.5% compared to 2013/14);
- Council Tax Reduction Scheme grant previously specified at £706,325 for 2013/14 (10% less than the previous benefit subsidy amount), has now been incorporated into the base settlement funding assessment.

The consultation period on the Settlement closes on 15 January 2014.

2.1.2 2015/16 Provisional Settlement

On 26 June 2013 the Chancellor published the Government's Spending Round 2013, setting out their public expenditure plans for 2015/16. The announcement indicated a headline 10% reduction in funding for local government which translated to an estimated 15.7% reduction for Gedling in the June 2013 published technical consultation documentation.

Provisional settlement figures for the 2015/16 **Settlement Funding Assessment** have now been announced which indicate that Gedling's funding will be £4,885,526, a reduction of £917,736 or 15.8% on the 2014/15 provisional figures. This is represented by the aggregate of Revenue Support Grant of £2,070,016 and estimated retained Business Rates of £2,815,510.

2.1.3 Future Spending Review Period

As detailed in paragraph 1.2 real terms reductions equating to 30% were initially anticipated over the next four year spending review period i.e. 2015/16-2018/19, with further reductions indicated in June 2013 as detailed in 2.1.2 above. The Settlement allocates a significantly higher proportion of Revenue Support Grant compared to Business Rates than in previous years and so the Council remains heavily reliant upon Central Government Funding and is therefore at significant risk of future funding reductions.

Reductions equivalent to 22.5% are now projected for Gedling for the period 2016/17 to 2018/19.

2.1.4 Council Tax Freeze Grant

The Government have announced that further funding will be available to local authorities which freeze council tax for 2014/15 and 2015/16, which will be built into the baseline for subsequent years. Councils that do so will get a grant equivalent to raising their council tax by 1% in each year.

2.1.5 Council Tax Reduction Scheme Grant

The Settlement Funding Assessment includes the non-ringfenced CTRS grant, referred to in paragraph 2.1.1 above, which includes an amount to fund the impact of taxbase reductions on local parish precepts. The impact of the scheme on 2013/14 taxbase figures, when adjusted for our own technical changes, resulted in a precept reduction of £28,400 for Parish Councils as a whole. It is anticipated that this Council will continue to make this equivalent grant payment to the Parish Councils in 2014/15 to ensure no loss is suffered.

As detailed under the 2014/15 Settlement the CTRS grant is not protected from future funding reductions therefore the amount of grant to be paid to Parish Councils will need to be determined on an annual basis.

2.1.6 Council Tax Increase Referendum Trigger

The Localism Act 2011 gives powers to the local community to either endorse or veto Council Tax rises that are above a limit which is to be set annually by the House of Commons. If a local authority decides to implement a council tax increase above the government set limit this will trigger a referendum so that local voters can either support or reject the proposed rise.

The referendum limit for 2014/15 has **not yet been set**. In previous years it has been set at 2.0%. Any Council which sets an increase greater than the referendum limit and does not get support from the electorate via the referendum will have to revert to a council tax level that is compliant.

The Government intend to announce the Council Tax referendum threshold principles separately in the New Year. They have stated that they 'are particularly open to representations suggesting that some lower threshold be applied to all or some categories of authorities, given the strong need to protect taxpayers wherever possible from unreasonable increases in bills, and given next year's elections on 22 May across the country allow for referendums to be held at minimal cost'.

The final referendum principles will be subject to the approval of the House of Commons.

2.2 **New Homes Bonus**

During 2011/12 Central Government introduced the New Homes Bonus (NHB) which is now a significant and permanent feature of future local government funding. The Government have committed to funding NHB from the centrally retained share Business Rates income which will continue to be paid as a separate non-ringfenced grant.

The principles of the grant are to reward local authorities for each new property completed within their boundary. The value of the reward is linked to the average council tax band D property and each individual award will be for a six year period.

Gedling has provisionally been awarded £448,054 for 2014/15 which is in addition to the £1,115,730 awarded for 2011/12-2013/14, giving a total cumulative New Homes bonus of £1,563,784. The Council's Medium Term Financial Plan assumes future increases in grant of £350,000 per annum after 2014/15 reaching a cumulative total of £2,263,784 by 2016/17 which is the end of the six year period after which it is expected to stabilise at this level.

The receipt of the New Homes Bonus has enabled the Council to protect core services and to respond to local priorities by investing in its Economic Development activities through the introduction of free town centre car parking, investment in Arnold leisure centre and theatre facilities and the establishment of an increased and permanent staffing resource for general economic development work.

2.3 **Income Inflation**

The Medium Term Financial Plan currently being developed includes income inflation at 3% on discretionary income, (excluding leisure DNA and Trade Waste, Building Control), which equates to £75,600, and the increase per Portfolio is shown in the table below. Each additional 1% increase will raise a further £25,200.

It is suggested that the Portfolio Holder agrees individual charges with the relevant Corporate Director, with discretion to vary the percentage increase, as long as the overall cash amount for that Portfolio is raised.

Portfolio	Discretionary Income £	1% increase £	3% increase £
Community Development	(70,300)	(700)	(2,100)
Health and Housing	(0)	(0)	(0)
Public Protection & Communication	(219,800)	(2,200)	(6,600)
Environment	(483,400)	(4,800)	(14,400)
Leisure & Development	(1,463,600)	(14,600)	(43,800)
Finance & Performance	(292,300)	(2,900)	(8,700)
Total	(2,529,400)	(25,200)	(75,600)

Some of the services operated by the Council are not included in the general fee inflation increase due either to: the sensitivity of demand to price changes e.g. Leisure DNA or; being operated on a commercial basis and therefore required to breakeven e.g. Trade Waste Services and Building Control. The levels of fees which are set in these areas are considered separately and the base budget amended to ensure appropriate fees are set.

2.4 **Consultation with Business Ratepayers**

As major providers of the resources which fund Local Government services there is a statutory duty to consult Business Ratepayers. To fulfil that requirement it is proposed that the draft letter attached at Appendix B be sent on behalf of the Leader to a broad selection of local business ratepayers. Any feedback received will be reported to Budget Cabinet on 20 February 2014.

Alternative Options

- 3 Members could choose a different percentage increase in fees and charges. However, 3% is considered to be the optimum figure in terms of producing a balanced medium term financial plan and is a rate that is in line with the current CPI inflation measure. The financial impact of alternative fee increases is detailed at paragraph 2.3.

Financial Implications

- 4 As detailed in the report

Appendices

- 5 Appendix A – Local Government Association, Local Government Finance Settlement Briefing
- Appendix B – Draft Letter Business Ratepayer Consultation

Background Papers

- 6 None identified.

Recommendation(s)

THAT Cabinet:

- (a) Note the Provisional Local Government Finance Settlement;
- (b) Approve in principle the payment of £28,400 grant funding to the Parish Councils to offset the taxbase reductions following implementation of the Council Tax Reduction Scheme as detailed in paragraph 2.1.5;
- (c) Approve a 3% income inflation increase for the individual portfolios shown in the table at paragraph 2.3;
- (d) Approve the draft letter attached at Appendix B for circulation to a selection of Business Ratepayers.

Reasons for Recommendations

- 7 To contribute to the delivery of a balanced budget both in 2014/15 and in the medium term and to satisfy statutory requirements.