



## SHEFFIELD CITY COUNCIL Cabinet Report

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**Report of:** Eugene Walker

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**Date:** 15 January 2014

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**Subject:** PROVISIONAL LOCAL GOVERNMENT FINANCE  
SETTLEMENT – 2014/15 & 2015/16

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**Author of Report:** Allan Rainford; 35108

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**Summary:**

The overall impact on the City Council as a result of the Finance Settlement is as follows:

- The reductions in SFA for 2014/15 and 2015/16 are as reported in the Medium Term Financial Strategy
- The principles on which a council tax increase will be regarded as “excessive” and therefore trigger a referendum will not be announced until the new year although the wording of the Statements suggest that a council tax increase of less than 2% may be the level that triggers a referendum.
- There continues to be uncertainty surrounding the treatment of levies in the calculation of the variation in council tax and this therefore carries a significant risk for the Council.
- As expected, the reductions in funding for 2015/16 are significantly higher than in 2014/15 with reductions in RSG of £45m or 29%.

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**Reasons for Recommendations :** To formally record the financial impact of the provisional local government finance settlement for 2014/15 & 2015/16.

**Recommendations:** To note the financial impacts set out in this report as a result of the provisional local government finance settlement announced on 18<sup>th</sup> December 2013.

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**Category of Report:** OPEN/CLOSED

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## Statutory and Council Policy Checklist

<b>Financial implications</b>
YES/NO      Cleared by: Eugene Walker
<b>Legal implications</b>
YES/NO      Cleared by:
<b>Equality of Opportunity implications</b>
YES/NO      Cleared by:
<b>Tackling Health Inequalities implications</b>
YES/NO
<b>Human rights implications</b>
YES/NO      :
<b>Environmental and Sustainability implications</b>
YES/NO
<b>Economic impact</b>
YES/NO
<b>Community safety implications</b>
YES/NO
<b>Human resources implications</b>
YES/NO
<b>Property implications</b>
YES/NO
<b>Area(s) affected</b>
<b>Relevant Scrutiny Board if decision called in</b>
Overview and Scrutiny Management Committee
<b>Is the item a matter which is reserved for approval by the City Council? NO</b>
<b>Press release</b>
YES/NO

# PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT: 2014/15 & 2015/16

## Purpose of the Report

1. The purpose of the Report is to provide Members with details of the Provisional Local Government Finance Settlement for 2014/15 and 2015/16.

## Recommendation

2. It is recommended that the position regarding the Local Government Finance Settlement is noted.

## Headlines

3. The headlines from the Settlement are as follows:
  - Settlement confirms the Autumn Statement position (in broad terms) that the funding for next year is no worse than already announced i.e. no FURTHER cuts but the existing planned cuts in 2014/15 and 2015/16 remain
  - The capping of business rate uplifts (to 2% rather than RPI) are being funded for 2014/15 but concerns remain as to whether this will be sustained in 2015/16
  - The details of specific grants are not yet fully announced and there could still be surprises here: for example, the announcement that Government would compensate Council's for lost business rate income due to small business relief does not appear in the spending power figures and requires clarification from DCLG.
  - There are concerns as to whether some further cuts to specific grants (Local Welfare Provision Grant and Housing Benefits Administration Subsidy) totalling over £5m are hidden in the detail of the Settlement for 2015/16.
  - There are hints that the Government may reduce the 2% council tax referendum cap. The rules on excluding the ITA levy from the referendum are still not certain or agreed by Parliament (£3m of savings are at risk on this)
  - There is some potential for a small increase in RSG but we still need to clarify how real this is, given the uncertainties highlighted above.
4. In terms of how this affects the Council's budget for 2014/15, the approach adopted has been to secure savings of 15% from each Portfolio/Outcome area and this remains the position: effort needs to be made to ensure that this level of savings are identified in each Outcome area. The Medium Term Financial Strategy (reported to Cabinet in September 2013) indicated that one of the major challenges in 2014/15 concerned the funding of the pension costs following the 2013 Actuarial review: this continues to be a challenge although there is the potential to utilise up to £4m of capital financing savings to meet some of these costs.

5. Any betterment in RSG (if real) needs to be reviewed in the context of the following:
  - The risk of further reductions in specific grants of potentially £5m in 2015/16
  - Uncertainty surrounding the small business rates relief funding of £2m
  - The position being taken on the £4m corporate savings (given that pension costs remains a significant risk and will involve an increasing cost in 2015/16 when we face an even higher reduction in grant than in 2014)
  - The potential for the £3m ITA levy savings to be at risk because of uncertainty regarding the council tax referendum rules
  - The risk of delivering adult social care savings in 2014/15 given the measures taken in 2013/14 to reduce the forecast overspend
  - The medium term context starting in 2015/16 when the Council faces an even higher reduction in grant than in 2014/15.

### **Background**

6. With the introduction of the business rates retention scheme in April 2013, the Government introduced a new term to describe the level of funding available to a local authority not including council tax: the Settlement Funding Assessment (SFA). The level of SFA for a local authority is arrived at using the following
  - A formula funding allocation that is based on complex formulae to reflect the relative needs and resources of individual local authorities. (The application of the formula does have some distributional impacts which act against northern city councils). This formula involves data sets that include 2011 based population projections and council tax projections. A floor damping mechanism exists to limit the impact that movements in data and formulae have on individual authorities.
  - Grants that are to be transferred into funding allocations from April 2013. These are amounts that were previously allocated as Specific Grants and which the Government announced in May 2012 would form part of the funding allocations. This change was being introduced in order to provide the facility for the Government to make the overall CSR reductions in local government funding.
7. Having arrived at an overall SFA for a local authority, the allocation of that SFA amount to an individual local authority involves a combination of:
  - A Revenue Support Grant (RSG); plus
  - A Business Rates Baseline. This is the Governments assumption of the level of retained business rates (the 49% that the City Council retains) together with business rates top up grant where applicable.

### **December 2012 indicative figures**

8. In December 2012 as part of the Local Government Finance Settlement for 2013/14, the Government issued an Illustrative Finance Settlement for 2014/15. For Sheffield, the SFA was shown as reducing by approximately £29m (or 10%) compared to 2013/14: from £316.6m to £287.5m. This included a £33m (or 17%) reduction in RSG. The difference between the two figures was due to an increase of £3m in the local share of business rates. This was a Government assumption which required closer examination to determine the actual movement in business rates income for the City Council. A further feature of the position for 2014/15 was that funding for the Council Tax Support Scheme (of £36m in 2013/14) was subsumed within other elements of the RSG formula and was no longer separately identifiable.

### **July 2013 exemplification figures**

9. In July 2013 the Secretary of State issued further details of the impact of the Spending Review on local authorities. This indicated that the funding position for Sheffield would worsen with a further reduction in SFA of £3m (or 1.1%) compared to the December 2012 figures. This brought the overall SFA level down from £316m in 2013/14 to £284m in 2014/15. This reduction almost entirely resulted in a further cut in RSG. At this time the Government also issued exemplifications for 2015/16 which showed a more significant reduction in RSG of £45m (or 30%).
10. The Medium Term Financial Strategy (MTFS) was reported to Cabinet on 18 September 2013. The MTFS included the figures announced in July 2013 and the reductions in RSG of £36m in 2014/15 and a further £45m in 2015/16 were a significant part of the overall forecast revenue shortfall of £37m and £41m for 2014/15 and 2015/16 respectively.

### **December 2013 Provisional Finance Settlement for 2014/15**

11. On 18 December 2013 the Minister for local government announced the provisional local government finance settlement for 2014-15 in Parliament. The figures announced are broadly in line with the exemplifications issued in July 2013. The Government has decided to “roll up” the Council Tax Freeze Grant for 2013/14 into RSG for 2014/15. This has meant that the expected SFA of £284m has increased by £1.9m to £286m. Whilst the Settlement suggests that the Freeze Grant will continue to be included in future funding allocations to what extent this will continue indefinitely cannot be determined.
12. This means that the overall reduction in SFA from 2013/14 to 2014/15 is £30.2m (or 9.5%). Once the inclusion of Freeze Grant has been taken into account – this was previously a specific grant – on a like for like basis the actual reduction in SFA

since 2013/14 is £32.1m which was the level of reduction included in the MTFS report.

	SETTLEMENT	PROVISIONAL	Difference
	2013/14	2014/15	
	£000	£000	£000
Revenue Support Grant	190,105	157,422	-32,683
Baseline Business Rates Funding			
Local Share of Business Rates	98,672	100,593	1,921
Top Up Grant	27,800	28,342	542
<b>Settlement Funding Assessment</b>	<b>316,577</b>	<b>286,357</b>	<b>-30,220</b>

13. Although the overall level of reduction in SFA is as expected, there are variations within the components:
- The business rates baseline is £1.7m less than reported in July. This is due to the capping of the increase in the multiplier to 2% rather than the full amount of inflation.
  - The level of RSG is slightly higher than reported in July although there is meant to be funding in here for parish councils (referred to later in this report) and there may be other (as yet) unanticipated consequences of this slight improvement.
14. As in 2013/14 a feature of the Settlement is that, with the introduction of the business rates retention scheme, amounts that were previously specific grants and are now included in SFA, are split between RSG and Business Rates Baseline. This means that the full amounts are no longer funded by grants and local authorities will only receive that proportion included in Baseline by achieving their target business rates figure. This applies to the Freeze Grant for 2011/12, Early Intervention funding and Learning Disability and Health Reform funding. The full build-up of the 2014/15 SFA is shown below. The “returned funding” element relates to funding that the Government had taken from the overall allocation for local government for initiatives such as capitalisation and which is now being reallocated to authorities because the full amount was not required by Government.

	RSG	Baseline	TOTAL
	2014/15	2014/15	2014/15
	£000	£000	£000
Upper Tier Funding	113,942	95,360	209,302
Lower Tier Funding	20,058	18,156	38,214
Grants rolling in:			
Council Tax Freeze Grant 2011/12	2,893	2,003	4,896
Early Intervention funding	9,158	7,240	16,398
Homelessness	299	210	509
Lead Authority Flood	78	55	133
LD & Health Reform	8,740	5,911	14,651
Council Tax Freeze Grant 2013/14	1,914	0	1,914
Returned Funding	340	0	340
<b>TOTAL Settlement Funding Assessment</b>	<b>157,422</b>	<b>128,935</b>	<b>286,357</b>

### Specific Grant allocations

15. The details of the allocation of specific grants to the City Council are incomplete and further announcements by individual Government departments are expected later in respect of some grants such as the Education Services Grant. The Spending Power figures issued by the DCLG provide an indication of the likely final grant allocations and on this basis the allocations to the Council may be as follows:

	2013/14	2014/15	Movement
Specific Grant allocations	£m	£m	£m
Compensation for business rates capping	0.000	1.369	1.369
Less Council Tax Support Funding for Parishes	-0.085	-0.085	0.000
Lead Local Flood Authorities	0.086	0.086	0.000
Community Right To Challenge	0.009	0.009	0.000
Community Right To Bid	0.008	0.008	0.000
Local Welfare Provision Grant	2.509	2.472	-0.037
New Homes Bonus	4.595	5.954	1.359
New Homes Bonus: returned funding	1.072	0.443	-0.629
Housing Benefit Administration Subsidy	4.060	0.000	-4.060
Local Council Tax Support and Housing Administration Subsidy	0.000	3.868	3.868
Council Tax Support New Burdens Funding	0.351	0.270	-0.081
Local Health Reform and Community Voices DH grant	0.474	0.489	0.015
Public Health Grant	29.665	30.748	1.083
NHS funding to support social care	9.683	12.399	2.716
Estimated Specific Grants	52.427	58.030	5.603



16. An assessment of the impact of these specific grant levels on the City Council requires further work. Some of the increases shown above have already been assumed in the Council's financial position for 2014/15 (e.g. the increases in NHS funding and Public Health Grant). In terms of some of the other grants/funding:
- The compensation for business rates capping relates to the Autumn Statement measure to limit the uplift in the business rates multiplier to 2%. The impact of this measure needs to be assessed against the overall level of business rates for 2014/15.
  - The New Homes Bonus allocation has been increased by £0.7m. The Council has used these allocations to create a Local Growth Fund and support capital spending initiatives.
  - There is a reduction of £0.2m in the subsidy for benefit administration. The implications of this on the benefits administration service will require further work.

#### **Council Tax Freeze Grant and referendum issues**

17. The Settlement emphasises that funding is being made available to assist local authorities in not increasing the council tax. The spending power figures for 2014/15 for Sheffield include an indicative Freeze Grant of £1.9m, being the equivalent of a 1% increase in council tax. The Government has also confirmed that Freeze Grants for 2014/15 and 2015/16 will be "built into the spending review baseline" and that this overcomes the "cliff edge effect from the freeze grant disappearing in due course". To what extent these grants will continue indefinitely is unclear.
18. There is confirmation that an announcement will be made later as regards the Council Tax referendum threshold principles. In previous years the principles have not been announced until February and are subject to approval by Parliament. Although previous statements by the Secretary of State have suggested that a referendum would be required if council tax increases exceeded 2%, the Finance Settlement includes the following ominous paragraph:
- "We 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. We should trust the people".
19. It has been confirmed that the regulations regarding the treatment of levies in the calculation of "excessive" council tax increases will depend on the approval by

Parliament of the Local Audit and Accountability Bill. This therefore remains an area of doubt and has the potential for the 2013/14 rules to still apply and for a reduction in the ITA levy to require a reduction in the council tax. Until any revised regulations become available, the following statement by the Local Government Minister cannot be interpreted clearly:

“The principles will include levies and will therefore be based on the level of Band D Council Tax. This will mean the principle will relate to the actual increase which appears on people’s bills – again reducing costs for taxpayers”.

### **Parish councils and local Council Tax support**

20. With the introduction of Council Tax Support Schemes from April 2013, the Finance Settlement for 2013/14 included amounts to compensate local authorities, including parish councils, for the lost council tax income as a result of the reduction in the tax base: i.e. the reduction in the number of homes that pay full council tax because of the introduction of new discounts. Although no specific funding can be identified in the RSG allocation for this, the Statement made by the Local Government Minister makes reference to there being “an element that is there specifically to reflect reductions in the council tax base and we expect billing authorities to carry on passing on support to town councils and parishes”. It is recognised that funding is “not separately identified because it is not ring-fenced and as caseloads change and schemes evolve, the amount that different parishes need will change”. Part of the RSG allocation may therefore need to be paid to parish councils although the precise amounts are not clear at this time.

### **December 2013 Illustrative Finance Settlement for 2015/16**

21. The Government has also released details of the Illustrative Finance Settlement for 2015/16. Although full details will not be known until December 2014, the illustrative information reflects Government plans as to how the further reduction in grant funding of 10%, as announced in the Spending Review, are to be achieved. The position for 2015/16 was expected to be more severe than that for 2014/15.
22. The reduction in RSG amounts to £45m (or 29%) compared to the level for 2014/15. Adjusting for the loss of specific grant due to the rolling-up of 2013/14 Freeze Grant into SFA, a like for like comparison gives a reduction of over £47m: a slightly worse position than that forecast in the MTFS.

	PROVISIONAL	ILLUSTRATIVE	Difference
	2014/15	2015/16	
	£000	£000	£000
Revenue Support Grant	157,422	112,088	-45,334
Baseline Business Rates Funding			
Local Share of Business Rates	100,593	103,370	2,777
Top Up Grant	28,342	29,124	782
<b>Settlement Funding Assessment</b>	<b>286,357</b>	<b>244,582</b>	<b>-41,775</b>

23. Details of the Illustrative Spending Power calculation for 2015/16 also suggest that there will be reductions in the level of specific grants. The figures released do not include funding for the Council Tax Support and Housing Benefit Subsidy: for the present time it is assumed that this is an oversight by the DCLG. One grant that has been intentionally removed is the Local Welfare Provision Grant (£2.4m in 2014/15). This was introduced in April 2013 and currently supports the Council's local assistance scheme.
24. The calculations of spending power by the DCLG also include an estimated £37.7m in 2015/16 in respect of the new Pooled NHS and Local Authority Better Care Fund. The extent to which this will be available to the Council is questionable as it is part of the NHS funding allocation. This funding replaces the £10m of "NHS Funding to support social care" that is available in 2014/15 and there is also a reduction of £9m in the "Adult Social Care New Burdens" funding.

### Consultation period

25. The announcement of the Finance Settlement marks the start of a period of statutory consultation. Consultation closes on 15 January 2014 and the Final Settlement will therefore be announced after this date although the details are not expected to be different from the Provisional Settlement.

### Summary

26. The overall impact on the City Council as a result of the Finance Settlement is as follows:
- The reductions in SFA for 2014/15 and 2015/16 are as reported in the Medium Term Financial Strategy
  - The principles on which a council tax increase will be regarded as "excessive" and therefore trigger a referendum will not be announced until the new year although the wording of the Statements suggest that a council tax increase of less than 2% may be the level that triggers a referendum.

- There continues to be uncertainty surrounding the treatment of levies in the calculation of the variation in council tax and this therefore carries a significant risk for the Council.
- As expected, the reductions in funding for 2015/16 are significantly higher than in 2014/15 with reductions in RSG of £45m or 29%.