



Department for  
Communities and  
Local Government

# Local Government Finance Settlement 2014-15 and 2015-16

Technical Consultation

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# Section 1: Introduction

## Chapter 1: Overview of the Proposals

1. The new business rates retention system was introduced on 1 April 2013. It provides a strong incentive for local authorities to change their behaviours and promote growth, whilst ensuring that all local authorities have adequate resources to provide services to local people. It gives local authorities every possible reason to use the influence they have over planning, investment in skills and infrastructure and their relationship with local businesses to create the right conditions for local economic growth.
2. This consultation seeks views on a range of detailed and technical issues concerning the 2014-15 and 2015-16 Local Government Finance Settlements. It will be of particular interest to local authority finance departments.
3. The Government published the illustrative 2014-15 Local Government Finance Settlement on 4 February 2013<sup>1</sup>. Since its publication, the Government announced in the 2013 Budget that a reduction of 1% would be made from the local government spending control total. Section 2 of this consultation covers changes to the illustrative 2014-15 Local Government Finance Settlement as a result of the announcement. It also proposes an increase in the amount needed to be held back to ensure sufficient funding for *safety net* payments to local authorities.
4. For 2015-16 the Spending Round announced a range of measures to support councils in delivering better outcomes with fewer resources. Taking into account sources of local government funding such as council tax and business rates, the Spending Round set out an overall local government spending reduction of 2.3%. In order to aid stability and certainty for authorities and to help them plan for the transformation of their services, the Government intends to publish illustrative 2015-16 allocations alongside the 2014-15 settlement later this year. Section 3 of this consultation covers the 2015-16 control total for *Revenue Support Grant*, together with the methodology the Government intends to use to calculate *Revenue Support Grant* in 2015-16.
5. All figures throughout the document are given in cash terms, unless stated otherwise.
6. There are consultation questions throughout the document, on which we would welcome your views. A summary of the consultation questions is contained in Section 4 and the procedure for responding to this technical consultation is set out below. You should note that we may wish to publish responses.

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<sup>1</sup> [www.local.communities.gov.uk/finance/1314/settle.htm](http://www.local.communities.gov.uk/finance/1314/settle.htm)

7. A glossary of the technical terms, which are italicised throughout the document, is provided at Section 5.

## Chapter 2: Consultation Procedure

### The consultation process and how to respond

<b>Topic of this consultation:</b>	This consultation is in five sections. The two principal sections are: <ul style="list-style-type: none"><li>• Section 2 - Changes to the 2014-15 Local Government Finance Settlement.</li><li>• Section 3 - The 2015-16 Local Government Finance Settlement.</li></ul>
<b>Scope of this consultation:</b>	As above. Following decisions on this technical consultation, the provisional Local Government Finance settlement for 2014-15 will be consulted on in the usual way in the autumn of this year.
<b>Geographical scope:</b>	England.
<b>Impact Assessment:</b>	A draft Equalities Statement covering the possible impacts of the proposed policy changes in this consultation has been published and is available at: <a href="http://www.local.communities.gov.uk/finance/1415/sumcon/equalities_statement.pdf">www.local.communities.gov.uk/finance/1415/sumcon/equalities_statement.pdf</a>
<b>Body responsible for the consultation:</b>	This consultation is being run by the Local Government Finance Directorate within the Department for Communities and Local Government.
<b>Duration:</b>	This consultation will run for ten weeks from 25 July 2013 to 5pm on 2 October 2013. The consultation period has been set at ten weeks in order to provide local authorities with detailed information about their funding for 2014-15 at the earliest opportunity.
<b>Enquiries:</b>	For enquiries, please contact: andrew.lock@communities.gsi.gov.uk 0303 444 2137

<p><b>How to respond:</b></p>	<p>By email to:  <a href="mailto:LGFSummerConsultation@communities.gsi.gov.uk">LGFSummerConsultation@communities.gsi.gov.uk</a>  Or by post to:  Andrew Lock  Department for Communities and Local Government  Zone 5/D2, Eland House  Bressenden Place  London SW1E 5DU</p>
<p><b>Getting to this stage:</b></p>	<p>The Department published an illustrative 2014-15 Local Government Finance Settlement at the time of the 2013-14 Local Government Finance Settlement.</p> <p>The Government consulted last year on the outline of the 2015-16 scheme.</p>
<p><b>Previous engagement:</b></p>	<p>The Government previously consulted on the outline of the 2015-16 scheme in the Business Rates Retention: Technical Consultation from 17 July to 24 September 2012<sup>2</sup>.</p> <p>The Department continues to engage with local authorities and representative organisations through regular meetings, and attendance at local authority events.</p>

Representative groups are asked to give a summary of the people and organisations they represent and, where relevant, who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all

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<sup>2</sup> [www.gov.uk/government/consultations/business-rates-retention-technical-details](http://www.gov.uk/government/consultations/business-rates-retention-technical-details)

circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department.

The Department for Communities and Local Government will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

# Section 2: Changes to the 2014-15 Local Government Finance Settlement

## Chapter 3: Effect of the 2013 Budget announcement

1. In order to provide greater stability and predictability in local government funding to support the introduction of local business rate retention, the Government published the illustrative 2014-15 Local Government Finance Settlement on 4 February 2013, alongside the 2013-14 Local Government Finance Settlement.
2. The illustrative 2014-15 Local Government Finance Settlement indicated that the *Settlement Funding Assessment*<sup>3</sup> would be £23,856.866 million. Since the publication of that illustrative settlement, in the 2013 Budget, the Government announced that a further reduction of 1% overall would be made from the total of Local Government Departmental Expenditure Limit (LG DEL) and the *local share* of the *Estimated Business Rates Aggregate*. This equates to a further £218.864 million reduction to the total for 2014-15.
3. Since the *local share* of business rates is fixed until 2020 to provide a strong incentive for local authorities to promote growth, the full reduction will need to be applied to the element of funding that is provided through *Revenue Support Grant*. On that basis, the 2014-15 *Revenue Support Grant*<sup>4</sup> will be reduced by 1.73%, from £12,624.041 million to £12,405.177 million.
4. In line with the commitments made to authorities prior to take up, the Government does not intend to reduce the Council Tax Freeze Compensation element of the *Revenue Support Grant*. The 1.73% reduction will therefore be applied to the remaining elements of the *Revenue Support Grant*. On that basis the reduction in the 2014-15 control totals for each of the remaining elements will be 1.78%. The new control totals for each of the elements is given in Table 1.

### **Question 1: Do you agree with the Government's proposal on how to implement the 1% reduction to the Local Government Departmental Expenditure Limit (LG DEL)?**

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<sup>3</sup> The illustrative 2014-15 Local Government Finance Settlement used the term 'Start-Up Funding Assessment' rather than 'Settlement Funding Assessment'. Whilst the term 'Start-Up Funding Assessment' is appropriate for 2013-14 (because it reflects the position at the start of the Business Rates Retention Scheme) from 2014-15 the term 'Settlement Funding Assessment' is more suitable.

<sup>4</sup> Revenue Support Grant (RSG) comprises elements for Upper-Tier Funding, Lower-Tier Funding, Fire and Rescue Funding, Council Tax Freeze Compensation, Early Intervention Funding, GLA General Funding, Homelessness Prevention Funding, Lead Local Flood Authority Funding and Learning Disability and Health Reform Funding.

## Updating for the RPI forecast

5. The *local share* of the *Estimated Business Rates Aggregate* was set at £10,898.554 million in 2013-14 and is updated each year based on the Retail Price Index (RPI) for the preceding September<sup>5</sup>. The business rates element of the 2014-15 *Settlement Funding Assessment* will therefore change with this September's RPI. As a result, the overall *Settlement Funding Assessment* for 2014-15 will be higher than in the illustrative settlement if this September's RPI is higher than forecast, and conversely will be lower if this September's RPI is lower than forecast. The RPI forecast as at the 2013 Budget (the latest available) is 0.19% higher than at the time of the illustrative settlement. The updated forecast is reflected in the table below.
6. Changes to the *local share* of the *Estimated Business Rates Aggregate* for the updating of RPI forecast do not impact on the overall quantum of *Revenue Support Grant* which is fixed at Spending Reviews.

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<sup>5</sup> Technically the uprate is by the change to the small business rates multiplier.

**Table 1 - Change in control totals as a result of the one percent reduction announced in the 2013 Budget and updating the RPI forecast**

Element	Original 2014-15 Revenue Support Grant Control Total (£ million)	Revised 2014-15 Revenue Support Grant Control Total (£ million)	Reduction in Revenue Support Grant (%)	Original 2014-15 local share of Estimated Business Rates Aggregate (£ million)	Revised 2014-15 local share of Estimated Business Rates Aggregate (£ million)	Increase in local share of Estimated Business Rates Aggregate (%)	Original 2014-15 Settlement Funding Assessment (£ million)	Revised 2014-15 Settlement Funding Assessment (£ million)	Change in Settlement Funding Assessment (%)
Upper-Tier Funding	7,847.288	7,707.382	-1.78%	6,558.993	6,571.309	0.19%	14,406.281	14,278.691	-0.89%
Lower-Tier Funding	1,929.580	1,895.171	-1.78%	1,744.678	1,747.954	0.19%	3,674.258	3,643.125	-0.85%
Fire & Rescue Funding	650.702	639.099	-1.78%	510.610	511.569	0.19%	1,161.312	1,150.667	-0.92%
2011-12 Council Tax Freeze Compensation	349.038	349.038	0.00%	244.313	244.771	0.19%	593.351	593.809	0.08%
Early Intervention Funding	896.378	880.394	-1.78%	703.648	704.970	0.19%	1,600.026	1,585.363	-0.92%
GLA General Funding	23.819	23.395	-1.78%	18.822	18.857	0.19%	42.641	42.252	-0.91%
GLA Transport Funding	n/a	n/a	n/a	781.712	783.180	0.19%	781.712	783.180	0.19%
London Bus Services Operators Funding	n/a	n/a	n/a	45.684	45.770	0.19%	45.684	45.770	0.19%
Homelessness Prevention Funding	47.060	46.221	-1.78%	32.940	33.002	0.19%	80.000	79.223	-0.97%
Lead Local Flood Authority Funding	12.353	12.133	-1.78%	8.647	8,663	0.19%	21.000	20.796	-0.97%
Learning Disability and Health Reform Funding	866.230	850.783	-1.78%	581.684	582.776	0.19%	1,447.914	1,433.559	-0.99%
<b>Total<sup>6</sup></b>	<b>12,624.041</b>	<b>12,405.177</b>	<b>-1.73%</b>	<b>11,232.825</b>	<b>11,253.917</b>	<b>0.19%</b>	<b>23,856.866</b>	<b>23,659.094</b>	<b>-0.83%</b>

<sup>6</sup> The total will not add up to the sum of the components due to the Isles of Scilly.

## Chapter 4: Increasing the safety net hold back

1. The rates retention system includes a *safety net* to protect local authorities from significant negative shocks to their income by guaranteeing that no authority will see its income from business rates fall below 7.5% of their individual *baseline funding level*. The *safety net* is funded by a *levy* on the disproportionate financial benefits that some authorities will experience as a result of business rates growth, caused by the uneven distribution of business rates bases and the different spending needs of local authorities.
2. The July 2012 'Business Rates Retention: Technical Consultation'<sup>7</sup> suggested that in the first few years of the new business rate retention scheme there was a risk that the amount required to be paid out via the *safety net* would be greater than the amount raised through the *levy*. At the 2013-14 Provisional Settlement, the Government decided that it would be prudent to hold back £25 million in both 2013-14 and 2014-15 to ensure that councils could be supported appropriately through unforeseen events.
3. Since then, local authorities have submitted their forecasts of the income they expect to receive from the rates retention scheme. These estimates indicate that the £25 million held back will not be sufficient to meet all the demands on the *safety net* in 2013-14.
4. As outturn figures from local authorities to confirm the final *levy* and *safety net* position for 2013-14 will not be available until August 2014, the Department will need to increase the amount of *Revenue Support Grant* held back in 2014-15 to repay the cost of the additional demand on the *safety net* for 2013-14, and to have sufficient funding to meet *safety net* payments in 2014-15.
5. Based on the estimates from the local authority returns, in addition to the £25 million it already intends to hold back in 2014-15, the Department considers that it will need to hold back an additional £95 million in 2014-15 (i.e. a total of £120 million). These resources will only be used as needed and any funding not used will be returned to authorities in year in proportion to their 2013-14 Start-Up Funding Assessment.

### Reducing the capitalisation hold back

6. The Government announced as part of the Local Government Finance Settlement for 2013-14 that £100 million would be made available for capitalisation in 2013-14 and 2014-15. It was announced that the amount held back for capitalisation would reduce funding within *Revenue Support Grant*, with any provision not allocated to be distributed in accordance with the authorities' share of the 2013-14 Start-Up Funding Assessment.
7. We could reduce the need for a further reduction in *Revenue Support Grant* for the *safety net* in 2014-15 by using a proportion of the funds

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<sup>7</sup> [www.local.communities.gov.uk/finance/brr/sumcon/index.htm](http://www.local.communities.gov.uk/finance/brr/sumcon/index.htm)

already held back from *Revenue Support Grant* for capitalisation in 2014-15. Using £50 million of the capitalisation funding for 2014-15 to fund the *safety net* reduces the size of the *safety net* hold back needed to £70 million. This would leave £50 million available in 2014-15 for capitalisation.

8. For billing authorities and county councils, it is proposed that in total £118 million will be held back from *Revenue Support Grant* to be paid to those authorities to meet the requirements for capitalisation and *safety net* support if necessary. For fire and rescue authorities it is proposed that in total £2 million is held back. The money will be taken from the Upper-Tier Funding, Lower-Tier Funding and Fire and Rescue Funding elements.

**Question 2: Do you agree with the proposal for reducing the funding available for capitalisation for 2014-15 by £50 million and using this revenue to reduce the amount required to be held back from *Revenue Support Grant* to fund the *safety net*?**

# Section 3: The 2015-16 Local Government Finance Settlement

## Chapter 5: Revenue Support Grant Control Total

1. The Government announced in the 2013 Budget speech that public spending needed to reduce by a further £11.5 billion to help reduce the public deficit. Since the local government sector accounts for nearly a quarter of all public spending, it is only right that they should play their part in deficit reduction.
2. The Spending Round<sup>8</sup> set out a reduction of 2.3 per cent for 2015-16 in overall local government spending, including LG DEL<sup>9</sup>, other government grants and council tax income,. Part of this is a reduction in LG DEL of 10% when compared to 2014-15. However, this reduction is balanced with a package of measures which create a real opportunity to transform services. The package includes:
  - A £3.8bn pool of funding for integrated health and social care. This will help to ensure that service levels in the care and support system can be protected and will enable authorities to invest in prevention and early intervention.
  - A new fund of £330m for Transforming Services. This will be comprised of a £200m extension of the Troubled Families programme to support another 400,000 families, £100m to enable efficiencies in service delivery, and a £30m revenue fund (as well as £45m capital fund) to drive transformational change in the Fire and Rescue Service.
  - A joint programme with the Department for Education on reviewing pressures in children’s services.
  - Support for two further council tax freezes in 2014-15 and 2015-16.
  - Flexibility to use capital receipts from asset sales to fund one-off revenue costs of reforming services.
3. Under the Business Rate Retention scheme, the *local share* of business rates is set at 50% until 2020, to provide a strong financial incentive for local authorities to promote growth. As such, the full reduction in LG DEL set out above will need to be applied to the LG DEL elements outside of the *local share*. Due to there being a number of other elements included within LG DEL, *Revenue Support Grant* for 2015-16 will be £10,100 million. This means that the amount of *Revenue Support Grant* will be 24.2% less in 2015-16 than in 2014-15. The calculations are set out in Table 2 below:

**Table 2 – differences between 2014-15 and 2015-16<sup>10</sup>**

(£ million)

<sup>8</sup> [www.gov.uk/government/publications/spending-round-2013-documents](http://www.gov.uk/government/publications/spending-round-2013-documents)

<sup>9</sup> LG DEL includes the *local share* of the *Estimated Business Rates Aggregate*

<sup>10</sup> The Settlement Funding Assessment and Revenue Support Grant figures include the funding held back for New Homes Bonus and safety net support discussed in chapter 4.

	2014-15 Settlement (taking into account the changes in Chapters 3 and 4 but prior to all holdbacks)	2015-16 Settlement
Settlement Funding Assessment	24,584.094	21,669.486
Local share of the Estimated Business Rates Aggregate	11,253.917	11,569.678
Revenue Support Grant	13,330.177	10,099.808

4. Not all of the elements within the *Settlement Funding Assessment* will be reduced at the same rate. Further details on this are given in Chapter 6: Distribution of *Revenue Support Grant* in 2015-16.
5. In line with the 2014-15 Settlement as set out in Chapter 4 the control totals will need to be adjusted for Upper-Tier Funding and Lower-Tier Funding in relation to both the New Homes Bonus and *safety net* support and for Fire and Rescue Funding in relation to the *safety net* support. Funding for capitalisation in 2015-16 is included in the amount set aside at the Spending Round for service transformation.
6. As with 2014-15, the *local share* of the *Estimated Business Rates Aggregate* for 2015-16 will be updated to take account of the September RPI figure in the final Settlement.

#### *New Homes Bonus*

7. The New Homes Bonus acts as a powerful incentive for local authorities to deliver housing and forms part of the Government's growth strategy. The New Homes Bonus is designed to recognise growth, and the impacts that growth can bring to communities in terms of pressure on local infrastructure and facilities. The more houses a local authority builds, the more New Homes Bonus funding it will receive.
8. As in 2013-14 and 2014-15, the Government has continued to set aside £250 million in 2015-16 to partially fund the New Homes Bonus. Again, as in previous years, the rest of the funding will be from *Revenue Support Grant*.
9. New Homes Bonus payments are awarded for six years. 2015-16 is the fifth year the New Homes Bonus will have been operating. This means that the amount of funding required for the New Homes Bonus will be greater in 2015-16 than it was in 2014-15.
10. In order to ensure that there will be sufficient funding available to fund the New Homes Bonus, the Government intends to take out £1.1 billion from *Revenue Support Grant* for the New Homes Bonus from both billing authorities and county councils. This represents the broad, ballpark estimate of the amount that might be required in 2015-16.

11. The Government's response to the Heseltine review outlined plans to empower Local Enterprise Partnerships to drive forward locally-led growth and enterprise. It also recommended the pooling of more financial resources to strengthen incentives for Local Enterprise Partnerships and their partners to generate growth. In the spirit of joint working and greater collaboration, the Government believes that there is scope for pooling of both resources from both central and local government.
12. As announced in Investing in Britain's future<sup>11</sup>, it is intended that £400 million from the New Homes Bonus will be pooled within Local Enterprise Partnership areas to support strategic, locally-led housing and economic development priorities.
13. Councils' Local Plans will remain as the focus for where development should and should not go. The pooling complements the duty to cooperate and the abolition of Regional Strategies introduced through the Localism Act. In particular, it is hoped it will encourage local authorities to work together on new developments which might cross council boundaries, and to help unlock the provision of cross-local authority infrastructure. It also gives local authorities an indirect financial stake in new housing build near but outside their council boundaries; whereas before, there was no mitigation for developments which placed strains or pressures on neighbouring councils.
14. A consultation will be published shortly on the mechanism to deliver the pooling arrangements.

*Returning the surplus funding to authorities*

15. Any surplus taken out to fund the New Homes Bonus will be returned to local authorities through Section 31 grant in proportion to their 2013-14 Start-Up Funding Assessments as in 2012-13.
16. The final allocations of the New Homes Bonus will be published alongside the final 2015-16 Local Government Finance Settlement. To enable local authorities to have as much certainty on their funding streams as possible when setting their budgets, provisional figures will be provided at the time of the provisional 2015-16 Local Government Finance Settlement. The residual payment of any New Homes Bonus surplus for 2015-16 will be paid as soon as possible in the 2015-16 financial year.

*Safety net support*

17. As in 2014-15, some money will need to be held back to help ensure that councils can be supported appropriately where their business rates income falls below 7.5% of their *baseline funding level*. The Department intends to hold back £50 million in 2015-16 to meet *safety net* payments in 2015-16. These resources will only be used as needed and any underspend will be returned to authorities in year in proportion to their 2013-14 start-up funding assessment.
18. For billing authorities and county councils, it is proposed that £49 million is held back from *Revenue Support Grant* to be paid to those authorities that

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<sup>11</sup> [www.gov.uk/government/news/35-billion-deal-to-build-homes-and-drive-local-growth](http://www.gov.uk/government/news/35-billion-deal-to-build-homes-and-drive-local-growth)

require *safety net* support. The other £1 million will be held back from fire authorities.

**Question 3: Do you agree with the way the Government proposes to hold back the funding that is necessary for New Homes Bonus and safety net support, and to return any surplus to authorities?**

## Chapter 6: Distribution of Revenue Support Grant in 2015-16

1. The July 2012 'Business Rates Retention: Technical Consultation' set out the Government's intention to continue to simply scale the 2014-15 authority-level allocations of *Revenue Support Grant* to the level of the 2015-16 control total for services funded through the rates retention system.
2. The consultation stated that the number of separate elements being scaled would be decided in the context of the Spending Round. The Government has decided to retain the same number of elements as for the 2014-15 Settlement.

### *Settlement Funding Assessment Control Totals*

3. The Spending Round announced a range of measures to support councils in delivering better outcomes with fewer resources and, taking in to account sources of local government funding such as council tax and business rates, set out an overall local government spending reduction of 2.3%. As set out in Chapter 5, the overall amount of *Settlement Funding Assessment* has been set at £21,669 million in 2015-16. As the *local share* of the *Estimated Business Rates Aggregate* is increased only by RPI, it cannot absorb the reduction in funding. The full reduction in *Settlement Funding Assessment* will therefore need to be applied to *Revenue Support Grant*. The Government proposes not to apply this reduction equally to all the elements of the *Revenue Support Grant*.
4. The Government proposes that for all of the grants rolled in from 2013-14, it will set the 2015-16 control total to be the continuation of the changes over the 2010 Spending Review period prior to holdbacks. This means that the 2011-12 Council Tax Freeze Compensation, Homelessness Prevention Funding, Lead Local Flood Authority Funding and Learning Disability and Health Reform Funding will remain unchanged in cash terms from their original amounts; Early Intervention Funding will be reduced by 8.5%; and the Greater London Authority General Funding will be reduced by 3.0%.
5. The Government also proposes to keep the total level of the localised council tax support funding unchanged in cash terms from its 2014-15 total level. As in the 2014-15 Settlement, there is no separately identifiable amount for localised council tax support at a local authority level since both this and formula funding were subsumed within the Upper-Tier Funding, Lower-Tier Funding and Fire & Rescue Funding elements.
6. As a consequence of these decisions, the **Upper-Tier Funding** will reduce by 14.3% year-on-year and the **Lower-Tier Funding** will reduce by 14.3% year-on-year, prior to funding being held back for the New Homes Bonus and the Safety-Net.

7. The **Fire and Rescue Funding** will reduce by 8.4%<sup>12</sup> year-on-year. A new £30m fund for fire and rescue authorities to encourage greater efficiencies and collaboration with other blue light services was announced in the Spending Round. This brings the overall reduction of Fire and Rescue Authorities budgets to 7.5%.

*Control Totals for elements within the Settlement Funding Assessment*

8. The *Settlement Funding Assessment* control total for each of the separate elements comprises a combination of funding provided through the *local share* of the *Estimated Business Rates Aggregate* and funding provided through *Revenue Support Grant*. As explained in Chapter 5, the *local share* of the *Estimated Business Rates Aggregate* will be increased by the September 2014 RPI. The full reduction in *Settlement Funding Assessment* will therefore need to be found from *Revenue Support Grant*.
9. Table 2 sets out the control totals after holdbacks, together with the year-on-year percentage changes.

**Question 4: Do you agree with the proposed methodology for calculating control totals for each of the elements within the *Settlement Funding Assessment*?**

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<sup>12</sup> This is a reduction of 10% in real terms.

**Table 2 - 2015-16 Control Totals compared to the 2014-15 Revised Control Totals**

Element	2014-15 Revenue Support Grant (after funding held back for New Homes Bonus and safety net) (£ million)	2015-16 Revenue Support Grant (after funding held back for New Homes Bonus and safety net) (£ million)	Year-on-year change in Revenue Support Grant (after funding held back) (%)	2014-15 local share of Estimated Business Rates Aggregate (£ million)	2015-16 local share of Estimated Business Rates Aggregate (£ million)	Year-on-year change in local share of Estimated Business Rates Aggregate (%)	2014-15 Settlement Funding Assessment (£ million)	2015-16 Settlement Funding Assessment (£ million)	Year-on-year change in Settlement Funding Assessment (%)
Upper-Tier Funding	7,672.326	5,194.057	-32.3%	6,571.309	6,755.687	2.8%	14,243.635	11,949.744	-16.1%
Lower-Tier Funding	1,886.227	1,246.073	-33.9%	1,747.954	1,796.998	2.8%	3,634.181	3,043.071	-16.3%
Fire & Rescue Funding	638.099	526.150	-17.5%	511.569	525.922	2.8%	1,149.667	1,052.072	-8.5%
2011-12 Council Tax	349.038	342.170	-2.0%	244.771	251.639	2.8%	593.809	593.809	0.0%
Freeze Compensation									
Early Intervention Funding	880.394	726.592	-17.5%	704.970	724.750	2.8%	1,585.363	1,451.341	-8.5%
GLA General Funding	23.395	21.581	-7.8%	18.857	19.386	2.8%	42.252	40.967	-3.0%
GLA Transport Funding	n/a	n/a	n/a	783.180	805.155	2.8%	783.180	805.155	2.8%
London Bus Services	n/a	n/a	n/a	45.770	47.054	2.8%	45.770	47.054	2.8%
Operators Funding									
Homelessness Prevention Funding	46.221	45.295	-2.0%	33.002	33.928	2.8%	79.223	79.223	0.0%
Lead Local Flood Authority Funding	12.133	11.890	-2.0%	8.663	8.906	2.8%	20.796	20.796	0.0%
Learning Disability and Health Reform Funding	850.783	834.431	-1.9%	582.776	599.128	2.8%	1,433.559	1,433.559	0.0%
<b>TOTAL<sup>13</sup></b>	<b>12,360.177</b>	<b>8,949.795</b>	<b>-27.6%</b>	<b>11,253.917</b>	<b>11,569.678</b>	<b>2.8%</b>	<b>23,614.094</b>	<b>20,519.473</b>	<b>-13.1%</b>

<sup>13</sup> The total will not add up to the sum of the components due to the Isles of Scilly where we are maintaining its allocation in 2015-16 to reflect its very small amounts of overall funding.

## Chapter 7: Transfers

### *2013-14 Council Tax Freeze Grant*

1. It was announced at the 2013 Spending Round that the 2013-14 Council Tax Freeze Grant was baselined into LG DEL. This means that the compensation will continue to be paid beyond the 2010 Spending Review period. From 2015-16 this will therefore be rolled into *Revenue Support Grant*. The amount will be protected in cash terms.
2. The 2014-15 *Revenue Support Grant* will be notionally adjusted to reflect this at an authority level by adding the 2013-14 Council Tax Freeze Grant to the existing Council Tax Freeze Compensation element. Similarly, in 2015-16, the 2013-14 Council Tax Freeze Grant will be combined with the 2011-12 Council Tax Freeze Compensation to form a single element.
3. Council Tax Freeze Compensation for 2013-14 will be distributed so that those authorities that accepted the freeze will receive the Compensation but those that did not accept the freeze will not.
4. **Question 5: Do you agree with the proposed methodology for transferring in the 2013-14 Council Tax Freeze Compensation?**

### *Carbon Reduction Scheme*

5. As part of Government's simplification of the Carbon Reduction Commitment Energy Efficiency Scheme all state funded English schools will be withdrawn from participating in Phase 2 of the scheme. The qualification period for Phase 2 was 1 April 2012 to 31 March 2013. English local authorities are not required to include electricity supplies to schools under their control or academies in their area in their assessment of qualification for Phase 2.
6. English local authority participants of the Carbon Reduction Commitment Energy Efficiency Scheme will benefit from reduced administrative costs as they will no longer be responsible for reporting and purchasing Carbon Reduction Commitment Energy Efficiency Scheme allowances for consumed supplies in state schools.
7. Removing state funded English schools from the Carbon Reduction Commitment Energy Efficiency Scheme will result in a number of local authorities becoming too small to meet the required threshold for participation in the Carbon Reduction Commitment Energy Efficiency Scheme. This will also result in a loss of tax revenue received by the Exchequer for which compensation will be expected under the New Burdens principle. Departments expenditure limits (DEL) will be adjusted to compensate for this loss as outlined in the Government's written budget statement.

8. To help determine the level of reduction in Departmental Expenditure Limit for the Department of Education and Department for Communities and Local Government, the Environment Agency will be writing to request that existing Phase 1 English local authority Carbon Reduction Commitment Energy Efficiency Scheme participants provide, by 30 November 2013, supplementary information for their 2012/13 annual report.
9. This will then allow the Department for Energy and Climate Change to provide by April 2014 the required Carbon Reduction Commitment Energy Efficiency Scheme emissions data so that the necessary adjustments can be made to the 2015-16 Local Government Finance Settlement to compensate the loss of tax revenue to the Exchequer, under the New Burdens Doctrine, from the local authorities who are too small to meet the required threshold for participation in the Carbon Reduction Commitment Energy Efficiency Scheme.
10. No notional adjustments will be made to the 2014-15 settlement to reflect this change. A separate negative element will be created in 2015-16 to reflect the adjustment to the relevant authorities.

**Question 6: Do you agree with the proposed methodology for adjusting the 2015-16 settlement to take account of the loss of tax revenue due to the Exchequer from the local authorities who are too small to participate in the Carbon Reduction Commitment Energy Efficiency Scheme?**

## Section 4: Summary of consultation questions

Question 1: Do you agree with the Government's proposal on how to implement the 1% reduction to the Local Government Expenditure Limit (LG DEL)?

Question 2: Do you agree with the proposal for reducing the funding available for capitalisation for 2014-15 by £50m and using this revenue to reduce the amount required to be held back from *Revenue Support Grant* to fund the safety net?

Question 3: Do you agree with the way the Government proposes to hold back the funding that is necessary for New Homes Bonus and safety net support, and to return any surplus to authorities?

Question 4: Do you agree with the proposed methodology for calculating control totals for each of the elements within the *Settlement Funding Assessment*?

Question 5: Do you agree with the proposed methodology for transferring in the 2013-14 Council Tax Freeze Compensation?

Question 6: Do you agree with the proposed methodology for adjusting the 2015-16 settlement to take account of the loss of tax revenue due to the Exchequer from the local authorities who are too small to participate in the Carbon Reduction Commitment Energy Efficiency Scheme?

# Section 5: Glossary of Technical Terms

## **Baseline funding level**

The amount of an individual local authority's *Start-Up Funding Assessment* for 2013-14 provided through the *local share* of the *Estimated Business Rates Aggregate* updated each year by the change to the small business multiplier (in line with RPI).

## **Billing authority**

A local authority which bills and collects council tax and business rates, for example a district council or unitary county council.

## **Business rates baseline**

Determined for individual authorities at the outset of the business rates retention scheme by dividing the *local share* of the *Estimated Business Rates Aggregate* (England) between billing authorities on the basis of their *proportionate shares*, before the payment of any *major precepting authority share*.

## **Central share**

The percentage share of locally collected business rates that is paid to central government by billing authorities. This is set at 50%. The *central share* is re-distributed to local government through grants including the *Revenue Support Grant*. This replaces the previous 'set-aside' policy.

## **Estimated Business Rates Aggregate**

The total business rates forecast at the outset of the business rate retention scheme to be collected by all billing authorities in England in 2013-14. The *Estimated Business Rates Aggregate* is updated year on year in line with the change in the small business multiplier (based on the September RPI).

## **Levy**

Mechanism to limit disproportionate benefit. The *levy* is applied proportionally on a 1:1 basis (i.e. a 1% increase in business rates income produces a corresponding 1% increase in revenue from the rates retention scheme) but with a limit on the maximum *levy* rate that is imposed, at 50p in the pound. *Levy* payments are used to fund the safety net.

## **Local government spending control total**

The total amount of expenditure for Revenue Support Grant in the Department for Communities and Local Government's Local Government Departmental Expenditure Limit (LG DEL) plus the *local share* of the *Estimated Business Rates Aggregate* that is allocated to the local government sector by Government for each year of a Spending Review. It does not include the resources identified in the 2013 Spending Round for social care and Troubled Families.

## **Local share**

The percentage share of locally collected business rates that is retained by local government. This is set at 50%.

### **Major precepting authority**

An authority or body that does not collect council tax, but instead issues precepts to billing authorities. They are county councils in two tier areas, police and crime commissioners, single purpose fire and rescue authorities and the Greater London Authority. Police and Crime Commissioners are not part of the business rates retention system.

### **Major precepting authority shares**

Used to establish the proportion of the *local share* that is paid by a *billing authority* to its major precepting authorities.

### **Multiplier**

The business rates multiplier when multiplied by the rateable value of a property determines a ratepayer's business rate bill. There are two multipliers – one for small businesses and one for larger businesses. These are set nationally. The small business multiplier is updated annually by the September retail price index (RPI) (although exceptionally a lesser increase may be imposed) and the other multiplier adjusted accordingly.

### **Proportionate Share**

This is the percentage of the national business rates yield which a local authority has collected - on the basis of the average rates collected by authorities over the two years to 2011-12. This percentage was applied to the *local share* of the 2013-14 *Estimated Business Rates Aggregate* to determine the *billing authority business rates baseline*.

### **Revenue Support Grant**

Billing and most major precepting authorities receive *Revenue Support Grant* from central government in addition to their *local share* of business rates *Aggregate*. An authority's *Revenue Support Grant* amount plus the *local share* of the *Estimated Business Rates Aggregate* will together comprise its *Settlement Funding Assessment*.

### **Safety net**

Mechanism to protect any authority which sees its business rates income drop, in any year, by more than 7.5% below their *baseline funding level* (with baseline funding levels being updated by the small business rates *multiplier* for the purposes of assessing eligibility for support).

### **Service tiers**

There are four service tiers corresponding to the services supplied by the four types of authorities. These are upper-tier services – those services, other than fire, supplied by county councils in two-tier areas; police services; fire and rescue services; and lower-tier services – those services supplied by district councils in two-tier areas. Some authorities may provide more than one tier of service.

**Settlement Funding Assessment**

Previously referred to as Start-Up Funding Assessment. It comprises at a national level of total *Revenue Support Grant* and the *local share of Estimated Business Rates Aggregate* for the year in question. On an individual local authority level it comprises each authority's *Revenue Support Grant* for the year in question and its *baseline funding level* updated year on year in line with RPI.

**Tariffs and top-ups**

Calculated by comparing at the outset of the business rate retention scheme a individual authority's *business rates baseline* against its *baseline funding level*. *Tariffs* and *top-ups* are self-funding, fixed at the start of the scheme and index linked to RPI in future years.

**Tariff authority**

An authority with, at the outset of the scheme, a higher individual authority *business rates baseline* than its *baseline funding level*, and which therefore pays a *tariff*.

**Top-up authority**

An authority with, at the outset of the scheme, a lower individual authority *business rates baseline* than its *baseline funding level*, and which therefore receives a *top-up*.