

**BUDGET 2013-14 – REPRESENTATIONS REGARDING CHANCELLOR’S AUTUMN STATEMENT AND GRANT NOTIFICATION**

*To:* **Cabinet**

*Date:* **15<sup>th</sup> January 2013**

*From:* **LGSS Director of Finance**

*Electoral division(s):* **All**

*Forward Plan ref:* **n/a** *Key decision:* **No**

*Purpose:* **To present an analysis of the implications of the 2013-14 Provisional Local Government Finance Settlement**

*Recommendation:* **To consider the implications of the 2013-14 Provisional Local Government Finance Settlement, as outlined in the report, in the light of all planning activities undertaken to date**

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## 1. BACKGROUND

- 1.1 Government grants constitute a significant proportion of Council funding. In recent years the main grant allocated to local authorities from central government has been Formula Grant. This has been supplemented by other non-ring-fenced grants issued by a range of government departments. There are two key funding announcements from central government with particular relevance for the Council's budget-setting process: the Autumn Statement and the Provisional Local Government Finance Settlement. The Autumn Statement is usually in October and provides the broad direction of travel. This is normally followed up by the Provisional Local Government Finance Settlement in early December, which sets out detailed funding allocations for Formula Grant and most other government grants.
- 1.2 This year the Autumn Statement was delayed until 5<sup>th</sup> December and the Provisional Settlement was not published until 19<sup>th</sup> December. These delays stem from the Government's major overhaul of local government finance as Formula Grant is replaced by the Business Rates Retention Scheme from 1<sup>st</sup> April 2013. As a consequence of the complexity of the changes involved, the Department for Communities and Local Government (DCLG) delayed issuing the Provisional Settlement until they had carried out sufficient testing. These timescales have put local authorities in the difficult position of having to finalise their budgets within very tight timescales. Furthermore, there were initially numerous gaps in the published Settlement data and it soon became apparent that the information local authorities had received was inconsistent and incorrect. Much of the information was subsequently withdrawn and data was still being published and corrected on 4<sup>th</sup> January.
- 1.3 The positive side to this year's Provisional Settlement is that it covers a two-year period, spanning 2014-15 as well as 2013-14, albeit that we expect a further 2% cut in 2014-15. The Government is also planning to undertake another spending review later in 2013-14, but current expectations are that this will only cover a one-year period to see it through the existing Parliament.
- 1.4 Key financial information obtained from the Provisional Settlement at a national level is outlined below and compared with the Council's pre-Settlement estimates:
- Local Government Spending Control Total  
Adjustments have been made to the Local Government Spending Control Total to reflect transfers in and out. In particular the transfer out for the New Homes Bonus has increased from £500m to £505.890m. The additional £5.890m relates to the 2012-13 overspend and reduces the overall funds available for distribution. Compared to 2012/13 there is an overall increase of £2.534bn (10.75%) to the Local Government Spending Control Total. This includes grants rolled in to the Business Rates Retention Scheme from 2013-14 totalling £7.367bn.
  - Estimated Business Rates Aggregate  
This is a fundamental figure within the new local government financing arrangements and there will naturally be greater focus on the forecasting of business rates going forward. The Local Government Finance Report, included within the Settlement documentation, sets out the amount Government expects billing authorities in England to raise in business rates, i.e., the Estimated Business Rates Aggregate (EBRA), in 2013-14

at £21.797bn. This is a decrease of £9m compared to provisional modelling by the Society of County Treasurers, which overall is beneficial to local authorities (see Section 2.6) in that it gives a lower baseline to measure future business rate growth.

- **Revenue Support Grant**  
Revenue Support Grant makes up the difference between the local share of EBRA and the adjusted 2013-14 Local Government Spending Control Total. The Draft Local Government Finance Report states that in 2013-14 £15.203bn will be provided to local authorities via Revenue Support Grant.

## 2. IMPACT OF THE SETTLEMENT ON CAMBRIDGESHIRE COUNTY COUNCIL

- 2.1 The DCLG issued the following analysis of the impact of the Settlement on the Council's spending power:

Description	Amount
Adjusted 2012-13 Spending Power (£)	-402,283,765
2013-14 Spending Power (£)	-397,416,565
Year-on-year change (£)	4,867,200
Year-on-year change (%)	-1.20%

Spending power is a term used by Government to compare the effect of changes in funding on local authorities. It is defined as an authority's income from Council Tax, government revenue grants and National Health Service (NHS) funding for social care. Government revenue grants comprises an authority's start-up funding assessment plus other specific grants where allocations are currently available for 2013-14. Ring-fenced grants are excluded and spending power does not include other sources of income, such as fees and charges.

Spending power does not take into account any change in costs borne by an authority, such as increases due to demography and inflation. Coupled with the lack of a comprehensive assessment of our funding sources, this limits its value as a comparator from year to year.

- 2.2 Funding received via the Business Rates Retention system is comprised of Revenue Support Grant and Business Rates, as outlined in the table below. The Council will receive 9% of business rates collected in Cambridgeshire. We will also receive a top-up to our Funding Baseline, which will be index-linked to the RPI in future years.

	£
<b>Start-Up Funding Assessment</b>	<b>-142,997,237</b>
<i>Of which:</i>	
Revenue Support Grant	-85,870,154
Business Rates – Individual Authority Baseline	-22,423,434
Business Rates – Top-Up	-34,703,649

The start-up funding assessment figure of -£142.997m for 2013-14 compares closely with the Council's pre-settlement estimate of -£142.648m.

- 2.3 It is important to note that the individual authority baseline figure within the business rates element of the start-up funding assessment figure is the Council's business rates baseline as predicted by the Government. This is likely to differ from the Council's share of business rates received in 2013-14. We have, therefore, built City and district Council business rates forecasts of -£23,411,368 into our budget modelling. These forecasts were revised downwards by £1.297m at the same time as the Settlement was published and are included within the table in Section 2.6 which shows how the Council's funding has changed since the Settlement was published.
- 2.4 There has been a radical overhaul of the local government finance framework, which makes a direct comparison with the Council's 2012-13 Formula Grant allocation very difficult to present. There have been a number of specific grants which have been rolled into Formula Grant / Business Rates Retention alongside the Localisation of Council Tax Benefit Support. The headline position for Cambridgeshire County Council is a 7.8% reduction in Government funding.

	2012-13 £000	2013-14 £000
2012-13 Formula Grant	-107,436	
<i>Adjustments for grants rolled in to 2013-14 Business Rates Retention Scheme:</i>		
Council Tax Freeze Grant	-5,779	
Early Intervention Grant	-20,453	
Learning Disability & Health Reform Grant	-10,181	
<b>Adjusted 2012-13 Formula Grant</b>	<b>-143,850</b>	
2013-14 Business Rates Retention Scheme <sup>1</sup>		-143,985
<i>Adjustments to allow like with like comparison with 2012-13 Formula Grant:</i>		
Council Tax Benefit Localisation grant <sup>2</sup>		20,804
Education Services Grant		-6,466
Returned Damping		-1,279
Returned New Homes Bonus Topslice		-434
Further Academy conversions in 2013-14		-1,312
<b>Adjusted 2013-14 Business Rates Retention Funding</b>		<b>-132,673</b>
<b>Difference</b>		<b>11,177</b>
Percentage cut		-7.8%

**Notes:**

<sup>1</sup> The 2013-14 Business Rates Retention Scheme figure in the table above uses the City and district Council business rates forecasts of -£23.411m rather than the Government's business rates baseline of -£22.423m to arrive at the total of -£143.985m.

<sup>2</sup> Council Tax Benefit Localisation Grant is a new grant incorporated within the Business Rates Retention Scheme from 2013-14. In 2012-13 this income was received via Council Tax. To allow a comparison of like with like this Grant has been removed from the adjusted 2013-14 Business Rates Retention Funding.

- 2.5 Allocations for a number of non-ring-fenced grants outside the Business Rates Retention Scheme were also confirmed in the Provisional Settlement. Total funding for these Corporate Grants currently built into the Council's budget is shown below:

	£
<b>Corporate Grants (2013-14)</b>	<b>-51,203,379</b>

The current total of -£51.203m for 2013-14 compares closely with the Council's pre-settlement estimate of -£50.522m.

- 2.6 Analysis of the impact of the Settlement on the Council's funding compared with our pre-settlement budget modelling assumptions is outlined in the following table (figures represent the change compared to the previous year). The impact of the Council's Public Health Grant allocation, announced 10<sup>th</sup> January, is also included.

<b>Change in Funding</b>	<b>13-14 £000</b>	<b>14-15 £000</b>	<b>15-16 £000</b>	<b>16-17 £000</b>	<b>17-18 £000</b>	<b>Total £000</b>
<b><i>Business Rates Retention Scheme:</i></b>						
Updated EBRA	-743	-23	-20	-26	-26	<b>-838</b>
Four Block Model allocation (includes LACSEG topslice <sup>1</sup> )	78	347	-	-	-	<b>425</b>
Council Tax Support Grant	-200	-	-	-	-	<b>-200</b>
Early Intervention Grant	-229	-67	-	-	-	<b>-296</b>
Learning Disability & Health Reform Grant	1	-33	-	-	-	<b>-32</b>
District Business Rates forecast <sup>2</sup>	1,297	244	41	50	-14	<b>1618</b>
Estimated DCLG Department Expenditure Limit 2% cut in 2014-15 <sup>3</sup>	-	2,444	-2,536	21	20	<b>-51</b>
<b><i>Corporate Grants:</i></b>						
Education Services Grant <sup>4</sup>	728	-728	-	-	-	<b>-</b>
Council Tax Benefit Localisation Transition Grant	-447	447	-	-	-	<b>-</b>
Local Reform and Community Voices Grant <sup>5</sup>	-87	-12	-2	-	-	<b>-101</b>
NHS Funding for Joint Working between Health and Social Care <sup>6</sup>	-1,310	1,310	-	-	-	<b>-</b>
Returned Damping and Returned New Homes Bonus Topslice Grants	-15	380	129	63	86	<b>643</b>
Public Health Grant (ring-fenced) <sup>7</sup>	-6,081	-1,068	-	-	-	<b>-7,149</b>
<b>Total</b>	<b>-7,008</b>	<b>3,241</b>	<b>-2,388</b>	<b>108</b>	<b>66</b>	<b>-5,981</b>

**Notes:**

- <sup>1</sup> The figure for the Local Authority Central Spend Equivalent Grant (LACSEG) transfer from the Local Government Spending Control Total to support the establishment of the Education Services Grant in 2013-14, published at the same time as the Settlement, was less than previously expected – mainly due to a lower per pupil rate than initial estimates. This has a positive effect for the Council and is included within the revised Business Rates Retention scheme funding.
- <sup>2</sup> Original business rates forecasts were based on modelling undertaken by the Society of County Treasurers. This information was the best available at the time and was based on historical business rates. The exercise recently undertaken by the City and districts to forecast their business rates income resulted in a £15m decrease in forecast business rates compared to the Society of County Treasurers modelling. The updated 2013-14 forecasts showed a decrease in the region of 6% for most billing authorities, with the exception of East Cambridgeshire, for which the forecast increased by around 3%. Although the balance of risk in relation to business rates income lies with the City and districts, the County's 9% share of this total £15m difference still amounts to a significant £1.295m.
- <sup>3</sup> The impact of the 2% cut to the Department for Communities and Local Government Departmental Expenditure Limit for 2014-15, announced in the Chancellor's Autumn Statement. If the entire £445m cut were to be applied to the Local Government Spending Control Total and distributed across local authorities as per the Business Rates Retention scheme methodology, the impact on the Council could be of the order of £2.5m in 2014-15. It is not yet known how the Department for Communities and Local Government will allocate this cut, but we have factored an estimate of the impact into our budget modelling.
- <sup>4</sup> The revised Education Services Grant figure that the Council expects to receive is £728k lower than our initial modelling, also mainly due to a lower per pupil rate than initial estimates. This slightly offsets the positive effect of the lower than expected LACSEG topslice.
- <sup>5</sup> The Local Reform and Community Voices Grant is a new grant for 2013-14 and covers Deprivation of Liberty Safeguards, Local Healthwatch additional funding, Independent Complaints Advocacy Service, Independent Mental Health Advocacy and Guaranteed Income Payments for veterans. The increase in funding announced in the Settlement will be used by Adult Social Care to meet the associated increase in burdens.
- <sup>6</sup> The amount to be transferred from the NHS to local authorities to support adult social care services which also benefit health, has increased significantly in 2013-14 compared to 2011-12 and 2012-13. The increase in funding will be allocated to Adult Social Care.
- <sup>7</sup> The Public Health Grant is a new ring-fenced grant for 2013-14 which funds the transfer of Public Health responsibilities from the NHS. The significant increase compared to indicative estimates published by the Department of Health in February 2012 will be used to fund the Council's Public Health responsibilities.

2.7 At this stage in the budget setting process there remain some risks and figures that have not yet been confirmed. Consequently, some assumptions currently built into our budget modelling may require revision. These are outlined below:

- The Council Tax Benefit Localisation Transition grant has been included for Huntingdonshire District Council but we are waiting for confirmation whether their scheme will meet the criteria for the grant. If their scheme does not meet the criteria, the impact would be a decrease in funding of £134k in 2013-14.
- We are awaiting revised forecasts from the Society of County Treasurers for returned New Homes Bonus top-slice and returned damping grants. Our current modelling includes figures of -£434k and -£1,279k respectively. The Society of County Treasurers has advised they will produce a revised model once the Government's Settlement figures are correct and consistent. Until then, there is a significant risk around receipt of the amount currently budgeted.
- The figures for the Education Support Grant assume a certain number of conversions during 2013-14. Changes to the estimated number of conversions will affect the level of Education Support Grant received.

2.8 Where the impact of the risks outlined in Section 2.7 is known, this is shown in the following table, which shows the change compared to the previous year:

<b>Change in Funding</b>	<b>13-14 £000</b>	<b>14-15 £000</b>	<b>15-16 £000</b>	<b>16-17 £000</b>	<b>17-18 £000</b>	<b>Total £000</b>
Removal of Council Tax Benefit Localisation Transition grants for Huntingdonshire	134	-134	-	-	-	-

### **3. ALIGNMENT WITH PRIORITIES AND WAYS OF WORKING**

#### **3.1 Developing the local economy for the benefit of all**

There are no significant implications for this priority.

#### **3.2 Helping people live healthy and independent lives**

There are no significant implications for this priority.

#### **3.3 Supporting and protecting vulnerable people**

There are no significant implications for this priority.

#### **3.4 Ways of Working**

There are no significant implications for the Council's ways of working.

### **4. SIGNIFICANT IMPLICATIONS**

#### **4.1 Resource and Performance Implications**

The report above sets out details of significant implications in Section 2.

#### **4.2 Statutory, Risk and Legal Implications**

There are no significant implications for any of the prompt questions within this category.

#### **4.3 Equality and Diversity Implications**

There are no significant implications for any of the prompt questions within this category.

#### **4.4 Engagement and Consultation Implications**

There are no significant implications for any of the prompt questions within this category.

#### **4.5 Public Health Implications**

There are no significant implications for any of the prompt questions within this category.

<b>Source Documents</b>	<b>Location</b>
2012-17 Integrated Plan	<a href="http://www.cambridgeshire.gov.uk/integratedplan">http://www.cambridgeshire.gov.uk/integratedplan</a>
Local Government Finance Settlement 2013-14	<a href="http://www.local.communities.gov.uk/finance/1314/settle.htm">http://www.local.communities.gov.uk/finance/1314/settle.htm</a>