

Report of Director of Resources**Report to Executive Board****Date: 9th January 2013****Subject: Local Government Finance Settlement 2013/14 and 2014/15**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The provisional Local Government Finance Settlement was announced on 19th December 2012. The settlement sets out provisional levels of government funding for each local authority for 2013/14 and indicative figures for 2014/15. The settlement is the first under the new funding regime that incorporates the business rates retention scheme and council tax support.
2. The Government's preferred measure for year-to-year comparisons is "spending power", and they have published figures suggesting that reductions in spending power for England as a whole will be 1.7% for 2013/14 and 3.8% for 2014/15.
3. For Leeds the equivalent reductions are 2.3% and 4.6% respectively. However, DCLG have now indicated that the spending power figures are incorrect. It appears that the correct percentages could be 2.5% and 5.0%
4. Leeds' Start-up Funding Assessment for 2013/14 has been set at £346.5m which is £3.5m more than that assumed in the *Strategic and Financial Plan 2013/14 to 2016/17 including Initial Budget Proposals for 2013/14* report considered by the Board on 12th December 2012.
5. Consultation on the Provisional Settlement runs until 15th January 2013. The Leader of the Council and the Director of Resources have arranged to meet with ministers on 8th January to discuss the Council's concerns about the Provisional Settlement.

6. Officers are now analysing the details of the provisional settlement and will prepare a formal response. The settlement will inform the final budget proposals to be considered by Executive Board on 15th February 2013 and recommended to Council on 27th February 2013.

Recommendations

7. Members are requested to note the contents of this report.

1 Purpose of this report

- 1.1 The purpose of this report is to give Members an overview of the Provisional Local Government Finance Settlement that was announced on 19th December 2012.

2 Background information

- 2.1 Members will be aware that Government are making major changes to the funding regime for local government from 2013/14 onwards. The long-established formula grant system under which funding depended on the balance between local needs and resources is being replaced by a system based upon the capacity to deliver housing and business growth. At the same time council tax benefit is being replaced by a system of council tax support for which government funding is being reduced by 10%.
- 2.2 The Provisional Settlement provides the starting point for the new arrangements.

3 Main issues

- 3.1 The main purpose of the Provisional Settlement is to allocate Government Funding between local authorities. Under the new arrangements each authority has been allocated a Start-up Funding Assessment (SUFA) for 2013/14. The SUFA is split between the familiar Revenue Support Grant (RSG) and a Baseline Funding Assessment that is derived from business rates.
- 3.2 Also under the new arrangements, business rates collected are split 50/50 between central and local government. If the “local share” of business rates *plus* RSG is higher than the SUFA, then the local authority will pay a tariff to central government. If the total is lower, the local authority will receive a “top-up” to make up the difference.
- 3.3 The Provisional Settlement confirmed that Leeds is to be a tariff authority with a SUFA of £346.5m:

	Start-up Funding Assessment 2013/14 £m
Revenue Support Grant	208.046
Business Rates Baseline	170.050
Total	378.096
Less Tariff	-31.643
Leeds' Start Up Funding Allocation	346.453

Table 1: Calculation of Leeds Start-Up Funding Assessment 2013/14

This is £3.5m more than that assumed in the *Strategic and Financial Plan 2013/14 to 2016/17 including Initial Budget Proposals for 2013/14* report considered by the Board on 12th December 2012.

- 3.4 The SUFAs for each authority have been calculated using the familiar formula grant mechanism as a starting point. The four-block formula grant model provides a means of distributing grant by balancing “Needs” through a Relative Needs Formula (RNF), and “Resources” based on the capacity to generate council tax. The 2013/14 Settlement is the last time formula grant will be used in the calculation of grant for local authorities. After that, the needs and resources elements will be fixed and any increases in funding will depend upon growth in business rates income and in the council tax tax base.
- 3.5 In calculating the 2013/14 formula grant the Government has used data from the 2011 Census including the new population estimates. The balance between the four blocks has been adjusted and a further adjustment has been made to reflect the switch of Local Authority Central Spend Equivalent Grant (LACSEG) from formula grant to Education Support Grant. The overall effect is to reduce Leeds’ formula funding by 4.9% when compared to the adjusted grant for 2012/13.
- 3.6 The Government has then calculated the provisional Start-Up Funding Assessment by adding a number of other grants to formula grant as shown below:

	2012/13 Adjusted £m	2013/14 £m	Change from 2012/13	
			£m	%
Grants Rolled in Tailored Distribution	25.404	26.632	1.228	4.8
Relative Needs Amount	197.983	192.374	-5.609	-2.8
Central Allocation	101.201	106.502	5.301	5.2
Relative Resource Amount	-33.882	-57.432	-23.550	69.5
Floor Dampening	-2.619	9.661	12.280	-468.9
LACSEG Adjustment to 2012/13 Base	3.346		-3.346	-100.0
FORMULA GRANT	291.433	277.737	-13.696	-4.7
Central Education LACSEG Transfer	-14.740	-14.670	0.070	-0.5
FORMULA FUNDING	276.693	263.067	-13.626	-4.9
Council Tax Support Grant	42.192	42.129	-0.063	-0.1
Council tax Freeze Grant 2012/13	6.692	6.692	0.000	0.0
Early Intervention Grant	26.157	23.022	-3.135	-12.0
Preventing Homelessness	0.875	0.875	0.000	0.0
Lead Local Flood Authority Grant	0.146	0.146	0.000	0.0
Learning Disability Grant	10.272	10.522	0.250	2.4
Start Up Funding Assessment	363.027	346.453	-16.574	-4.6
Reconciliation with Table 1				
Revenue Support Grant (RSG)		208.046		
Business Rates Baseline		170.050		
Less: Tariff		-31.643		
Start Up Funding Assessment	363.027	346.453	-16.574	-4.6

Table 2: Reconciliation of 2013/14 Formula Grant to Start-Up Funding Assessment

This results in an overall reduction of 4.6% in start-up funding compared to the adjusted figure for 2012/13.

- 3.7 This reduction is much higher than that for England as a whole and is higher than all the other West Yorkshire districts and all the Core Cities apart from Bristol:

	<i>Adjusted</i> Start-Up Funding Assessment 2012/13 £m	Provisional Start-Up Funding Assessment 2013/14 £m	% Change in Start Up Funding between 2012/13 and 2013/14
LEEDS	363.027	346.453	-4.6%
Birmingham	799.478	783.314	-2.0%
Bristol	235.609	223.044	-5.3%
Liverpool	397.428	386.410	-2.8%
Manchester	402.382	390.915	-2.8%
Newcastle	203.209	197.752	-2.7%
Nottingham	216.627	211.191	-2.5%
Sheffield	329.542	316.581	-3.9%
Bradford	314.457	304.518	-3.2%
Calderdale	96.534	92.343	-4.3%
Kirklees	187.548	180.797	-3.6%
Wakefield	165.159	157.739	-4.5%
West Yorkshire Fire	58.200	54.091	-7.1%
Average Core City			-3.1%
Average West Yorkshire District			-4.0%
Average Metropolitan District			-3.3%
Average Shire District			-5.7%
Average London Borough			-3.0%
Average England			-3.9%

Table 3: Comparison of Start-Up Funding Assessments for the Core Cities and West Yorkshire Districts

- 3.8 The Government's preferred measure for comparing resources available to local authorities is "spending power". Spending power is supposed to include all the funding local authorities will have available, including SUFA, council tax income, New Homes Bonus and specific grants including NHS support for social care. Using this measure, the pattern of reductions is similar to that for SUFA. The reduction for Leeds is 2.3% which is higher than all the Core Cities (except Bristol) and all the other West Yorkshire districts, and much higher than the 1.7% reduction for England as a whole.
- 3.9 The Provisional Settlement contains very little detail about funding for 2014/15, but it does include spending power comparisons. These are a definite cause for concern, in that they show much greater reductions in spending power between 2014/15 and 2013/14 than between 2013/14 and 2012/13. See below:

	Change in Spending Power 2012/13 to 2013/14 £m	Change in Spending Power 2013/14 to 2014/15 £m
LEEDS	-2.3%	-4.6%
Birmingham	-1.1%	-6.0%
Bristol	-2.5%	-4.0%
Liverpool	-1.7%	-6.2%
Manchester	-1.8%	-6.5%
Newcastle	-1.5%	-5.4%
Nottingham	-0.5%	-5.7%
Sheffield	-2.3%	-5.2%
Bradford	-1.7%	-5.4%
Calderdale	-2.1%	-4.4%
Kirklees	-1.7%	-4.5%
Wakefield	-2.2%	-4.5%
West Yorkshire Fire	-4.9%	-3.6%
Average Core City	-1.7%	-5.5%
Average West Yorkshire District	-2.0%	-4.8%
Average Metropolitan District	-1.8%	-5.1%
Average Shire District	-1.0%	-3.3%
Average London Borough	-1.2%	-4.9%
Average England	-1.7%	-3.8%

Table 4: Comparison of Spending Power for Cores Cities and West Yorkshire Districts

3.10 At the time of writing, analysis of the Provisional Settlement is continuing. However there are a number of issues that officers have identified that are either awaiting clarification or which will need to be the subject of lobbying before the settlement is finalised later in January. They include:

- A misleading presentation of council tax support funding for 2012/13 and uncertainty around possible double counting in the calculation of spending power. It is possible that Leeds' 2013/14 reduction in spending power could be 2.5% rather than 2.3% and the figure for 2014/15 could be 5.0% rather than 4.6%.
- Nationally, the amount required to fund New Homes Bonus in 2013/14 is £89m less than the £500m top-sliced from the settlement. DCLG have indicated that this amount will be returned to local government in proportion to SUFAs, although no timescales have been given. Leeds' share of the £89m could amount to £1.1m.
- As shown in Table 2, £14.67m has been removed from Leeds' 2013/14 formula grant for Local Authority Central Spend Equivalent Grant (LACSEG). LACSEG is to be replaced by a specific grant but part of the funding will go directly to academies leaving an estimated amount for the Council of about £12.4m.

- The reductions in funding and in spending power appear to be much greater for Leeds than for the majority of Core Cities and the West Yorkshire Districts. The reasons for this are not yet entirely clear, but appear to be linked to the use of the new Census data.
- The much greater reductions in funding for 2014/15 that are implied by the spending power figures for that year.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This is a factual report and is not subject to public consultation.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 The information contained in this report will inform the budget proposals which will be considered by Executive Board on 15th February, but this report itself has no specific implications for equality, diversity, cohesion or integration. A screening assessment has been carried out and is appended to this report.

4.3 Council policies and City Priorities

4.3.1 As outlined above, this report will inform the development of budget proposals for 2013/14. The budget process seeks to ensure that financial resources are used to support the Council's policies and priorities

4.4 Resources and value for money

4.4.1 This is a financial report and the financial and resource implications are detailed in the main body of the report.

4.5 Legal Implications, Access to Information and Call In

4.5.1 This report outlines the main features of the Provisional Local Government Finance Settlement for 2014/15 and is for information only. The report could not be compiled in time for the publication of the agenda because the Provisional Settlement was not announced until the late afternoon of 19th December and the underlying data only became available over the following few days.

4.6 Risk Management

4.6.1 The financial risks arising from the Provisional Settlement will be assessed over the coming weeks and will be detailed in the budget report to be considered by Executive Board in February.

5 Conclusions

5.1 The Provisional Settlement indicates that Leeds' Start-up Funding Assessment is to be £346.5m for 2013/14 a reduction of 4.6% compared to 2012/13. This will have significant implications for the final budget proposals which will be considered by Executive Board in February.

6 Recommendations

6.1 Members are requested to note the contents of this report.

7 Background documents¹

None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.