

## **TRAFFORD COUNCIL**

**Report to:** Executive  
**Date:** 21 January 2013  
**Report for:** Discussion  
**Report of:** Executive Member for Finance and the Director of Finance

### **Report Title**

**Local Government Finance Settlement 2013/14 & 2014/15**

### **Summary**

**The provisional finance settlement for local government was announced on 19 December 2012.**

**Based on the information currently available there is a reduction in government support of £6.7m (6.9%) in 2013/14.**

**A further reduction of £6.9m in 2014/15 is expected.**

**A new important feature of the settlement is the creation of a Business Rate Retention (BRR) Scheme. Baseline figures for business rates and funding have been set (provisionally), which will be used to measure how much growth in business rates can be retained locally. In practice the Council can keep 25% of any growth in business rates. On the downside it will have to meet 50% of any reduction, up to a maximum of £2.4m.**

### **Recommendation(s)**

**It is recommended that:**

- 1. The provisional settlement be noted and taken into account when formulating final budget proposals;**
- 2. The Leader delegates approval of the NNDR1 form (business rates estimate) to the Director of Finance, in consultation with the Executive Member for Finance.**
- 3. The Leader delegates approval of payment dates for business rates to the GM Fire and Rescue Service and the GM Pool (if agreed) to the Director of Finance.**

Contact person for access to background papers and further information:

Name: Ian Duncan  
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Background Papers: None.

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

[Signature of Director of Finance appended in hard copy.]

Relationship to Policy Framework/Corporate Priorities	The annual financial settlement has implications across all policy areas.
Financial	There is an estimated £6.7m reduction in government support in 2013/14 which will have a direct impact on the budget to be agreed by the Council in February 2013.
Legal Implications:	None arising out of this report
Equality/Diversity Implications	None arising out of this report
Sustainability Implications	None arising out of this report
Staffing/E-Government/Asset Management Implications	None arising out of this report
Risk Management Implications	None arising out of this report
Health and Safety Implications	None arising out of this report

## A. National Position

### Background

1. The local government financial settlement was announced on 19 December 2012.
2. The settlement is different to those of recent years as it heralds the first year of the Business Rates Retention (BRR) scheme as the principle form of local government funding. In previous years, the provisional settlement announcement provided local authorities with their expected general revenue allocations for the following financial year. For 2013/14, the provisional settlement provides

authorities with a combination of provisional grant allocations and their respective starting points within the BRR scheme. **An important aspect of the new finance regime is that the business rates element of funding will vary according to the amounts collected by the Council.**

3. The provisional figures are expected to be confirmed in late January/early February 2013 (within the final settlement announcement).
4. At the time of writing this report not all the information has been provided and information on a number of specific grants remains outstanding (due to be announced in January).

### Provisional Funding Allocations

5. The total level of national resources comprising what is known as “**Start-Up Funding**” for 2013/14 is £26.1bn. This comprises the former formula grant allocations based on levels determined at the time of the last comprehensive spending review, together with a number of “rolled-in” grants and also further adjustments to reflect the additional cost of the New Homes Bonus.
6. On a like for like basis the total funding for 2013/14 has reduced by 3.9% compared to 2012/13 with a further 8.6% in 2014/15, including the additional reduction announced for 2014/15 in the recent Autumn Statement.

Table 1: LG Settlement Key Statistics	2012-13 Adjusted £bn	2013-14 £bn	% change	2014-15 £bn	% change
Start Up funding allocation	27.169	26.101	-3.9%	23.856	-8.6%
Financed by:					
- Local Share of Business Rates		10.899	n/a	11.233	+3.1%
- Revenue Support Grant		<u>15.203</u>	n/a	<u>12.624</u>	-17.0%
		<u>26.101</u>		<u>23.856</u>	

7. Under BRR if an authority has an actual business rate yield (see below) equivalent to the Government's baseline assessment then the level of funding available will be the same as the start-up funding. In terms of start-up funding the following table provides a comparison with other AGMA districts:

Table 2: Start Up Funding

	Start-up funding 2013/14			Start-up funding 2014/15		
	£m	% change	£ per head	£m	% change	£ per head
<b>National</b>	26,101.000	- 3.9%	492.39	23,856.000	-8.6%	450.31
<b>AGMA:-</b>						
Bolton	149.044	-3.6%	559.83	135.479	-9.1%	508.88
Bury	78.742	-5.1%	429.67	71.678	-9.0%	391.13
Manchester	390.915	-2.9%	778.18	354.038	-9.4%	704.77
Oldham	141.683	-3.1%	642.28	128.519	-9.3%	582.60
Rochdale	134.173	-4.1%	655.72	122.126	-9.0%	596.85
Salford	158.828	-2.8%	690.19	144.193	-9.2%	626.59
Stockport	104.779	-5.0%	368.47	95.438	-8.9%	335.62
Tameside	123.109	-3.5%	566.73	111.789	-9.2%	514.62
Trafford	79.637	-5.8%	364.96	72.572	-8.9%	332.59
Wigan	154.369	-4.0%	499.61	140.152	-9.2%	453.60
<b>AGMA average</b>	<b>151.528</b>	<b>-3.6%</b>	<b>574.85</b>	<b>137.598</b>	<b>-9.2%</b>	<b>522.01</b>

8. As in previous grant settlements the Government will use damping arrangements to give protection to authorities from excessive losses in formula funding. These are in four bands according to how dependent each authority is on government funding. For education/social service authorities there will be a 2% difference for each band; the most dependent authorities will not suffer a reduction greater than 2.7% whilst the least dependent will not suffer by more than 8.7%. Trafford is in band 3, which has a -6.7% floor which means we do not qualify for damping assistance.
9. All damping costs are paid for by scaling back grants from all other authorities. Trafford's figures in the above table are after the deduction of a damping contribution of £165k.

### **Spending Power**

10. In announcing the grant settlement the Government has used the terminology *spending power* as its broad measure to assess the impact of the settlement and it includes:-

- Council Tax
- Start-up funding assessment
- Specific Grants (still to be advised at an individual authority level)
- NHS funding

However it is not a comprehensive statement of the settlement.

11. Nationally the settlement, in *spending power* terms, represents a reduction of 1.7% compared to 2012/13, with no authority facing a reduction greater than 8.8%. A small number of authorities will receive an Efficiency Support Grant in order to limit their reductions to the 8.8%. The table below shows an analysis of spending power changes at a national and AGMA level:

Table 3:  
Spending Power

	Adjusted 2012-13 Spending Power	2013-14 Spending Power	2013-14 Spending Power Per Dwelling	Change		2014-15 Change
	£m	£m	(£ per dwelling)	£m	(%)	(%)
<b>National</b>	<b>52,839.214</b>	<b>51,915.824</b>	<b>2,239.84</b>	<b>(923.391)</b>	<b>-1.7%</b>	<b>-3.8%</b>
<b>AGMA:-</b>						
Bolton	263.852	259.149	2,122.34	(4.704)	-1.8%	-4.9%
Bury	163.189	159.218	1,947.39	(3.970)	-2.4%	-4.0%
Manchester	560.989	550.721	2,501.57	(10.267)	-1.8%	-6.5%
Oldham	236.989	232.389	2,470.90	(4.600)	-1.9%	-5.6%
Rochdale	225.132	219.889	2,411.70	(5.242)	-2.3%	-5.1%
Salford	267.965	265.299	2,406.34	(2.666)	-1.0%	-4.7%
Stockport	254.068	248.336	1,968.70	(5.732)	-2.3%	-3.5%
Tameside	212.432	208.925	2,093.00	(3.506)	-1.7%	-4.9%
Trafford	178.893	173.961	1,794.95	(4.931)	-2.8%	-3.7%
Wigan	283.388	277.257	1,973.07	(6.131)	-2.2%	-4.9%
<b>AGMA Average</b>	<b>264.690</b>	<b>259.514</b>	<b>2,193.90</b>	<b>(5.175)</b>	<b>-2.0%</b>	<b>-5.0%</b>

12. Trafford's *spending power* per dwelling is the lowest in AGMA at £1,795 and is 18% lower than the national average. It has the largest reduction in *spending power* in 2013-14 of all metropolitan, unitary and London councils (alongside Brighton & Hove and Kensington & Chelsea).

13. The *spending power* figures for 2014/15 show that Trafford fares better than average. Government grants are reducing by a similar percentage for all authorities but as Trafford is less reliant on grants to finance its spending, the overall reduction in its budget is less than average.

### **Business Rate Retention Baselines**

14. The Government announced an estimate of the national total amount of business rates for 2013/14 of £21.797bn. The national total is from the local list of £26.3bn with deductions for:

- Reliefs, transitional arrangements and enterprise zones - £2.4bn.
- A calibration adjustment to allow for the difference between forecast and outturn figures; this is based on historic figures - £1.3bn.
- Expected reduction in yield due to appeals - £0.6bn.
- Costs of collection and losses on collection, etc - £0.2bn.

15. These adjustments are made at the national level – with the implicit assumption that the effect is the same in all authorities.

16. Further works needs to be undertaken here to fully understand the Government's estimate of the baseline position and to ensure that full allowance has been made for the cost of discretionary and small business rate reliefs.

17. The £21.797bn is split 50:50 to determine the local and central shares. The local share of £10.899bn is the assumed contribution to the funding settlement (see table 1 above); the actual local share is calculated at the end of the financial year and local government will share in the risk and reward of variations, subject to rules on tariffs and the operation of a safety net. The central share is used by the Government to help finance grants, principally revenue support grant, paid to local authorities.

### **B. LOCAL POSITION 2013/14**

18. From the information available, and comparing on as best a like-for-like basis as can be determined, it is estimated that Trafford will have a reduction of £7.8m or 8.6% in main funding. There have been few specific grant announcements, however, the significant Health & Social Care Grant has been declared and shows an increase in funding of £(0.9)m. The current known position is therefore an overall reduction of £6.7m or 6.9% (more detail in Appendix 1):

Table 4: estimated change in Funding	2012/13 Actual (£m)	Provisional Settlement 2013/14 (£m)	Change (£m)	Change (%)
Main Funding	(80.4)	(73.7)	-6.7	-8.4%
Benefit Subsidy/Grant	(11.2)	(10.1)	-1.1	-10.0%
<b>Sub-Total</b>	<b>(91.6)</b>	<b>(83.8)</b>	<b>-7.8</b>	<b>-8.6%</b>
Social Care grant	(2.5)	(3.4)	+0.9	+36.6%
Housing and Council Tax Benefit reform	(1.6)	(1.4)	-0.2	-8.1%
New Homes Bonus	(1.0)	(1.3)	+0.3	+40.9%
<b>Total known Funding (02/01/13)</b>	<b>(96.7)</b>	<b>(89.9)</b>	<b>-6.7</b>	<b>-6.9%</b>

19. The significant items that explain the change of £7.8m in main funding are:

- A £3.1m reduction is due to a combination of austerity reduction in the control total, as well as systemic and/or methodology and/or data changes
- Early Intervention grant being transferred to Schools/DSG; the movement in funding is £2.5m whereas the movement in expenditure responsibility is only £(0.5)m
- An estimated loss of £1.7m due to the changing in funding arrangements for LEA central functions. An amount of £5.1m has been removed from Trafford's funding to support a new grant payable to Academies and LEA's on a per pupil basis, and in return we are estimating that the Council's grant in 2013/14 will be £(3.4)m
- There has been a £(0.1)m improvement in funding due, we suspect, to an inflationary increase in Learning Disability & Health Reform Grant that has now been rolled into main funding.
- 10% loss between Council Tax Benefit subsidy and Council Tax Support grant of £1.1m as a consequence of the new arrangements which has been known for some time.

20. The above excludes the effects of the Council Tax Freeze grants; the 2012/13 grant of £2.2m which lasts for one year only, and the estimated £(0.8)m available for 2013/14 (if chosen).

21. With regard to the new business rate retention scheme, a baseline for all authorities has been set. For Trafford we are assumed to need 0.315% of the national local share (after adjustment of Greater London transport), which is £31.815m. However, we are assumed to generate 0.695% of the total local

share i.e. £75.817m and therefore we will pay a tariff. The application of the local share of Trafford business rates is shown below:

Table 5: Application of Trafford's local share of business rates	£m
A: Payment to GM Fire & Rescue Services (2%)	1.516
B: Amount retained by Trafford as its baseline funding need (0.315% of national total, after GLT).	31.815
C: Tariff payable to Government (to pay to top-up authorities). Calculated as D – (A+B)	42.486
D: Assessed baseline level of business rates (0.696% of national total for local share)	75.817

22. To make a contribution of £75.817m to the assumed national local share then Trafford's actual rates need to be £151.6m (to pay the 50% central share and 50% local share). An estimate of expected business rate yield in Trafford is currently being assessed based on the current level of rateable values on the local list and taking into account the expected cost of mandatory/discretionary reliefs, cost of collection and an estimate of the impact of appeals. This is a volatile area and to a large extent is out of the control of the Council. The Council has to make a submission to DCLG on what it estimates its expected 2013/14 position to be on form NNDR1. A provisional estimate has to be submitted by 7 January and the Council has to agree the final form by the end of January. It is recommended this is delegated to the Director of Finance, in consultation with the Executive Member of Finance. Also the date of payments of business rates to the GM Fire and Rescue and the GM Pool (in the event this arrangement proceeds) have to be agreed; it is recommended this is delegated to the Director of Finance.
23. If actual business rates at the end of the financial year vary from the set baselines then the following will apply:
- 50% will be paid to / received from the central share;
  - A levy of 50% of growth in the local share will be payable i.e. Trafford will retain 25% of the total growth in business rates;
  - A safety net payment from central government will be received if losses are more than 92.5% of our funding baseline. This means that Trafford would be responsible for up to £2.4m loss in the local share (i.e. total



loss in business rates would have to exceed £4.8m before the safety net comes into operation).

### C. Local Position 2014/15

24. On a like-for-like basis **as can be determined at present**, it is estimated that Trafford will have a reduction of £6.9m or 8.2% in start-up funding. This reflects the austerity reduction anticipated from the comprehensive spending review and the further reduction of 2% announced in the recent Autumn statement:

<b>Table 5: estimated funding 2014/15</b>	<b>2013/14 Provisional Settlement (£m)</b>	<b>2014/15 Provisional Settlement (£m)</b>	<b>Change (£m)</b>	<b>Change %</b>
<b>Start-Up Funding</b>	<b>(79.6)</b>	<b>(72.6)</b>	<b>7.1</b>	<b>-8.9%</b>
Unused New Homes Bonus top-slice returned	(0.3)	(0.5)	(0.2)	+55.9%
LEA Central Functions grant (not announced)	(3.4)	(3.4)		
Less EIG Expenditure transfer to Schools (to be confirmed)	(0.5)	(0.5)		
<b>Adjusted Start Up Funding</b>	<b>(83.8)</b>	<b>(76.9)</b>	<b>6.9</b>	<b>-8.2%</b>

25. Comparisons with AGMA are shown in tables 2 and 3.

**Initial Analysis of Local Government Finance Settlement for Trafford Council (as at 2 January 2013)**

	<b>2012/13 Actual (£000's)</b>	<b>Provisional Settlement for 2013/14 (£000's)</b>	<b>Change (£000's)</b>	<b>Change (%)</b>
<b>Formula Grant / Start-Up Funding</b>				
Formula Grant	(65,799)	(62,485)	-3,314	-5.0%
Council Tax Subsidy / Support grant	(11,184)	(10,066)	-1,118	-10.0%
Learning Disability & Health Reform Grant	(5,097)	(5,225)	+128	+2.5%
Early Intervention Grant	(9,288)	(6,767)	-2,521	-27.1%
Local Flood	(142)	(117)	-25	-17.6%
Homelessness	(113)	(94)	-19	-16.8%
LEA central functions top slice		5,117	-5,117	
<b>Start-Up Funding</b>	<b>(91,623)</b>	<b>(79,637)</b>	<b>-11,986</b>	<b>-13.1%</b>
Adjustments to enable comparison:				
Unused New Homes Bonus top-slice returned		(295)	+295	
LEA Central Functions grant (not announced)		(3,385)	+3,385	
Less EIG Expenditure transfer to Schools		(469)	+469	
<b>Adjusted Start Up Funding for comparison purposes</b>	<b>(91,623)</b>	<b>(83,786)</b>	<b>-7,837</b>	<b>-8.6%</b>
Add known specific grants:				
Social Care / Health Grant	(2,478)	(3,385)	+907	+36.6%
Local Flood		(25)	+25	
Housing and Council Tax Benefit reform	(1,568)	(1,441)	-127	-8.1%
New Homes Bonus	(955)	(1,346)	+391	+40.9%
	<b>(96,624)</b>	<b>(89,983)</b>	<b>-6,641</b>	<b>-6.9%</b>

Note - Excludes Council Tax Freeze Grant for 2013/14