



Department for
Communities and
Local Government

The provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years

Consultation



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Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

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Consultation procedure

The consultation process and how to respond

Scope of this consultation

Topic of this consultation	This consultation covers proposals for the provisional local government finance settlement for 2016-17.
Scope of this consultation	<p>This consultation seeks views on proposals for the local government finance settlement for 2016-17, in particular from representatives of local government, before determining the final amount of Revenue Support Grant and its allocation to receiving authorities and the specified body.¹</p> <p>The consultation notifies representatives of local government of the general nature of the basis of distribution of Revenue Support Grant, and of the general nature of the basis of calculation of 'tariff' and 'top up' payments through this consultation document and accompanying documents, in particular the draft Local Government Finance Report for 2016-17.²</p>
Geographical scope	England.
Impact assessment	<p>A draft Equality Statement covering the possible impacts of the proposed 2016-17 local government finance settlement is published alongside this consultation and the full package of supporting material, at https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2016-to-2017</p> <p>We also welcome views on this as part of the current consultation.</p>

Basic information

To	The consultation will be of particular interest to local authorities, and representative bodies for local authorities.
Body responsible for the consultation	Local Government Finance directorate within the Department for Communities and Local Government.
Duration	Just over four weeks, from Thursday 17 December 2015 to 5 pm on Friday 15 January 2016.
Enquiries	Please contact Shafi Khan about any enquiries: shafi.khan@communities.gsi.gov.uk or 0303 444 3132

¹ As required by section 78(5) of the Local Government Finance Act 1988.

² As required by section 78A(3) of the Local Government Finance Act 1988 and paragraph 12 of Schedule 7B to the same Act.

How to respond	<p>By email to: LGFConsultation@communities.gsi.gov.uk</p> <p>Or by post to: Shafi Khan Department for Communities and Local Government 2nd floor, Fry Building 2 Marsham Street London SW1P 4DF</p> <p>Please state whether you are responding as an individual or representing the views of a council or other organisation. If responding on behalf of an organisation, please include a summary of the people and any other organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.</p>
After the consultation	<p>The Government will seek Parliamentary approval for the final 2016-17 settlement in February 2016, in time to enable local authorities to set their budgets.</p>

Background

Getting to this stage	<p>The Chancellor announced overall plans for levels of funding for local government for the four years to 2019-20 on 25 November 2015.</p>
Previous engagement	<p>The department and government ministers continue to engage with local authorities and representative organisations through regular meetings, and attendance at local authority events.</p>

Confidentiality and data protection

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (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. This deals, among 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 circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the department.

DCLG 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.

1. Overview of the proposals

Overall proposals for the local government finance system

- 1.1 The devolution revolution announced as part of the Spending Review sets out a new deal for local government. It requires local authorities to make efficiency savings, but in return offers them unprecedented new levers of power to generate growth for their area. The Government will allow local government to keep the rates they collect from business, give councils the power to cut business rates to boost growth, and give elected city-region mayors the power to levy a business rates premium for local infrastructure projects – with the support of local business.
- 1.2 By the end of the Parliament local government will retain 100% of business rate revenues to fund local services, giving them control of £13 billion of additional local tax revenues, and £26 billion in total business rate revenues. The system of top ups and tariffs which redistributes revenues between local authorities will be retained. The Uniform Business Rate will be abolished and any local area will be able to cut business rates as much as they like, to win new jobs and generate wealth. This will strengthen incentives to boost growth, help attract business and create jobs.
- 1.3 Elected city-region mayors will be able to add a premium to business rates to pay for new infrastructure, provided they have the support of the local business community through a majority of business members of their Local Enterprise Partnership.
- 1.4 As part of these reforms, the main local government grant will be phased out and additional responsibilities devolved to local authorities, empowering them to drive local economic growth and support their local community. For example, the government will consider transferring responsibility for funding the administration of housing benefit for pensioners and Transport for London's capital projects to local government, and will also consult on options to transfer responsibility for funding public health. The Government will also consider giving more responsibility to councils in England, and to Wales, to support older people with care needs – including people who, under the current system, would be supported through Attendance Allowance. This will protect existing claimants, so there will be no cash losers, and new responsibilities will be matched by the transfer of equivalent spending power. The Government is planning to consult in the New Year on this proposal, including on the right model of devolution and the level of flexibility that councils would need in order to effectively deliver this additional responsibility.
- 1.5 These changes will need legislation, and the Government will be seeking the earliest possible legislative opportunity. In the meantime, the Government will be developing the parameters of the scheme and the operational delivery details. We will set up systems to involve councils, businesses and others in the process early in 2016. We intend to consult on the implementation of the 100% business rates

retention scheme in summer 2016, following a period of extensive engagement with councils and their representatives in the preceding months.

- 1.6 The Spending Review and Autumn Statement also announced a number of measures to help local authorities with responsibility for adult social care to meet the needs of their population:
- These authorities will be given an additional 2% flexibility on their current council tax referendum threshold, to be used entirely for adult social care. If fully used it could raise nearly £2 billion a year by 2019-20 – enough to support more than 50,000 older people in care homes or almost 200,000 in their own homes. Including this precept, by 2019-20 the average Band D council tax bill in England will still be lower in real terms than it was in 2010-11, unless a higher increase wins the explicit support of local people in a referendum.
 - In addition, the Spending Review made available social care funds of £1.5 billion by 2019-20 for local government, to be included in an improved Better Care Fund. Together with the social care precept, this will mean that local government has access to the funding it needs to increase adult social care spending in real terms by the end of the Parliament.
- 1.7 Alongside these changes the Government will also set alternative notional amounts for council tax levels so that:
- pending the establishment of the Somerset Rivers Authority as a precepting body, Somerset County Council and all Somerset district councils can set a shadow precept of up to 1.25%, for the purpose of funding the Somerset Rivers Authority
 - Dorset and Wiltshire Fire Authorities can set the same level of fire precept across both counties when they merge in April 2016.
- 1.8 The Government is also publishing a consultation on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from six to four years.
- 1.9 The intention of all these future reforms is to put councils in control of their own finances, allowing them to respond efficiently to local needs. In the meantime, the Spending Review³ set out a fair and sustainable trajectory towards the future local government finance system while recognising current service pressures. This included an expected increase in total resources in cash terms, from £40.3 billion in 2015-16 to £40.5 billion in 2019-20, and new financial flexibility to use the receipts from the sale of land and buildings to help pay for the upfront investment in the transformation of local services, offered for the financial years starting in 2016, 2017

³ Announced on 25 November 2015: see <https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents>

and 2018. This should enable intelligent savings to be made that protect frontline services and improve outcomes for residents.

The provisional settlement for 2016-17

1.10 The proposed local government finance settlement for 2016-17 sets out the distribution of centrally allocated resources for local authorities. It is designed in the context of the overall Spending Review package, which addressed the particular pressures experienced by councils which provide adult social care and children's services, and allocates funding in a way that reflects the different sets of services that councils provide. It is intended to provide a sustainable path through to the longer-term reforms.

1.11 Chapters 2 to 4 set out the following proposals for 2016-17:

Chapter 2 – Distribution of central resources

- Central resources to be allocated in a way that ensures local councils delivering similar services receive a similar percentage change in 'settlement core funding' for those services
- £1.275 billion to be held back to fund the New Homes Bonus
- £50 million to be held back for the business rates safety net
- Additional funding of £20 million for the most rural authorities

Chapter 3 – Transfers of funding into the 2016-17 settlement

- £307.7 million funding for the Care Act 2014, alongside existing provision for the 2014 Act
- Council Tax Freeze Grant, ensuring those councils that chose to freeze their council tax in 2015-16 continue to receive the benefit of the funding in future years
- Efficiency Support Grant for 2015-16, ensuring those councils that received it continue to benefit
- £10 million funding, combined with the existing £20.6 million of funding within the settlement, for lead local flood authorities – and £1.9 million for lead local flood authorities to act as statutory consultees in planning Sustainable Drainage Systems to also be rolled into the settlement. This funding will also be supplemented by a new section 31 grant to ensure that these elements of funding for lead local flood authorities increases in real terms in each year of

the Parliament. We are consulting in this provisional settlement on whether this should be ringfenced for the Spending Review period.

Chapter 4 – Funding additional to the settlement

- Compensation to continue in 2016-17 for the 2% cap on the small business rates multiplier announced at the 2013 and 2014 Autumn Statements, calculated on the basis of the reduction to estimated retained income, as in 2014-15
- The Government has set aside sufficient resources for sector-led support and intends to continue to make payments to the Improvement & Development Agency (IDeA). Our intention is to announce the funding to the IDeA following a negotiation and upon reaching agreement on a new deal for sector lead support for the course of this Parliament.

1.12 The effect of these changes is set out for each authority in the exemplifications which are published with this consultation document. Chapter 2 also describes the notional funding allocations for key government grants which have been rolled into the local government finance settlement since 2013, and which are included as part of core spending power projections out to 2020 to help inform councils' budgeting decisions.

1.13 Other aspects of the proposed 2016-17 settlement are set out in other supporting documents, including:

- the central and local shares of business rates revenue to continue to be 50% each
- the baseline funding level and tariff and top up payments to be uprated in line with the small business non-domestic rating multiplier for 2016-17.

1.14 We will carefully consider responses on any aspect of the proposals set out in this consultation, the draft Local Government Finance Report, and the supporting information published with it, and will take these into account when taking decisions before announcing the final settlement in February 2016. A summary of consultation questions is at Annex A, and pages 5 and 6 set out how to respond. In addition to indicating whether or not they agree with the Government's proposals, consultees are invited to substantiate their responses where relevant. Consultees should note that we may wish to publish responses.

1.15 All figures throughout this document are given in cash terms, unless stated otherwise. A glossary of technical terms used is at Annex B.

Future local government finance settlements

- 1.16 The Government will offer any council that wishes to take it up a four-year funding settlement to 2019-20. Chapter 5 sets out further information on these multi-year settlements.

2. Distribution of central resources

Distribution of central resources in 2016-17

- 2.1 The Government intends to make payments⁴ in 2016-17 to receiving authorities (any billing authority or major precepting authority⁵), except local policing bodies⁶, under sections 78, 78A and 79 of the Local Government Finance Act 1988.
- 2.2 The Spending Review set out the resources available to local government for the period 2016-17 to 2019-20. On this basis we have determined control totals for the different sets of services provided by councils, such as:
- adult social care, children’s social care, refuse disposal and public transport support for buses
 - fire and rescue services
 - Greater London Authority services other than fire and rescue and policing
 - planning, housing, economic development and refuse collection.

A full breakdown of services is given in Annex A of the draft Local Government Finance Report (England) 2016/17.

- 2.3 As in previous years, the Government intends to hold back funding for New Homes Bonus payments, the business rates safety net to meet any shortfall after funding from levy payments (as set out in earlier consultations), the Rural Services Delivery Grant, and funding for sector support to the Improvement & Development Agency (IDeA). The approach and amounts proposed are set out later in this chapter. This funding will be deducted from the control totals described in paragraph 2.2 to give a Settlement Funding Assessment for each of the different sets of services. Other funding which is being rolled into the settlement (set out in chapter 3) will be split between the relevant sets of services.

⁴ Revenue Support Grant.

⁵ Each of the following is a major precepting authority:

- a county council which does not have the functions of a district council
- police and crime commissioners in England whose police area is listed in Schedule 1 to the Police Act 1996
- a metropolitan county fire and rescue authority
- a fire and rescue authority constituted by a scheme under section 2 of the Fire and Rescue Services Act 2004, or a scheme to which section 4 of that Act applies (a ‘combined fire and rescue authority’)
- the Greater London Authority.

⁶ Local policing bodies comprise the Mayor’s Office for Policing and Crime, police and crime commissioners, and the Common Council of the City of London. (The Mayor’s Office for Policing and Crime (MOPAC) is a functional body of the Greater London Authority (s.424(1) of the Greater London Authority Act 1999).

Greater protection for councils providing adult social care and children's services

- 2.4 Councils have successfully delivered substantial savings since 2010 while maintaining public satisfaction with services. But they will need to continue playing their part in reducing the deficit over the next four years. A number of councils have demonstrated the benefits of sharing administrative functions with other councils, achieving considerable savings. We expect a number of areas will bring forward similarly ambitious proposals, including as part of devolution deals.
- 2.5 At the same time, demand for adult social care and children's services is growing, both in the numbers of people requiring care and the complexity of needs. Councils which provide these services will therefore face particular pressures. Taken together, our proposals in the Spending Review and in this proposed settlement are designed to address these pressures, including where they are most acute, within a constrained fiscal envelope.
- 2.6 For 2016-17, funding will be allocated to reflect the different sets of services provided by councils, as described in paragraph 2.2. The Government proposes to allocate central funding in a way that ensures councils delivering the same set of services receive the same percentage change in 'settlement core funding' for those sets of services described above. Core funding will take into account the main resources available to councils⁷, which for this purpose comprise:
- council tax income (including any Council Tax Freeze Grant)
 - the Settlement Funding Assessment, comprising:
 - estimated business rates income (baseline funding level under the rates retention scheme)
 - Revenue Support Grant.
- 2.7 Under the business rates retention scheme established in 2013-14, Revenue Support Grant allocations were determined by deducting the estimated business rates income from the Settlement Funding Assessment. Similarly, to determine allocations for 2016-17, the Government proposes to reduce settlement core funding for 2015-16 for each council pro rata to the estimated overall reduction in the total for settlement core funding between 2015-16 and 2016-17 (for the relevant set of services set out in paragraph 2.2), and then deduct estimated business rates income plus an assumed value for council tax income in 2016-17 to give individual allocations for 2016-17.
- 2.8 The methodology for each set of services is set out on the following page:

⁷ There are, of course, other funding streams, but these are generally much smaller and authority level allocations are not consistently available in time to be used for the calculation of the provisional settlement.

$$\text{Revenue Support Grant} = (\text{SFA15} + \text{CTR15}) \times \text{SF} - (\text{BFL16} + \text{CTR16})$$

where:

- SFA15 is the adjusted Settlement Funding Assessment for the council in 2015-16, including the 2015-16 Council Tax Freeze Grant (see chapter 4)
- CTR15 is the council's council tax requirement in 2015-16
- BFL16 is the baseline funding level for the council in 2016-17
- CTR16 is set equal to the council's council tax requirement in 2015-16 (see paragraph 2.10 below)
- SF is the scaling factor⁸ calculated for each tier as below:

$$\text{SF} = (\Sigma\text{SFA16} + \Sigma\text{CTR16}) / (\Sigma\text{SFA15} + \Sigma\text{CTR15})$$

where ΣSFA16 is the total settlement funding allocation for each set of services.

- 2.9 For 2016-17, the Government proposes to allocate central funding in a way that ensures councils delivering the same set of services receive the same percentage change in settlement core funding for those sets of services, as outlined in paragraph 2.6. In addition, the advantage of a multi-year settlement is that councils can smooth the impact of changes over time. The Government welcomes views on whether any further transitional measures might be appropriate.

Council tax requirement for 2016-17

- 2.10 The council tax requirement is the amount which a council will need to raise from council tax to fund its budget after accounting for income from other sources (equivalent to a council's Band D council tax multiplied by its council tax base). The council tax requirement for 2016-17 will not have been established by the time of the final local government finance settlement in February 2016.
- 2.11 It would be possible to calculate the 2016-17 council tax requirement using the October 2015 council tax base. However, we propose to use individual councils' 2015-16 council tax requirement to continue to provide an incentive to pursue housing growth in their area, and so increase their council tax base.
- 2.12 For councils delivering more than one set of services (as described in paragraph 2.2), their council tax requirement (and, where appropriate, 2015-16 council tax freeze funding) will need to be apportioned to ensure the distribution of central

⁸ The scaling factor is a standard multiplier that scales the 2015-16 control totals to the level of the 2016-17 control totals.

resources is in line with the methodology defined in paragraph 2.8 above. The Government proposes to do this based on the proportion of each council's 2013-14 formula funding before floor damping. For example, for unitary councils the council tax requirement will be split between different sets of services in the same proportions as 2013-14 formula funding before floor damping. This is the same methodology used to model the 2013-14 and 2014-15 council tax freeze funding.

2.13 Allocations of funding for individual authorities on the basis of this approach are set out in the supporting tables published as part of this consultation.

Question 1: Do you agree with the methodology for allocating central funding in 2016-17, as set out in paragraphs 2.6 to 2.8?

Question 2: Do you agree with the proposed methodology for calculation of the council tax requirement for 2016-17, as set out in paragraphs 2.10 and 2.11?

Question 3: Do you agree with the proposed methodology in paragraph 2.12 for splitting the council tax requirement between sets of services?

Question 4: Do you wish to propose any transitional measures to be used?

New Homes Bonus

2.14 Provisional New Homes Bonus allocations for 2016-17 are being announced alongside the provisional 2016-17 local government finance settlement, calculated using the same methodology as in 2015-16. Based on the most recent council tax base data available, the cost of New Homes Bonus payments relating to 2016-17 is forecast to be £293 million. Combining this with the cost of legacy payments gives an estimated total New Homes Bonus payment of £1.461 billion in 2016-17.

2.15 As in previous years, the Government will set aside an amount of funding to part fund the New Homes Bonus. In 2016-17 this amount will be £210 million. Again, as in previous years, the remaining funding will be provided from Revenue Support Grant, expected to be £1.25 billion in 2016-17. The Government proposes to hold back £1.275 billion in 2016-17 to fund these allocations, to ensure sufficient funding will be available with a margin for uncertainty. This would be deducted from the control totals for the relevant councils, in proportion to the size of those control totals.

2.16 Final allocations for New Homes Bonus in 2016-17 will be published alongside the final local government finance settlement in February 2016. Any surplus will be returned to local authorities through section 31 grant, in proportion to their adjusted 2013-14 Settlement Funding Assessments, as soon as possible in the 2016-17 financial year.

2.17 The Spending Review announced that the Government would consult on reforms to the New Homes Bonus, including ways to sharpen the incentive to reward communities for additional homes and release resources to help address pressures in adult social care services, with a preferred option for savings of at least £800 million to be returned to local government to support adult social care. A technical consultation on these reforms is being published alongside the provisional local government finance settlement.

Question 5: Do you agree with the Government's proposal to fund the New Homes Bonus in 2016-17 with £1.275 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.15?

Business rates safety net

2.18 The business rates safety net ensures that no authority's income from business rates falls below 7.5% of their individual baseline funding level for the year. In previous years it has been funded by a levy on local authorities which benefit from disproportionate growth in business rates income and a top-slice from Revenue Support Grant. If it appears that the levy on high-earning authorities may be insufficient to fund the safety net, an additional amount is held back.

2.19 As in 2015-16, the Government proposes to hold back £50 million from central funding to fund the business rates safety net for 2016-17. We propose that this amount should be deducted from the control totals for each set of services (as outlined in paragraph 2.2 of this consultation document and Annex A of the Local Government Finance Report (England) 2016/17) in proportion to the size of those control totals.

Question 6: Do you agree with the Government's proposal to hold back £50 million to fund the business rates safety net in 2016-17, on the basis of the methodology described in paragraph 2.19?

Additional funding to support rural areas

2.20 The Government recognised in 2012 that there may be additional costs associated with service delivery in rural areas, introducing weighted sparsity adjustments to the relative needs formula in setting the baseline for the current system of business rates retention in 2013-14,

2.21 In recognition of possible additional costs for rural councils, additional funding was provided in 2013-14, 2014-15 and 2015-16 as a separate grant or through a transfer of funding into the settlement. This was allocated to the top quartile of local authorities on the basis of the super-sparsity indicator: a proxy for rurality which

ranks authorities by the proportion of the population which is scattered widely, using Census data and weighted towards the authorities with the sparsest populations. In 2015-16, the Government increased total additional rural funding (paid through a separate element) from £11.5 million to £15.5 million.

- 2.22 In order to establish a fuller evidence base for decisions on rural funding, the Government commissioned independent external research in 2014 on whether rural councils face additional unavoidable costs in service delivery compared to urban councils. The research involved the Local Government Association and the Rural Services Network, as well as a range of rural and urban councils. It looked at the evidence on costs at the level of individual services, and is based on interviews with a sample of councils and national expenditure data.
- 2.23 Several drivers for additional rural costs were identified in the research, including the small size of rural councils, scattered and remote populations, lack of private sector providers, and poor broadband and mobile coverage in rural areas.
- 2.24 The Government has considered this independent research and decided that the local government finance settlement should continue to recognise the additional costs of delivering services in sparsely populated areas by again increasing the Rural Services Delivery Grant. £20 million will be held back from Revenue Support Grant in 2016-17 and paid as an un-ringfenced section 31 grant to the upper quartile of authorities based on the super-sparsity indicator, which the Government considers remains the best available proxy for rurality. The Government intends to increase this to £65 million by 2019-20, which will form part of the statutory consultation on future local government finance settlements.

Question 7: Do you agree with the Government's proposed approach in paragraph 2.24 to paying £20 million additional funding to the most rural areas in 2016-17, distributed to the upper quartile of local authorities based on the super-sparsity indicator?

Funding allocations for the Parliament

- 2.25 Councils are responsible for spending their resources according to local priorities and in the interests of their residents. However, many councils value visibility of the funding streams that form part of their overall settlement allocation, to help inform their budgeting decisions. Therefore, the Government is publishing alongside this consultation, as part of councils' core spending power projections out to 2020, funding allocations for the key government grants that have been rolled into the local government finance settlement since 2013. This is in order to signal the priority the Government attaches to these issues and to encourage local prioritisation.

2.26 For 2016-17 and figures for future years published with the provisional settlement these funding elements cover homelessness prevention, learning disability and health reform, the Care Act 2014 (for deferred payments and for carers etc.), early intervention, lead local flood authorities (for elements rolled in from 2013-14 and from 2016-17), sustainable drainage systems and local welfare provision.

Local welfare provision funding

2.27 Funding was transferred to councils in 2013-14 for them to establish their own local welfare provision schemes to decide how best to provide assistance for vulnerable people. In the provisional 2015-16 local government finance settlement, the Government identified £129.6 million of funding within the settlement for councils to spend on local welfare provision. Following a review and consultation on how local welfare provision should be funded, alongside the final 2015-16 settlement the Government decided to allocate an additional £74 million to upper tier authorities to assist them in dealing with pressures on local welfare and health and social care.

2.28 For 2016-17 the Government proposes to again separately identify £129.6 million within councils' core spending power, distributed in line with local welfare provision funding in 2014-15 as in previous years.

Question 8: Do you agree with the Government's proposal that local welfare provision funding of £129.6 million and other funding elements should be identified within core spending power in 2016-17, as described in paragraph 2.28?

3. Transfers of funding into the settlement

Care Act 2014

- 3.1 The Government proposes to include all funding for implementation of the Care Act 2014 in the local government finance settlement (other than that which, as in 2015-16, is funded as part of the Better Care Fund and funding for social care in prisons, which is funded through a separate specific grant). The Spending Review identified the funding in scope as £307.7 million in 2016-17, increasing to £513.9 million in 2019-20. This includes £172 million of preparatory funding for the introduction of the Dilnot cap on care costs and £3 million for a new system of appeals.
- 3.2 In order to do this, the Government proposes to notionally adjust the 2015-16 baseline which is used to derive the 2016-17 Revenue Support Grant allocations as set out in paragraph 2.7. The proposal is to do this by adding £302.8 million to the 2015-16 baseline, of which £119.2 million will be allocated according to the deferred payments allocation and the remaining £183.6 million on the basis of the relative needs formula.

Question 9: Do you agree with the Government's proposal to include all of the grant funding for the Care Act 2014 (apart from that funded through the Better Care Fund) in the settlement, using the methodology set out in paragraph 3.2?

2015-16 Council Tax Freeze Grant

- 3.3 The Government intends to roll the 2015-16 Council Tax Freeze Grant into Revenue Support Grant (paid only to those authorities which qualified for the council tax freeze scheme in 2015-16), in the same way as the grant in previous years, before calculating the 2016-17 allocations as set out in paragraph 2.7. This means that councils will receive all their legacy freeze grants and provides the maximum possible certainty for councils that the extra funding for having frozen council tax will continue to be available.

Question 10: Do you agree with the Government's proposal to include all 2015-16 Council Tax Freeze Grant in the 2016-17 settlement, using the methodology set out in paragraph 3.3?

2015-16 Efficiency Support Grant

- 3.4 Efficiency Support Grant was provided to a small number of councils in local government finance settlements during the last Parliament, to ensure that no

council had a reduction in spending power below a floor. In the 2015-16 settlement this resulted in no council seeing a reduction in their spending power of more than 6.4% (excluding the Greater London Authority).

- 3.5 As for the 2014-15 grant funding in the 2015-16 settlement, the Government proposes to roll in the 2015-16 Efficiency Support Grant funding for the qualifying authorities, before using this to calculate the 2016-17 funding allocations as set out in paragraph 2.7, to ensure that those authorities which received the grant can continue to benefit from it.

Question 11: Do you agree with the Government's proposal to include all 2015-16 Efficiency Support Grant funding in the settlement and with the methodology set out in paragraph 3.5?

Funding for lead local flood authorities

- 3.6 The settlement includes funding for lead local flood authorities to carry out a range of duties under the Flood and Water Management Act 2010, set to be £20.6 million in 2016-17. A smaller amount of funding has previously been paid to lead local flood authorities for these duties as a separate grant in 2015-16, confirmed as £10 million for 2016-17 in the Spending Review. In addition, the Spending Review determined that new burdens funding for lead local flood authorities for their new responsibility (from 6 April 2015) to act as statutory consultees for major development planning applications with surface water considerations should be £1.9 million next year.
- 3.7 The Government intends to include all of this funding in the settlement, using the same distribution between lead local flood authorities to adjust the notional 2015-16 settlement baseline⁹ as was actually used for this funding in 2015-16.
- 3.8 This funding will be supplemented by a new section 31 grant to ensure that these elements of funding for lead local flood authorities increase in real terms in each year of the Parliament. The Government would welcome views on whether this grant should be ringfenced for the spending review period.

Question 12: Do you agree with the Government's proposal to include funding for lead local flood authorities in the 2016-17 settlement, as described in paragraphs 3.6 and 3.7?

Question 13: Do you agree with the Government's proposal to pay a separate section 31 grant to lead local flood authorities to ensure funding for these activities increases in real terms in each year of the Parliament?

⁹ The adjustment to the 2015-16 baseline which is used to derive the 2016-17 Revenue Support Grant allocations, as set out in paragraph 2.7.

Question 14: Do you have any views on whether the grant for lead local flood authorities described in paragraph 3.8 should be ringfenced for the Spending Review period?

4. Funding additional to the settlement

Compensation for the 2% cap on the small business multiplier in 2014-15 and 2015-16

- 4.1 At the 2013 Autumn Statement, the Government announced that the small business rate multiplier would be capped at 2%, rather than increased at the same level as the September 2013 Retail Price Index (3.2%). As a result the multiplier for 2014-15 calculated on the statutory basis including rounding was 0.471, instead of 0.476.
- 4.2 At the 2014 Autumn Statement, the Government announced that the small business multiplier would again be capped at 2%, rather than increased at the same level as the September 2014 Retail Price Index (2.3%). The multiplier for 2015-16 calculated on the statutory basis including rounding was 0.480, instead of 0.482.
- 4.3 Under the business rates retention scheme, tariffs, top ups and baseline funding levels are indexed each year by the change in the small business multiplier. The lower multiplier therefore reduced the baseline funding level and led to a reduction in the Settlement Funding Assessment (which comprises Revenue Support Grant and the baseline funding level).
- 4.4 As a result of the cap on the multiplier, an authority's tariff or top up and its baseline funding levels in 2014-15 and again in 2015-16 were lower than they would otherwise have been.
- 4.5 In 2014-15 the Government compensated local authorities for the loss of business rate income through a section 31 grant on the basis of the estimated reduction to retained business rate income adjusted to account for lower tariffs and top ups, based on NNDR1 data submitted in February 2013. In 2015-16 the Government took a similar approach, based on NNDR1 data submitted in February 2014. Adjustments may be made to the 2015-16 grant based on actual retained income from NNDR3 data supplied in May 2016, with certification in September 2016.
- 4.6 In 2016-17 local authorities will receive a single payment to compensate them for the continued impact of the cap on the small business rate multiplier in 2014-15 and 2015-16 that is felt in 2016-17.

Funding for the Improvement & Development Agency for Local Government

- 4.7 The Government recognises the importance of sector-led support. We have set aside sufficient resources for sector-led support and intend to continue to make payments to the Improvement & Development Agency (IDeA). Our intention is to

announce the funding to the IDeA following a negotiation and upon reaching agreement on a new deal for sector-led support for the course of this Parliament.

5. Future local government finance settlements

Four-year settlements: an offer to all councils

- 5.1 The Government will offer any council that wishes to take it up a four-year funding settlement to 2019-20. As part of the move to a more self-sufficient local government, these multi-year settlements can provide the funding certainty and stability to enable more proactive planning of service delivery and support strategic collaboration with local partners. Councils should also use their multi-year settlements to strengthen financial management and efficiency, including by maximising value in arrangements with suppliers and making strategic use of reserves in the interests of residents.
- 5.2 The Government is making a clear commitment to provide central funding allocations for each year of the Spending Review period, should councils choose to accept the offer and if they have published an efficiency plan. Indicative allocations are published alongside this year's provisional settlement and will be confirmed in the final settlement. In determining allocations for future years, the Government has assumed that it will continue to use the methodology outlined in this consultation.
- 5.3 In practice, the final determination of the local government finance settlement for any given year cannot be made until calculations are completed taking account of the business rates multiplier, which is based on the Retail Price Index in September each year. The Government will also need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement¹⁰, the Government expects these to be the amounts presented to Parliament each year.
- 5.4 The Government proposes in chapter 2 of this consultation to allocate funding on the basis of the core resources available to local authorities, taking into account councils' business rates and council tax, as well as their Revenue Support Grant. It follows that some councils with less Revenue Support Grant in later years will need to contribute funding from the other elements of their settlement core funding in order to meet the overall reductions to local government funding set in the Spending Review. Where this is the case, the Government proposes to adjust the relevant councils' tariff or top up under the business rates retention scheme. This approach has therefore been used in calculating the core spending power projections for the Parliament published alongside the 2016-17 provisional local government finance

¹⁰ As prescribed in sections 78 and 78A of the Local Government Finance Act 1988.

settlement. The Government will consult on the final adjustments for each year as part of the annual statutory process for the local government finance settlement.

Question 15: Do you agree with the Government's proposal to adjust councils' tariffs / top ups where required to ensure that councils delivering the same set of services receive the same percentage change in settlement core funding for those sets of services?

Question 16: Do you have an alternative suggestion for how to secure the required overall level of spending reductions to settlement core funding over the Parliament?

The improved Better Care Fund

- 5.5 The Government is giving authorities with social care responsibilities the flexibility to raise council tax in their area by up to 2% above the referendum threshold for each year between 2016-17 and 2019-20, to fund adult social care services. It is also providing £1.5 billion additional funding for local authorities to spend on adult social care by 2019-20, to be included in an improved Better Care Fund. Taken together, these measures provide significant resources to address the demographic pressures facing the social care system.
- 5.6 The Government recognises that authorities have varying capacity to raise council tax. We therefore propose to allocate the additional funding for the improved Better Care Fund through a separate grant to local government, using a methodology which provides greater funding to those authorities which benefit less from the additional council tax flexibility for social care. For the purposes of core spending power projections out to 2020 published alongside the 2016-17 provisional local government finance settlement, the methodology adopted is as follows:
- i. We calculate the additional funding available to spend on adult social care at a national level, combining the 2% council tax flexibility for adult social care and the additional funding for the improved Better Care Fund.
 - ii. We then calculate the share of that national amount which each authority with responsibility for social care would receive if it were distributed according to the 2013 adult social care relative needs formula.
 - iii. We then calculate how much each authority with responsibility for social care could raise from the additional 2% council tax flexibility for adult social care.
 - iv. The additional funding for the improved Better Care Fund is then allocated in such a way that, when combined with the money which could be raised from the council tax flexibility, each council would receive its share of the combined national amount as calculated in step (ii) above.

- v. These allocations are adjusted so that, where an authority could receive more from the additional council tax flexibility for social care than its share of the national amount calculated in step (ii), its allocation for the improved Better Care Fund is set to zero rather than a notional negative figure.
 - vi. The remainder of the allocations are then reduced proportionately, so that the combined totals sum to the national total for additional funding available to spend on adult social care, as calculated in step (i).
- 5.7 The additional funding for the improved Better Care Fund money is available from 2017-18. The Government would welcome views on the approach set out here. It will publish a separate, formal consultation on its proposed distribution methodology in due course and before taking final decisions.

6. Equality impact assessment

- 6.1 A draft assessment of the impact of the provisional 2016-17 settlement on persons who share a protected characteristic has also been published alongside this consultation.
- 6.2 We also welcome views on the draft equality impact assessment.

Question 17: Do you have any comments on the impact of the 2016-17 settlement on persons who share a protected characteristic, and on the draft equality statement published alongside this consultation?

Annex A

Summary of consultation questions

In addition to indicating whether or not they agree with the Government's proposals, consultees are invited to substantiate their responses where relevant.

- Question 1: Do you agree with the methodology for allocating central funding in 2016-17, as set out in paragraphs 2.6 to 2.8?
- Question 2: Do you agree with the proposed methodology for calculation of the council tax requirement for 2016-17, as set out in paragraphs 2.10 and 2.11?
- Question 3: Do you agree with the proposed methodology in paragraph 2.12 for splitting the council tax requirement between sets of services?
- Question 4: Do you wish to propose any transitional measures to be used?
- Question 5: Do you agree with the Government's proposal to fund the New Homes Bonus in 2016-17 with £1.275 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.15?
- Question 6: Do you agree with the Government's proposal to hold back £50 million to fund the business rates safety net in 2016-17, on the basis of the methodology described in paragraph 2.19?
- Question 7: Do you agree with the Government's proposed approach in paragraph 2.24 to paying £20 million additional funding to the most rural areas in 2016-17, distributed to the upper quartile of local authorities based on the super-sparsity indicator?
- Question 8: Do you agree with the Government's proposal that local welfare provision funding of £129.6 million and other funding elements should be identified within core spending power in 2016-17, as described in paragraph 2.28?
- Question 9: Do you agree with the Government's proposal to include all of the grant funding for the Care Act 2014 (apart from that funded through the Better Care Fund) in the settlement, using the methodology set out in paragraph 3.2?
- Question 10: Do you agree with the Government's proposal to include all 2015-16 Council Tax Freeze Grant in the 2016-17 settlement, using the methodology set out in paragraph 3.3?

- Question 11: Do you agree with the Government's proposal to include all 2015-16 Efficiency Support Grant funding in the settlement and with the methodology set out in paragraph 3.5?
- Question 12: Do you agree with the Government's proposal to include funding for lead local flood authorities in the 2016-17 settlement, as described in paragraphs 3.6 and 3.7?
- Question 13: Do you agree with the Government's proposal to pay a separate section 31 grant to lead local flood authorities to ensure funding for these activities increases in real terms in each year of the Parliament?
- Question 14: Do you have any views on whether the grant for lead local flood authorities described in paragraph 3.8 should be ring-fenced for the Spending Review period?
- Question 15: Do you agree with the Government's proposal to adjust councils' tariffs / top ups where required to ensure that councils delivering the same set of services receive the same percentage change in settlement core funding for those sets of services?
- Question 16: Do you have an alternative suggestion for how to secure the required overall level of spending reductions to settlement core funding over the Parliament?
- Question 17: Do you have any comments on the impact of the 2016-17 settlement on persons who share a protected characteristic, and on the draft equality statement published alongside this consultation?

Annex B

Glossary of technical terms

Baseline funding level

The amount of an individual council's Start-up Funding Assessment for 2013-14 provided through the local share of the Estimated Business Rates Aggregate, uprated in line with the small business rates multiplier (set at the September forecast of the Retail Price Index, unless otherwise decided).

Billing authorities

A unitary council, or a lower tier council in a two-tier area, which collects the council tax for its own activities, and for those of the precepting authorities in its area. The billing authority passes on the precept receipts to each precepting authority in its area. These are the 326 billing authorities that collect council tax and business rates: district councils, London boroughs, and unitary councils. Before 1 April 2009 there were 354.

Business rates

These rates, formally called national non-domestic rates, are the means by which local businesses contribute to the cost of providing local council services.

Business rates baseline

Determined for individual councils 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.

Business rates retention scheme

The name given to the current system of funding local authorities through the local government finance settlement, set out in the Local Government Finance Act 2013. The local government sector retains 50% of the business rates they collect. In addition they also receive Revenue Support Grant to help support their services.

Control totals

These are the national totals for each of the individual elements within the local spending control total. They are determined as part of the Spending Review. It is also the name given to the size of each of the different elements within the Settlement Funding Assessment.

Council tax

A local tax on domestic property, set by councils – calculated by deducting any funding from reserves, income it expects to raise and general funding it will receive from the Government – in order to meet its planned spending.

Council tax base

This is the number of Band D equivalent dwellings in a council area. To calculate the tax base for an area, the number of dwellings in each council tax band is reduced to take account of discounts and exemptions. The resulting figure for each band is then multiplied by its proportion relative to Band D (from 6/9 for Band A to 18/9 for Band H) and the total across all eight bands is calculated. An adjustment is then made for the collection rate.

Council tax bands

There are eight council tax bands. How much council tax each household pays depends on the value of the homes. The bands are set out below.

Value of home estimated at 1 April 1991		Proportion of the tax due April 1991 for a band D property
Band A	Under £40,000	66.7%
Band B	£40,001 - £52,000	77.8%
Band C	£52,001 - £68,000	88.9%
Band D	£68,001 - £88,000	100%
Band E	£88,001 - £120,000	122.2%
Band F	£120,001 - £160,000	144.4%
Band G	£160,001 - £320,000	166.7%
Band H	Over £320,001	200%

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 (usually the September Retail Price Index).

Floor damping

A method by which stability in funding is protected through limiting the effect of wide variations in grant. A floor guarantees a lower limit to a year-on-year change in grant. The grant amounts of councils who receive changes above the floor are scaled back by a fixed proportion to help pay for the floor.

Levy

Mechanism to limit disproportionate benefit from business rates. The levy is applied proportionally on a 1:1 basis (i.e. a 1% increase in business rates income results in a council getting a 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 finance settlement

The local government finance settlement is the annual determination of funding distribution as made by the Government and debated by Parliament.

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 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.

Local share

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

Lower tier councils

Councils that carry out the functions which in shire areas with two tiers of local government are carried out by shire districts. They are the same councils as billing authorities.

Multiplier

The business rates multiplier which, 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 Retail Price Index, unless the Government decides otherwise and the other multiplier adjusted accordingly, to fund rate relief for small businesses.

Precept

This is the amount of council tax income all billing and precepting authorities need to provide their services. The amounts for all authorities providing services in an area appear on one council tax bill, which is administered by the billing authority.

Precepting authority

An authority or body that does not collect council tax or business rates but is part of the business rates retention scheme. This is an authority which sets a precept to be collected by billing authorities. County councils, police authorities, the Greater London Authority, single purpose fire and rescue authorities and parish councils are all precepting authorities.

Proportionate share

This is the percentage of the national business rates yield which a council has collected on the basis of the average rates collected by councils 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.

Receiving authorities

These are the 421 authorities that are eligible to receive Revenue Support Grant (billing authorities plus county councils and fire and rescue authorities).

Reserves

This is a council's accumulated surplus income (in excess of expenditure) which can be used to finance future spending.

Revenue Support Grant

A Government grant which can be used to finance revenue expenditure on any service.

Ringfenced grant

A grant paid to councils which has conditions attached to it, which restrict the purposes for which it may be spent.

Safety net

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

Sets of services

There are four sets of services, corresponding to the services supplied by the four types of local authorities (although some councils may provide more than one tier of service).

These are:

- upper-tier services – those services, other than fire, supplied by county councils in two-tier areas, and described in this consultation as relating to 'social care councils'
- police services
- fire and rescue services
- lower-tier services – those services supplied by district councils ('non-social care councils' in the consultation) in two-tier areas.

Settlement core funding

The definition of settlement core funding for this purpose takes into account the main resources available to councils, which for this purpose comprise:

- council tax income from 2015-16 (including any Council Tax Freeze Grant)
- the Settlement Funding Assessment, comprising:
 - estimated business rates income (baseline funding level under the rates retention scheme)
 - Revenue Support Grant.

Settlement Funding Assessment

Previously referred to as Start-Up Funding Assessment. It comprises at a national level the total Revenue Support Grant and the local share of Estimated Business Rates Aggregate for the year in question. On an individual council level it comprises each council's Revenue Support Grant for the year in question and its baseline funding level, uprated year-on-year in line with the September forecast of the Retail Price Index, unless otherwise decided.

Specific grants

Grants paid under various specific powers, but excluding Revenue Support Grant or area-based grant. Some specific grants are ringfenced.

Specified body

This is the term used for a body or bodies which are directly funded from Revenue Support Grant, and which provide services centrally for local government as a whole.

Tariffs and top ups

Calculated by comparing at the outset of the business rate retention scheme an individual council's business rates baseline against its baseline funding level. Tariffs and top ups are self-funding, fixed at the start of the scheme and updated year-on-year in line with the September forecast of the Retail Price Index, unless otherwise decided.