



Department for
Communities and
Local Government

A plain English guide to the 2015-16 local government finance settlement



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A plain English guide to the 2015-16 local government finance settlement

Every bit of the public sector must contribute to tackling the budget deficit inherited from the previous administration – the largest in post-war history. This includes local government, which accounts for a quarter of all public spending.

The Local Government Finance Settlement for 2015-16 is fair. The level of grant provided to councils means the average reduction in councils' "spending power" is 1.8% (excluding the Greater London Authority (GLA), which operates under a different system).

"Spending power" is the fairest and most accurate way of calculating the money available for councils to provide local services. It includes funding from central government through the settlement, as well as income through fees and charges they raise, local council tax, grants, NHS funding to support social care and resources for public health, and business rates.

The UK has the fastest economic growth in the G7, and is creating more jobs than the rest of Europe put together. The new business rates retention system means councils who "go for growth" will gain the most funding. They can reject the old idea of wholesale dependence on central government, and focus on cutting waste and making sensible savings to protect frontline services and keep council tax down.

A fair settlement this year

The Government has provided additional funding to ensure the settlement is fair to all councils, and all council tax payers.

- No council will face a spending power reduction of more than 6.4% in 2015-16.
- There is more money available for the most sparsely populated authorities to help transform their services.
- The settlement maintains previous protections for funding that help hard working families and the most vulnerable. Those areas most reliant on central government support will continue to receive the most grant.
- Funding for homelessness, health and early intervention services provided by councils will also receive protection.
- For the fifth year in a row, the Government is protecting council tax payers from increases in their bills – providing funding which councils can use to freeze their council tax. The council tax freeze funding for 2015-16 is intended to be built into the baseline for subsequent settlements, as it has been for the last three years. This provides councils with maximum certainty about future funding.
- In addition to grant funding, councils will also collaborate with the NHS to spend £3.5 billion from the Better Care Fund. This funding will transform the provision of health and social care at the local level, particularly for the elderly.

Going for growth

In the past councils have been largely dependent on central government for the level of funding they received, which often depended on jumping through bureaucratic hoops rather than focussing on the needs of local communities.

Now councils have real autonomy and incentives to “go for growth” in their area. Their support for businesses will not only create jobs for local people, it will also ensure they receive extra funding for council services and investment, without being told what to do.

- The new business rates retention system ensures that councils, for the first time in a generation, can retain up to half the revenue raised through business rates – approximately £11 billion this year. Councils will also receive half of the growth in business rates revenue. This offers a strong incentive to support local businesses, as they will directly benefit from local economic growth. Single purpose fire and rescue authorities benefit from a 2% share of each district or borough council’s business rates income.
- Councils are now in control of planning and housing development in their area, and benefit through the New Homes Bonus, which matches council tax for six years on every new home or long-term empty home brought back into use. Provisional payments for 2015-16 are £1.2 billion, and will bring total payments to almost £3.4 billion since the scheme began in 2011.
- A £2 billion Local Growth Fund will also be available in 2015-16, and will be matched by extended roles for Local Enterprise Partnerships in strategic housing investment.

How councils can improve services

Councils now have more power than ever before to act in their residents’ best interests and improve services. They can:

- reduce fraud under council tax reduction schemes
- promote local enterprise and get people back into work
- redesign services to make them more efficient and sustainable.

There is potential to make more savings, and many cutting-edge councils are setting an example for the rest of country. The Government’s “Fifty Ways to Save” guide is also available to help local government identify savings.

The Transformation Challenge Award is helping councils go further and faster with their plans for service transformation whilst protecting services and reducing costs to the taxpayer. Successful schemes are improving residents’ health, education and job prospects and reducing their dependency on public services.

There were 31 successful schemes awarded £12.9m in 2013/14. In September 2014 a further 32 schemes shared £8.69m of investment, and in November another 73 successful received £89.4 million, which is projected to save over £1 billion in the long-term.

What does the settlement mean for you?

Local residents should see better and more efficient services, and greater investment by councils who go for growth and increase their revenue from business rates. The government is enabling councils to freeze council tax for the fifth year in a row, protecting the pound in taxpayers' pockets.

Businesses will benefit from councils who want to promote growth and employment. Councils now keep a share of business rates growth and have powers to grant local discounts. Businesses will also benefit from £1.4 billion of support for business rates bills in 2015-16. This supports includes the doubling Small Business Rate Relief for an extra year, a 2% cap on the inflation increase for the second consecutive year, and increasing the temporary discount for shops, pubs and restaurants with rateable values below £50,000 from £1,000 to £1,500.

Councils have more autonomy and greater incentives to support businesses in their area and ensure local firms are paying correct business rates. A new safety net will protect councils against unforeseen reductions in business rates revenue.