Introduction to the 2014-15 Local Government Finance Settlement

Every bit of the public sector needs to do their bit to pay off the budget deficit inherited from the previous administration, including local government, which accounts for a quarter of all public spending. Councils should focus on cutting waste and making sensible savings to protect frontline services and keep council tax down.

Councils now directly benefit from local business growth for the first time in a generation. As part of our reforms last year, councils are retaining up to half the revenue raised through business rates - some £11.5 billion per annum – and the annual growth on their share. They now have a strong incentive to support local businesses, and can reject the idea that they are wholly dependent on central government.

Government grant is, of course, not the only way that councils receive their money. A local council has income from various sources, from business rates through the new retention system, from fees and charges raised, and from the local council tax. So it is fairest and most accurate to look at a council's overall 'spending power' rather than simply their grant levels. The Government has again looked at all of council's income from council tax, start-up funding assessment, grants, and money that is coming from the NHS to support social care and benefit public health. Taking account of all these sources of income the average reduction in councils' spending power is 2.9% (excluding the GLA) in 2014-15 and 1.8% (excluding the GLA) in 2015-16.

A fair settlement this year

We have also provided additional funding to ensure that no council will face a spending power reduction of more than 6.9% in 2014-15 – which gives councils more protection than last year – and have supported the most rural authorities with additional funding of £9.5 million. This is also a higher level than last year and will help them in transforming their services. Above all this is a fair settlement which protects hard working families and the most vulnerable. Councils continue to receive funding based on the protections for services built into last year's settlement and this year those areas most reliant on central government support still get the most grant.

The settlement delivers the 1% overall reduction in grant announced at Budget 2013 – but to help protect council tax payers from increases in their bills, we are maintaining the funding available to councils that freeze their council tax for the fifth year in a row. We intend that the council tax freeze funding for 2014-15 and 2015-16 should be built into the baseline for subsequent years. This provides maximum possible certainty for councils that the extra funding for freezing council tax will remain available, and there will not be a 'cliff edge' effect beyond 2015-16. The 2011-12 and 13-14 freeze grants are already in the local government settlement total for future years. Funding for homelessness, health and early intervention services provided by councils also receives some protection.

To help authorities with medium term financial planning, we are also including illustrative information about the 2015-16 settlement, expected to be announced in detail in late 2014. This sets out how we currently plan to achieve the 10% grant reduction in funding for the sector which was announced as part of the Spending Round in June 2013. The Spending Round secured money for adult care and service transformation to make this reduction achievable.

The wider picture

The new system of business rates retention is not the only incentive for councils to go for growth. Councils can also benefit from the New Homes Bonus – provisional New Homes Bonus payments for 2014-15 will be some £916 million, and these will bring the total New Homes Bonus grant paid since it began in April 2011 to over £2.2 billion. To incentivise asset sales and support investment in transforming local services, the Government will be allowing local authorities some flexibility to use £200 million of receipts from asset sales across 2015-16 and 2016-17 to pay for the one-off costs of service reforms. There will also be a £2 billion Local Growth Fund in 2015-16, and extended roles for Local Enterprise Partnerships in strategic housing investment.

Alongside the new powers, freedoms and flexibilities that have been introduced, this new financial system frees councils from their historic dependence on central government and gives them the ability to invest in and support the needs of their local communities – without being told what to do.

How councils can improve services

Councils now have more power than ever before, but they need to act in their residents' best interests and work harder on their behalf. They can achieve this by doing all they can to reduce fraud under council tax reduction schemes, promoting local enterprise and getting people back into work, or by redesigning services to make them more efficient and sustainable. We know that there are still savings to be had, and many cutting edge councils are leading by example in developing best practice for the rest of country. The Government document "Fifty Ways to Save" is available to assist local government in identifying savings.

We have helped drive this change by establishing the Transformation Challenge Award to help councils demonstrate innovation, protect services and reduce costs to the taxpayer. There were 18 successful schemes this year, including projects to accelerate integration of local health care services and to create shared finance and HR for emergency services.

What does this mean for you?

Local residents should be seeing greater investment in local services as authorities increase their business rates. Their councils also need to make sensible savings to help freeze council tax and protect frontline services, and with Government investing in council tax freeze grant and service transformation residents can expect to see this.

Businesses see no change in the way their business rate bills are calculated as a result of the new system, but now have a much greater incentive to work with local councils. The Autumn Statement set out a £1.1 billion package of business rates measures to encourage growth by capping the business rates RPI increase at 2% in 2014-15 for all businesses and extending the doubling of the Small Business Rate Relief to March 2015. A two-year business rates discount of £1000 for smaller retail premises will also come into effect from April 2014, and a new relief to help bring empty shops back into use is planned.

Councils now have much greater incentive to grow businesses in their areas and much greater certainty about their future funding - allowing them to plan ahead, manage risk, budget for the long term and plan for worst case scenarios. There is also a safety net in the new business rates scheme in case things don't go as planned..They will also want to work more closely with the Valuation Office Agency to ensure that local firms are having their properties valued correctly and are paying the right amount of tax.

All single purpose **fire and rescue authorities** are funded through a two percent share of each district or borough council’s business rates income.