



Department for
Communities and
Local Government

Local Government Finance Settlement 2014-15 and 2015-16 Technical Consultation

Summary of Responses

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Background

This document provides an analysis of all the responses received for the Local Government Finance settlement 2014-15 and 2015-16 technical consultation.

The Scope of the Consultation Paper

On 25 July 2013, the Department of Communities and Local Government published a consultation document seeking views on a range of detailed and technical issues concerning the 2014-15 and 2015-16 Local Government Finance settlements.

The consultation paper set out in separate chapters questions on individual issues. These included implementing the 1% reduction to the Local Government Department Expenditure Limit (LG DEL) announced in the 2013 Spending Round; funding an increase in the safety net support and holding back funding for the New Homes Bonus.

The consultation ran for 10 weeks, closing on 2 October 2013.

Analysis of Consultation Responses

A total of 225 responses were received to the consultation. Consultation responses have been read and considered in detail and a basic numerical analysis of the responses, together with summaries of the main comments received, are included below. Some local authorities submitted multiple responses. These have all been included in the analysis.

Many of the responses received mentioned or commented on the issues without explicitly expressing support or rejections of our proposals. We have done our best to include responses that indicated support or rejection of proposals. The numerical analysis shows the number of respondents definitely supporting each proposal, and the number of respondents expressly rejecting each proposal. These figures are also expressed as a percentage of the total number of responses received i.e. 225.

The table below gives a breakdown of consultation responses included in this analysis by the type of respondent:

Type of Respondent	Number of Responses	Percentage of Total Responses
Shire Districts	78	34.7%
Unitary Authorities	36	16.0%
Metropolitan Areas	34	15.1%
County Councils	22	9.8%
London Boroughs	20	8.9%
Greater London Authority	1	0.4%
Single Purpose Fire Authorities	16	7.1%
Single Purpose Police Authorities	1	0.4%
Special Interest Groups	12	5.3%
Local Authority Associations	4	1.8%
Combined Authorities	1	0.4%
Total	225	100%

Responses to Specific Questions

A breakdown of responses to the individual questions set in the consultation paper is given below. Please note that the percentages given in the numerical analyses below relate to the total number of responses.

The analysis below is set out in the same order as the consultation document and is split into corresponding chapters for ease of reference.

Section 2: changes to the 2014-15 local government finance settlement

Chapter 3: Effect of the 2013 Budget announcement

Since the publication of the illustrative 2014-15 Local Government Finance settlement, the Government announced in the 2013 Budget a further 1% reduction of the total of Local Government Departmental Expenditure Limit (LG DEL) and the *local share* of the *Estimated Business Rates Aggregate*. This equates to a further £218.864 million reduction to the total for 2014-15.

Since the *local share* of business rates is fixed until 2020, the full reduction will need to be applied to the element of funding that is provided through *Revenue Support Grant*. On that basis, the 2014-15 *Revenue Support Grant* will be reduced by 1.73%.

In line with commitments made to authorities prior to take up, the Government does not intend to reduce the Council Tax Freeze Compensation element of the *Revenue Support Grant*. The reduction will therefore be applied to the remaining elements of the Revenue Support Grant.

Question 1: Do you agree with the Government's proposal on how to implement the 1% reduction to the Local Government Departmental Expenditure Limit (LG DEL)?

Number of respondents supporting the proposal: 73 (32%)

Number of respondents opposing the proposal: 127 (56%)

This question provoked considerable opposition. The opposition came in 127 responses (56% of all responses) and came from a range of authorities. From county councils and London boroughs more responses were received in favour of the methodology than opposed.

Authorities that opposed the methodology did so on the basis that it did not take into account grant dependency or ability to raise council tax. A number of authorities also commented on the difficulty of undertaking medium-term planning due to further unexpected reductions to *Revenue Support Grant*

Chapter 4: Increasing the safety net hold back

The rates retention system includes a safety net to protect local authorities from significant negative shocks to their income by guaranteeing that no authority will see its income from business rates fall below 7.5% of their baseline funding level.

Based on the estimates from local authority returns, in addition to the £25 million it already intended to hold back in 2014-15, the Department considers that it will need to hold back an additional £95 million in 2014-15 (i.e. a total of £120 million).

To reduce the need for a further reduction in *Revenue Support Grant* to fund the *safety net* in 2014-15, it is proposed to use £50 million of the £100 million already held back from *Revenue Support Grant* to fund the *safety net*. This reduces the size of the additional money needed for the *safety net* hold back to £45 million. This would leave £50 million available for capitalisation in 2014-15.

Question 2: Do you agree with the proposal for reducing the funding available for capitalisation for 2014-15 by £50 million and using this revenue to reduce the amount required to be held back from *Revenue Support Grant* to fund the safety net?

Number of respondents supporting the proposal: 105 (45%)

Number of respondents opposing the proposal: 107 (47%)

Responses to this question were mixed, with almost an equal number of responses agreeing with the proposal as opposing it. Those who opposed the proposal did so primarily because they believed that the cost of funding the safety net should be met by central government.

Section 3: the 2015-16 local government finance settlement

Chapter 5: Revenue Support Grant Control Total

The New Homes Bonus acts as a powerful incentive for local authorities to deliver housing and forms part of the Government's growth strategy. In order to ensure that there will be sufficient funding available to fund the New Homes Bonus, the Government intends to take out £1.1 billion from *Revenue Support Grant* for the New Homes Bonus from both billing authorities and county councils. Any surplus taken out to fund the New Homes Bonus will be returned to local authorities through Section 31 grant in proportion to their 2013-14 Start-Up Funding Assessments as in 2013-2014.

As in 2014-2015, funding will need to be held back to help ensure that councils can be supported appropriately where their business rates income falls below 7.5% of their *baseline funding level*. The Department intends to hold back £50 million in 2015-16 to meet safety net payments in 2015-16. Any underspend will be returned to authorities in proportion to their 2013-14 Start-Up Funding Assessment.

Question 3: Do you agree with the way the Government proposes to hold back funding that is necessary for New Homes Bonus and safety net support, and to return any surplus to authorities.

Number of respondents supporting the proposal: 38 (17%)

Number of respondents opposing the proposal: 142 (63%)

There was considerable opposition to this proposal. The opposition came in 142 responses (63%) and from a range of authorities. A number of authorities commented on the scale of holdbacks being larger than necessary.

Chapter 6: Distribution of Revenue Support Grant in 2015-2016

The July 2012 'Business Rates Retention: Technical Consultation' set out the Government's intention to continue to scale the 2014-15 authority-level allocations of *Revenue Support Grant* to the level of the 2015-16 control total for services funded through the rates retention scheme.

The Government proposes that for all of the grants rolled in from 2013-14, it will set the 2015-16 control totals to be the continuation of the changes over the 2010 Spending Review period prior to holdbacks.

Question 4: Do you agree with the proposed methodology for calculating control totals for each of the elements within the *Settlement Funding Assessment*?

Number of respondents supporting the proposal: 49 (17%)

Number of respondents opposing the proposal: 143 (64%)

This was the most widely opposed proposal in the technical consultation. The opposition came in 143 responses (64%). County councils were the only group where more responses were received in favour of the proposal than against. There was widespread comment on the impact of holding back funding on upper and lower tier authorities and fire authorities.

Chapter 7: Transfers

The consultation initially proposed combining the 2013-14 Council Tax Freeze grant and the 2011-12 Council Tax Freeze compensation element in 2015-16 and scaling both back together, using a notional combination of the two elements in 2014-15 as the baseline. However, following a query from London Councils, it became clear that the proposed methodology for rolling in the 2013-14 Council Tax Freeze Grant from 2015-16 would not fulfil the Government's objective of ensuring that the funding is not reduced in cash terms and only goes to those authorities that met the criteria for the Council Tax Freeze scheme in 2013-14.

The Department therefore proposed rolling the 2013-14 Council Tax Freeze Grant funding into Revenue Support Grant as a separate element. This change in methodology would ensure that the grant is not reduced in cash terms and only benefits authorities that met the criteria for the Council Tax Freeze Scheme in 2013-14.

The analysis below is provided for responses to the revised proposal for transferring in the 2013-14 Council Tax Freeze Compensation. Where appropriate, responses from authorities that have replied to the initial proposal whose responses also apply to the revised proposal have also been included in the analysis.

Question 5A: Do you agree with the proposed revised methodology for transferring in the 2013-14 Council Tax Freeze Compensation?

Number of respondents supporting the proposal: 123 (55%)

Number of respondents opposing the proposal: 71 (32%)

Support for this proposal came in 123 responses (55%). County councils were the group most in favour of the proposal. Metropolitan districts represented the only group where more responses were received against the proposal than for it. All authorities that commented on the revised proposal agreed that it achieved the Government's objectives better than the original proposal.

The remaining question in this chapter concerns the Carbon Reduction Commitment Energy Efficiency Scheme. All state funded English schools will be withdrawn from participating in Phase 2 of the scheme. This will result in a number of local authorities becoming too small to meet the required threshold for participation in the Carbon Reduction Commitment Energy Efficiency Scheme. This will also result in a loss of tax revenue received by the Exchequer for which compensation will be expected under the New Burdens principle. Departments expenditure limits (DEL) will be adjusted to compensate for this loss as outlined in the Government's written budget statement.

Question 6: Do you agree with the proposed methodology for adjusting the 2015-16 settlement to take account of the loss of tax revenue due to the Exchequer from the local authorities who are too small to participate in the Carbon Reduction Commitment Energy Efficiency Scheme?

Number of respondents supporting the proposal: 30 (13%)

Number of respondents opposing the proposal: 120 (53%)

There was strong opposition to this proposal from a range of authorities. Authorities commented that no funding had been allocated at the start of the scheme and so it would be wrong to make negative adjustments now.