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Police Committee

Date: FRIDAY, 18 JANUARY 2013

Time: 11.30 am

Venue: COMMITTEE ROOMS, WEST WING, GUILDHALL

ITEM 10
URGENT PUBLIC REPORT

Item received too late for circulation in conjunction with the Agenda.

John Barradell
Town Clerk and Chief Executive

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Committee(s):	Date(s):
Finance Committee Police Committee	22 January 2013 18 January 2013
Subject: Local Government Finance Settlement 2013/14; Police Settlement; and Mayoral Precept 2013/14	**Public**
Report of: The Chamberlain	**For Information**

Summary

This report explains briefly the financial implications of the recent announcement of the Local Government Finance Settlement 2013/14 for the City Fund.

For Police Services, the 2013/14 position is close to forecast. However, this position masks a significant reduction in the formula grant, which is currently compensated for by a damping assessment of £10m. In previous years the City of London has contributed to the 'damping' scheme, now the City is dependent on the damping and therefore exposed to greater financial risk should the damping provision be removed in a future review of the Police Allocation Formula. Volatility in funding levels and increased dependence on damping has been identified as a significant issue for many local authorities at a national level.

The Home Secretary is deferring details of the 2014/15 settlement, but has committed to the calculation being on the same basis. The City of London can therefore expect the same level of reduction as every other force in the country. Many specific grants have yet to be confirmed and concerns remain about dedicated security grant funding levels.

For Non- Police Services, government funding levels for the remaining two years of the CSR period have been announced. For 2013/14 government funding levels are close to forecast. However, the 2014/15 settlement is more severe than expected with a £1.7m reduction on forecast.

On business rates retention we now know the minimum funding level, the tariff and the safety net protection levels. However in view of the recent changes that increased the starting position for the City of London potentially around £90m we think it is more likely that the City is at risk of entering safety net territory. The safety net has been set at 7.5%, which at least limits the City's share of future losses to £1.1m p.a.

The proposals for the Greater London Authority precepts have been published. For most of London there is a 1% decrease in Council Tax, however for the City of London taxpayers there is a 5.3% increase. This reflects that the Mayor

is moving funding from Metropolitan Police to the London Fire Brigade and we do not benefit from savings for the Metropolitan Police element of the precept.

Responses to the consultation on the Settlement are due on 15 January. Copies of the City's written submissions will be provided to this Committee.

Recommendation

Members are asked to:

- note the report; and
- note the consultation responses to the Local Government Settlement and the Home Office to be provided to this Committee.

Main Report

Background

1. On the 19 December 2012, the Policing Minister, Damian Green published, for Police, details of revenue allocations for 2013/14 and capital allocations for 2013/14 and 2014/15 and the Secretary of State for Communities and Local Government announced a two-year settlement for local government, covering 2013-14 and 2014-15; consultation on the proposals ends on Tuesday 15 January 2013.
2. The local government settlement is a fundamental change from the old formula grant system and follows the new system of partial local rates rention of non-domestic rating revenues introduced by the Local Government Finance Act in October 2012.
3. Under this new system each authority will receive a Start-Up Funding Assessment (SUFA) which combines formula funding (composed of the Revenue Support Grant and a Baseline Funding Level) and a number of rolled in grants. The government calculates the Baseline Funding Level for the City as a proportion of the expected collectable level of business rates retained after applying the tariff; the Revenue Support Grant is the remainder of the collectable national business rates allocated on a relative needs basis. For 2013/14 this is set at a level that matches the funding provided in 2012/13.

Police Settlement

4. As in previous years, City of London Police will receive formula funding from two sources- Home Office Police Grant and DCLG formula funding.
5. The Policing Minister, Damian Green has published details of revenue allocations for 2013/14 and capital allocations for 2013/14 and 2014/15. The Home Office has decided to defer publication of the 2014/15 revenue funding allocations in light of the further reductions announced in the December 2012 Autumn Statement. The formula used to calculate 2013/14 allocations will be frozen for 2014/15, with only the total to be distributed through the model differing between the two years.

6. The City Police will receive £57.8m for 2013/14. This includes the 'rolling in' of £1.3m for the neighbourhood Policing Fund which was previously a separate specific grant, so, on a like for like basis, this is a reduction of £1m compared to 2012/13. This reduction, equates to 1.7% which is exactly the same reduction as for all police forces. This reduction is less than the figure factored into the financial forecasts by some £0.9m.

7. However this calculation reflects a significant reduction in the formula grant, which is then compensated for by a 'damping' assessment of £10m to achieve the 1.7% reduction. In previous years the City of London has contributed to the 'damping' scheme, now the City is dependent on the 'damping' and therefore exposed to greater financial risk should the 'damping' provision be removed, as is intended when the Police Allocation Formula is reviewed. The reasons for this change in grant calculation are, at the time of writing this report, still not clear.

8. The announcement did not cover all specific grant funding and £15m remains to be confirmed. Within this, there are specific concerns regarding grant for Dedicated Security Posts where there is a risk of a further reduction. This grant presently stands at £8.6m but £3.5m of this is damped to cushion the effect of further reductions.

Non-Police Grant Settlement

9. The City's SUFA for 2013/14 is £36.461m composed of Revenue Supprt Grant (RSG) funding of £21.895m and Baseline Funding Level (BFL) of £14.566m. This is close to our assumption of of £36.172m.

10. However, for 2014/15 the City's SUFA is £32.5m, a drop of 11% from 2013/14 levels. This is because of a 20% reduction in the RSG and a 3% growth in the BFL and is £1.893m less than what we had included in the forecast for 2014/15 at this time last year. The forecast for 2014/15 had assumed a reduction of 5% from 2013/14 and the position was expected to be worse by virtue of the extra 2% cuts set out in the Autumn Statement, but this is still more than expected. We await further details of the settlement to understand the reasons for the full reduction.

11. In addition to the SUFA, the City receives an offset from its contribution to the DCLG business rates pool. The City has been formally notified that Ministers have decided to make provision in 2013/14 for a City Offset of £10.538m compared with £10.271m for 2012/13.

12. As part of the announcement for 2013/14, the Minister also announced a council tax freeze grant for 2013/14. Councils that freeze or reduce council tax will get a grant worth 1% of their council tax in each of 2013/14 and 2014/15- approximately £50,000 each year for the City.

13. The Secretary of State announced to the House of Commons on 19 December the council tax referendum principles he proposes to set. He has proposed that a 2% referendum principle will apply for all principal local authorities, PCCs and Fire and Rescue Authorities. This means that if the City wishes to raise the relevant basic amount of council tax in 2013-14 by more than 2%, a referendum would be required to give the local electorate the

opportunity to approve or veto the increase. This is a decrease from the present 3.75% allowable increase (composed of 4% for Police and 3.5% for Non-Police services).

Business Rates Retention Scheme

14. The 2012 Local Government Finance Act became law on 31 October 2012. It provides for the implementation of a system of business rates retention from 1 April 2013, based on a locally retained share of 50%. If the City can increase non domestic rate revenue above its baseline funding level, it can retain a proportion of that growth. However changes made to the legislation and not specifically consulted on prior to passing through Parliament, are disappointing. Throughout the consultations, the Government had calculated the proportionate shares of rate income for each billing authority based on averaging the rate income of the five years 2007/08 to 2011/12. However, it has now been announced that the calculation will actually be based on an average of the two years 2010/11 and 2011/12. The five year average took into account appeals settled between 2005 and 2010. However, the two year average is affected by being early in the life of the 2010 Rating List; although values of new properties are being taken into account as they are completed, appeals are yet to be determined and more appeals are likely to be made. This has the effect of inflating the overall rateable value and collectable amounts.

15. The change from the five year average to the two year average effectively increases the starting point for the City,which could be as much as £90m thus making it very unlikely that the City will be immediately able to share in business rate growth and retain aditional income. Instead, as there are now significant reductions being made to rateable values in the City following appeals being settled, rates income in the early years of the new arrangements is unlikely to increase for some time. As we go towards 2015, it is likely that there will be more appeals against the 2010 List. There are still many appeals outstanding against the 2005 Rating List (the City has by far the highest proportion of these in the country; the table in Appendix 1 shows the City compared with other major cities). These will have a knock on effect on the 2010 List. There are significant new buildings being developed but even if these are completed and let, the combined effect of all reductions is likely to negate any growth achieved.

16. Whilst growth is possible, the impact of future appeals means we are more likely to be concerned by the safety net than any potential growth; however, the City's share of future losses is limited to £1.1m p.a. Because of the large business rates yield and the nature of property in the City where values are highly volatile, of all local authorities, the City is at most risk of calling on the safety net. This would occur if there was a decline in business rates of over 3.7%.

17. The Government has indicated that the previous year's non-domestic rating multiplier (poundage) will be fully increased by inflation, by using the increase in the RPI figures. Therefore for 2013/14 the multiplier has been uprated by 2.6%.

London Councils' view on the Settlement

18. London Councils' is highlighting a number of key issues:

- Changes to the formula grant methodolgy have introduced significant volatility to pre-damped forumla grant levels- some local authorities have seen their dependence on damping grow by as much as £29m. This is certainly the case for the City for Police funding as highlighted above.
- The government has decided to 'roll in' council tax support funding into formula funding. This decision has two key consequences: firstly, funding for council tax support will be lost within the wider formula funding allocations making it very difficult to confirm the level of funding a local authority is receiving and secondly, this funding will be subject to the broader cuts to formula funding in 2014/15 and beyond. In 2011/12, the City received £248,000 in council tax support funding, but for 2013/14 only £24,762 of the support funding is now visible in the funding calulation. The rest we are assured, by the department, is rolled up into the RSG- but we are unable as yet to verify the amount.
- The Government has introduced changes to increase the share of funding for the cost of rural services, at the expense of London and other urban areas. This seems born out by the steep reduction in the City's RSG in 2014/15.
- Following lobbying by the sector, the government has made a further downwards adjustment of circa £0.6bn to the target level of business rates to mitigate some of the negative financial impact of outstanding appeals on funding levels. However the adjustment ignores the fact that outstanding appeals are more likely to take place in London and other urban areas. Concerns have also been raised as to whether the safety net will provide an adequate level of protection, some London Boroughs will have to lose 42% of its local rates before becoming eligible for any protection. This particular concern does not affect the City as the collectable rates would only need to fall by 3.7% before the safety net kicks in. However the exposure the City faces to appeals as described in the section above make it more likely the City will enter safety net territory.
- In 2014/15 the government will revise its Revenue Support Grant payment to local government to reflect corresponding RPI growth within local government's share of the overall business rates yield. It would appear that central government is using local government's share of business rate growth to reduce its liability to the sector.

Mayoral precept

19. The Mayor of London has published his 2013-14 draft revenue budget and capital spending plan for consultation. This includes the budget proposals for the GLA (Mayor and Assembly), the Mayor's Office for Policing and Crime (MOPAC), the London Fire and Emergency Planning Authority (LFEPA), Transport for London (TfL) and the London Legacy Development Corporation (LLDC). The budget proposes a reduction in the Mayor's Band D council tax precept of £3.72 (just over 1%) from £306.72 to £303.00 in 2013-14 for most London Boroughs. However, the proposed precept for council tax payers in the City of London (which is outside the Metropolitan police district) is £82.75 - representing an increase of £4.13 or 5.3%. The reduction reflects that the Mayor is moving funding from Metropolitan Police to the London Fire Brigade and we do not benefit from savings for the Metropolitan Police element of the precept.

Conclusion

20. Police funding is better than forecast for 2013/14 and likely to be around forecast for 2014/15; however the City is now dependent on £10m of damping and is at risk so far as specific grant for dedicated security funding is concerned.

21. For other services, whilst the 2013/14 funding position is better than expected, the position in 2014/15 is worse than anticipated. We cannot fully explain this reduction yet as we await further information from DCLG. However, reductions on this scale mean that it is important that we focus our consultation responses on securing specific grant funding for Police, protecting the Offset and highlighting that the impact of the appeals issue which is likely to put the City into safety net territory.

Appendices

- Appendix 1 – Analysis of appeals

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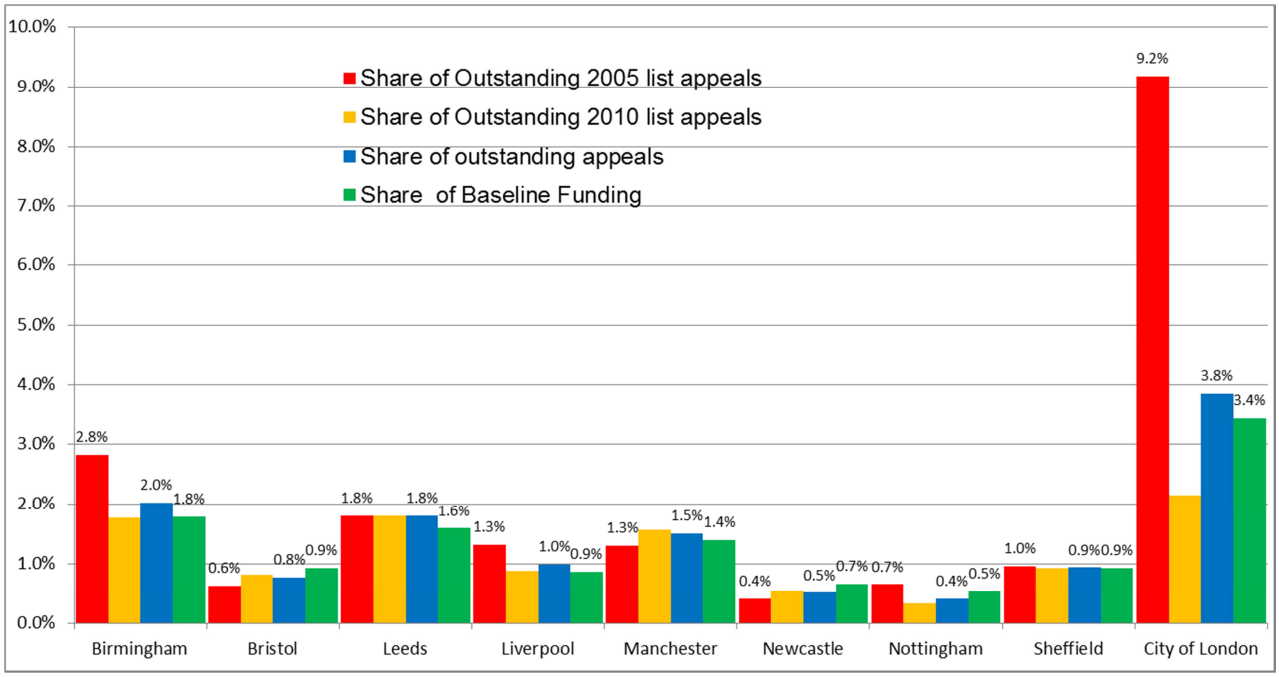
Appendix 1

Analysis of appeals- City Councils (CCs)

Chart showing 31.3.2012 numbers of outstanding appeals as a % of the England Total at that point, separately showing 2005 list and 2010 list appeals and the % share of the Baseline Business rates being used by DCLG to allocate the 2.65% extra adjustment.



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