

<b>Committee:</b>	<b>Date:</b>
Finance Committee	23 <sup>rd</sup> September 2014
<b>Subject:</b> Local Government Finance Settlement 2015/16 Technical Consultation and Business Rates Pooling Prospectus	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
<b>Summary</b>	
<p>The report sets out the key issues arising from two recently published Government consultation papers relating to financial matters in the local government sector, the Local Government Finance Settlement 2015/16 technical consultation; and Business Rates Pooling Prospectus 2015/16.</p> <p>Overall it is considered that no significant issues arise as a result of the consultations which would require representations to be made to the Department of Communities and Local Government (DCLG).</p> <p><b>Recommendation</b></p> <p>Members are asked to:</p> <ul style="list-style-type: none"> <li>• Note the contents of this report.</li> </ul>	

## **Main Report**

### **Background**

1. On Monday 21<sup>st</sup> July 2014 the Department for Communities and Local Government (DCLG) published two consultation papers:
  - Local Government Finance Settlement 2015-16 (response deadline 25<sup>th</sup> September 2014)
  - Business rates retention scheme: pooling prospectus (response deadline 31<sup>st</sup> October 2014)
2. The Local Government Finance Settlement consultation covers proposals for changes to the illustrative 2015/16 (non-Police) local government finance settlement.
3. Details of the proposed 2014/15 Local Government Finance Settlement and indicative 2015/16 settlement were reported to this Committee on 21st January 2014.

## **The Local Government Finance Settlement Technical Consultation 2015/16 (Non-Police)**

4. The Spending Review 2013 announced on 26th June 2013 set out real terms cut in overall funding for local government from the DCLG for 2015/16. As reported to this Committee in January 2014 it is anticipated that the City's Settlement Funding Assessment (SFA) for its non-Police services in 2015/16 is expected to be £27.1m a reduction of some £5.1m or 15.8% on the 2014/15 levels. This position remains unchanged as a result of this consultation.
5. Notwithstanding the overall reduction in funding, DCLG are seeking views on the technical aspects of the 2015/16 finance settlement. In particular:
  - The methodology for calculating compensation due to local authorities resulting from the reduction of income from business rates as a result of the Government's 2% cap on the small business multiplier;
  - Transfers of funding into the settlement, including the effects of rolling the council tax freeze grant, Efficiency Support Grant and Rural Services Delivery Grant into the overall Revenue Support Grant for those authorities eligible for such funding; and
  - Transfers of funding out of the settlement in relation to the Carbon Reduction Credits Energy Efficiency Scheme.

### **Compensation for the 2% cap on the small business rates multiplier**

6. At the 2013 Autumn Statement, the Government announced that the small business rates multiplier would be capped at 2.0%, rather than increased in line with the September 2013 Retail Price Index (3.2%), as previously proposed. The consultation confirms that the Government intends to continue to pay compensation to local authorities in 2015/16 for the loss of income as a result of the cap through a section 31 grant on the same basis as in 2014/15. The compensation is based on the estimated reduction to retained business rates income adjusted to account for lower tariffs and top-ups based on National Non-Domestic Rates (NNDR) data submitted in February 2013. DCLG have confirmed the City will receive £577,770 in 2014/15. It is anticipated that a similar grant will be received in 2015/16.

### **Transfers of Funding into the Settlement**

#### **2014/15 Council Tax Freeze Grant**

7. It has been a key government policy since 2010 to encourage local authorities to limit council tax increases. As such Government has made available grant funding to incentivise authorities to freeze their council tax each year. The decision to continue to freeze council tax in 2014/15 means that the City will receive a grant worth 1% of its council tax in 2014/15 and 2015/16 – approximately £50,000 a year. It is proposed that the Government will roll the 2014/15 council tax freeze grant into the Revenue Support Grant (RSG) and combined with the 2013/14 Council Tax Freeze funding as a single element. It is assumed that this will also apply to any funding awarded in 2015/16. Whilst the Council Tax Freeze Grant is welcomed, historically, where grants are "rolled in" this often results in a lack of transparency and can reduce the effectiveness of the funding where RSG is reduced.

### **2014/15 Efficiency Support Grant**

8. In order to ensure that no authority had a reduction in 2014/15 revenue spending of more than 6.9%, £9.6m in Efficiency Support Grant was paid to seven authorities. Broadly speaking the Government defines Spending Power as the sum of: council tax; Settlement Funding Assessments; specific grants (including for the City its Offset); new homes bonus; NHS funding for social care; and, the ring-fenced public health grant. For those authorities in receipt of an Efficiency Support Grant the Government is proposing that this is rolled into RSG, subject to satisfactory progress being made by those authorities. The City did not qualify for an Efficiency Support Grant in 2014/15 and it is anticipated that this will remain the case in 2015/16. Should the City become eligible to apply for an Efficiency Support Grant in the future the terms of the grant would need to be considered carefully before any application is submitted.

### **2014/15 Rural Services Grant**

9. This grant is not applicable to the City Of London as a Metropolitan Authority and therefore no implications arise from this being rolled into RSG.

## **Transfers of Funding out of the Settlement**

### **Carbon Reduction Credits Energy Efficiency Scheme Adjustment**

10. The consultation also details a funding adjustment (reduction) for those authorities which fall below the threshold for participation in the Carbon Reduction Commitment Energy Efficiency Scheme, as a result of the Government decision to exclude all state funded English Schools from participation. The Carbon Reduction Commitment Energy Efficiency Scheme taxes carbon emission. For participation an authority's total settled half hour electricity usage must exceed 6,000 MWh. Where an authority falls below the threshold for participation during the 2012/13 qualification period as a result of excluding Schools from the scheme, the Government considers that the Exchequer suffers a loss of tax revenue and to compensate for this loss it is proposed that a negative funding adjustment is made. The negative funding adjustment is equal to the tax which would have been due on total emissions for that authority (excluding schools). The City's total settled half hour electricity figure during 2012/13 was significantly in excess of this figure, therefore, the negative funding adjustment proposal does not affect the City.

## **Business Rates Pooling Prospectus**

11. As part of the business rates retention scheme, all local authorities were given the opportunity to work with neighbouring and partner authorities to develop a bid to become a local authority business rate "pool". A core principle of pooling is that it is voluntary and requires local authorities to establish whether pooling offers a benefit to them however, the issues are complex, particularly in relation to estimates of appeals/growth and how any changes to the levy factor could benefit the pool as a whole. Any pool in London would have to include all London billing authorities and to date there has been little interest in pooling across London. It is not considered, however, that pooling offers any particular benefits for the City of London as a tariff authority. Applications to establish a new pool must be made by 31st October 2014.

## **Conclusion**

12. Overall the Local Government 2015/16 technical consultation does not identify any issues which are unique and/or disadvantageous relative to other councils which would require representations to be made. Furthermore it is not proposed that the City seeks to establish a Business Rates Pool at this time.

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