

1	Meeting:	Cabinet
2	Date:	4th September 2013
3	Title:	The Implications of the DCLG Technical Consultation on the Local Government Finance Settlement for 2014/15 and 2015/16
4	Directorate:	Resources

5 Summary

On 25th July the Department for Communities and Local Government (DCLG) released a Technical Consultation on the Local Government Finance Settlement for 2014/15 and 2015/16. This Consultation document provides some further clarity over figures included in the June Spending Round. The implications of the proposed settlements are:

- an increase in the indicative 2014/15 Council Funding Gap of £0.4m to £20.5m
- an increase in the indicative 2015/16 Council Funding Gap of £5.2m to £20.3m

This revises the Council's cumulative funding gap to £40.8m over the next two financial years.

A response to the Consultation Paper is required by the DCLG by 2nd October 2013. Members are asked to support both an individual response from Rotherham as well as endorsing the SIGOMA response. If a decision is also taken to submit a South Yorkshire response, Members are asked to support inclusion of Rotherham's issues and concerns in this response also. Members are also asked to agree the sharing of any response with the LGA.

6 Recommendations

Cabinet is asked to:

- **Note the contents of the report and the implications on the Council's indicative funding gap for both 2014/15 and 2015/16 and**
- **to support Consultation responses as follows:**
 - i) A Rotherham specific response**
 - ii) Input to/endorse the SIGOMA response**
 - iii) Input to a South Yorkshire response (should a decision be taken to submit one from the four South Yorkshire authorities)**
 - iv) Share our response with the Local Government Association (LGA)**

7.1 Background

Following the 26th June Spending Round (SR) covering the financial years 2013-2016 (up to the next General Election) and the subsequent announcement of the Government's £100bn Infrastructure Plan, a report was brought to Cabinet on 24th July providing details of the implications of these announcements for the Council. At that time it was indicated that further details of the settlement proposals were to be released and that pending this detailed information there were still many issues which lacked clarity. The position was further clarified by the release on 25th July of a Technical Consultation Paper setting out proposals for the 2014/15 and 2015/16 local government finance settlements. The Technical Consultation sets out how the funding announced in June will feed through to local authorities and consultation responses to the proposals are requested by 2nd October 2013.

7.2 2014/15 and 2015/16 Settlements and Projected Budget Gap

Prior to the Spending Review announcement in June, Rotherham Council was already facing a budget gap of £19.120m in 2014/15 as a result of the previously announced 9.1% reduction in grant. The SR announced a further 7.6% cut in 2015/16 funding which increased the Council's Initial projected Budget Gap for 2015/16 by a further £10m – giving a **total initial Budget shortfall of £29.3m over the two years 2014/15 to 2015/16** (excluding any, new investment proposals and the financial outcome of the triennial pensions revaluation).

This initial indicative funding gap was in addition to the Council delivering cumulative savings of over £70.2m between 2011/12 and the end of the current financial year (2013/14).

The following table sets out the position in respect of the Council's projected Budget Gap prior to the June Spending Review and the changes resulting from the proposals in the June Spending Review and July 25th Technical Consultation Paper.

Year	Initial Projected Budget Gap	Spending Review	Budget Gap reported to Cabinet (24 th July 2013)	Technical Consultation 25 th July 2013	Revised Estimated Budget Gap
	£m	£m	£m	£m	£m
2014/15	19.120	0.968	20.088	0.431	20.519
2015/16	10.155	4.945	15.100	5.162	20.262
Cumulative Gap	29.275	5.913	35.188	5.593	40.781

The impact of the information contained in the Technical Consultation document on Rotherham's budget projections is to further reduce projected resources by £5.6m on top of the £5.9m reduction reported to Cabinet on 24th July 2013.

- This increases the 2014/15 and 2015/16 cumulative budget gap from the £35.2m previously reported to £40.8m.
- For 2015/16, this is an increase over 2014/15's budget gap of £20.3m.

These additional and unexpected proposed funding cuts will seriously impact on the Council's ability to meet the needs of Rotherham citizens. The Leader of the Council has already written to Lord Freud (7th August) raising serious concerns about the negative impact of Welfare Reform on Rotherham's residents and economy. (Appendix 1 attached).

7.3 Revised Estimated Budget Gap 2014/15

Although national spending plans for 2014/15 were not revised in the Spending Review, details within it required the Council's Budget projections for 2014/15 to be adjusted. The effect on the Council **was to increase the projected 2014/15 Budget Gap by £0.968m to £20.088m**. The latest proposals in the Technical Consultation Paper now further reduce the grant figures to allow for **a national increase of £95m in the Business Rates Safety Net provision which is top-sliced from RSG funding**. This is to reflect the expected impact on authorities of backdated (pre 2013/14) rates appeals (although it should be noted that if all the provision is not required it will be refunded to authorities in proportion to their grant).

As a result of this national reduction, Rotherham Council's indicative 2014/15 Budget Gap increases by an additional £0.4m to £20.5m as the Council's projected grant income has now been further reduced.

7.4 Revised Estimated Budget Gap 2015/16

As a result of the 26th June announcement, the **Cumulative Budget Gap rose by £5.9m to £35.188m**. At that time there remained several elements of the SR announcement for which clarification was awaited. In particular, there was uncertainty around the additional **£3.8bn of Health Funding** announced for joint commissioning of social care by the NHS and Councils, an allocation of **£100m to enable efficiencies in collaborative service delivery** and **£200m for the Troubled Families initiative**. The release of the **Technical Consultation Paper** on 25th July supplied much of the detail about the 2015/16 settlement that had been lacking.

Initial analysis of the Consultation Paper indicated that **the cut to local government funding was £1bn greater than had been indicated in the June Spending Round**. The reasons for this substantial reduction in funding were unclear and gave rise to general concern among authorities, **prompting the LGA to seek an urgent meeting with the DCLG** the following week to clarify the position.

Following that meeting, it is now understood that the additional funding reduction is the result of several factors:

- A further cut in RSG resulting from the DCLG taking into account expected growth in local authorities' share of business rates in its estimates. (Rotherham has assumed no local growth in rates income over and above the annual RPI increase in rates poundage).
- **£800m** which had been presented in June as additional funding for "new burdens", being included in the local government funding baseline rather than being added to it. This funding includes:
 - £335m for Dilnot scheme preparation from 2015/16;
 - £100m Collaboration and Efficiency Funding;

- £30m Fire Transformation Funding; and
- £188m transfer from the Department for Work and Pensions for the Independent Living Fund.

In effect, this means that **there is a cut in mainstream funding to support these new initiatives** – i.e. the ‘new’ money is not additional funding!!

On 15th August the Leader of Birmingham City Council urged the National Audit Office to investigate the government’s handling of its funding of councils.

7.5 Information still requiring clarification

Despite the release of the Technical Consultation Paper there is still some uncertainty around the final settlement figures for both financial years. This is due to:

- The distribution of funding for the new initiatives and other resources announced in June, including a contribution to the £200m for the Troubled Families’ Initiative, have yet to be announced by the DCLG. Consequently it is not possible to assess the impact on individual authorities at this stage but because mainstream funding has been cut, **authorities that do not receive allocations in respect of the new initiatives will in effect suffer cuts.**
- It is widely anticipated that the 2015/16 Settlement will be subject to further adjustment. This is because not all the changes affecting the 2015/16 settlement have been taken into account in the DCLG’s current projections. Compensation for the 2013/14 Council Tax Freeze will be fed into authorities’ 2015/16 funding base and the settlement will be reduced to reflect the impact of excluding schools from the Carbon Reduction Commitment.
- As RSG is composed of a number of elements of core funding and “rolled in grants” such as Early Intervention Grant (EIG). Details of all of which have not yet been announced and as each of these elements will be cut at different rates in 2015/16, the impact will be different for each local Authority.
- The DCLG has also promised to reimburse authorities for the extension of small business rates relief announced in the March 2013 Budget (and latterly in respect of the new empty properties) but no details have been released of the funding either in the current year or going forward.
- Finally, as announced in June - £400m, (35%) is being top-sliced from the **New Homes Bonus (NHB)**, pot to transfer to Local Economic Partnerships (LEPs) as part of their investment funding. **£150m of this is to come from local authority resources.** A Consultation Paper was released for distributing funding to LEPs was also released on 25th July.

The significance of these proposals should not be underestimated as, although it is anticipated that a full SR will be announced in the autumn of 2015 following the election in May 2015, the next government’s overall spending plans for 2015/16 are not expected to change - Ed Milliband has stated “ *...our starting point for 2015/16 is that we won’t be able to reverse the cuts in day to day current spending unless they are fully funded from savings elsewhere or extra revenue.*”

7.6 Response to the Technical Consultation Paper.

The consultation period on the Settlement Proposals ends on the 2nd October. The consultation questions focus on technical details such as the proposals for implementing the 1% reduction in funding in 2014/15 announced in the Chancellor's Budget, the treatment of holdbacks for the NHB and Safety Net and the calculation of control totals in 2015/16. However, the current proposals have generated substantial concern amongst authorities and Members need to consider the Council's response to the consultation.

Rotherham could submit an individual response to the paper or could chose to endorse those made by organisations like the LGA and SIGOMA. The LGA has requested that authorities share any response to the DCLG Consultation so that they "can best reflect your concerns to the Government" and suggest that following are key points to raise:

- The lack of transparency in the process – the Government should explain that the impact of cuts on most authorities will be around 15% and not 10% as announced in the June Spending round.
- Where resources have been held back or top-sliced the DCLG should not take more than is needed – "authorities cannot budget for redistributions of unspent contingencies they may not receive".
- With respect to business rates appeals the reason for the adjustments in 2014/15 – the financial risk should be carried by the Government (as they are responsible for the Valuation Office Agency) and backdated appeals relating to the period before 2013/14 (when the business rates retention scheme started) should be charged to the pre 2013 rates pot.

It is understood that SIGOMA is preparing a consultation response and the Council has made initial enquiries about the potential for a combined South Yorkshire response.

Members are asked to support a multi-approach response – a Rotherham specific response, input to the SIGOMA response and (should one be submitted) input to a South Yorkshire response. Members are also asked to agree to the sharing of the information with the LGA.

8. Finance

The financial implications of the proposed settlements are set out in section 7 above. The key impact has been to increase the Council's projected funding shortfall for 2014/15 and 2015/16 as described in sections 7.2 to 7.5. This position will continue to be monitored, revised as appropriate, and reported through to SLT/Cabinet as further information is released.

9. Risks and Uncertainties

With respect to the Local Government Finance Settlements in 2014/15 and 2015/16 it should be noted that the changes to the funding of local authorities associated with the localisation of Business Rates have significantly increased the proportion of risk borne by Councils, As suggested above there remain significant uncertainties and pressures for the Council around the proposed Financial Settlements for 2014/15 and 2015/16 although work is progressing to model the effects of the

proposals to ensure that the Council's financial planning, monitoring and reporting process are robust and effective and to mitigate the Council's financial risk.

10. Policy and Performance Agenda Implications

Achieving a balanced Revenue Budget and closing the funding gaps for forthcoming financial years is essential if the objectives of the Council's Policy agenda are to be achieved. Financial performance is a key element within the assessment of the Council's overall performance framework.

11. Background Papers and Consultation

- Report to Cabinet General Fund: Budget Principles, 2014/15 and onwards, 2014/15: Proposed Budget Setting Timetable and 2013/14 - Reporting in year financial budget performance - 3rd July 2013.
- Spending Round 26th June 2013 and Infrastructure Announcement 27th June 2013
- Report to Cabinet the Implications of the 2013 Spending Round for the Council's Financial Projections – 24th July 2013
- Local Government Finance Settlement 2014/15 and 2015/16 Technical Consultations DCLG 25th July 2013.
- LGA Briefing
- Strategic Directors and Service Directors of the Council

Contact Name: Stuart Booth, Director of Financial Services, *ext. 22034*,
stuart.booth@rotherham.gov.uk