

1	Meeting:	Cabinet
2	Date:	18th September 2013
3	Title:	DCLG Technical Consultation on the Local Government Finance Settlement for 2014/15 and 2015/16 Consultation Response
4	Directorate:	Resources

5 Summary

This report provides details of the Council's proposed response to the DCLG Technical Consultation on the Local Government Finance Settlement for 2014/15 and 2015/16. At the Cabinet meeting on September 4th it was agreed that the Council would:

- Submit a Rotherham specific response;
- Input to and endorse the SIGOMA response;
- Provide input for a South Yorkshire response, if there is one; and
- Share our response with the LGA.

Attached as an appendix is the Council's proposed response, although the Consultation paper itself only requests authorities' views on 6 technical questions around the process of determining control totals and feeding in cuts in funding, it is proposed that the Council's response highlights its concerns both around the impact of the proposals on the Council and the process itself.

This approach is also being favoured by both SIGOMA and the LGA in their responses and the Council has fed back its concerns around the implications of the proposals to these bodies for inclusion in their responses.

6 Recommendations

Cabinet is asked to:

- **Note the contents of the report**
- **Endorse the Council's Consultation response and submission – attached as appendix 1**
- **Refer the Council's Consultation response to Overview and Scrutiny Management Board (OSMB)**
- **Allow the Director of Finance, in consultation with the Leader to finalise the submission of the Consultation response reflecting any OSMB comments; and**
- **Note that the Council has informed both SIGOMA and the LGA of its views for inclusion in their respective submissions to the DCLG**

7.1 Background

On 25th July the DCLG released a Technical Consultation Paper setting out proposals for the 2014/15 and 2015/16 local government finance settlements requesting responses to the proposals by 2nd October 2013.

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

As reported to Cabinet on September 4th, the impact of the Technical Consultation proposals on Rotherham's budget projections was to further reduce projected resources by £5.6m on top of the £5.9m reduction reported to Cabinet on 24th July 2013.

- Increasing the 2014/15 and 2015/16 cumulative budget gap from the £35.2m previously reported to £40.8m.
- Rotherham Council's indicative 2014/15 Budget Gap is increased by an additional £0.4m to £20.5m, and
- For 2015/16, this is an increase over 2014/15's budget gap of £20.3m.

7.3 These proposed funding reductions were largely unexpected and gave rise to concern amongst local authorities and their representative organisations. Of particular concern was that 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. This was found to be due to:

- A cut in RSG due to the DCLG taking into account expected growth in local authorities' share of business rates in its income 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 already included in the local government funding baseline rather than being added to it. In effect, this means that **there is a cut in mainstream funding to support these new initiatives**. Given this, it is anticipated that funding for Troubled Families (details of which are yet to be announced) will, at least in part be met from local government's own resource settlement.
- Additional funding is also being withheld or top-sliced from authorities for New Homes Bonus and business rates retention safety nets. The latter is to reflect the expected impact on authorities of backdated (pre 2013/14) rates appeals which it can be argued should be funded from residual pre 2013 rates receipts rather than localised business rates which were only in place from April 2013.
- **Information still requiring clarification** In spite of the release of the Technical Consultation Paper some uncertainty remains around the final settlement figures for both financial years. This is due to: some details, (particularly in respect of new initiatives) remaining unannounced, not all the changes affecting the 2015/16 settlement having been taken into account in the DCLG's current projections (e.g. Council Tax Freeze compensation) and full details of all the "rolled in grants" which make up elements of RSG core funding being yet to be announced.
- In Rotherham's case the assessment is that the cuts detailed in the 2 papers issued in June and July will seriously impact on the Council's ability to meet the needs of Rotherham citizens in the next 2 financial years.

7.6 Response to the Technical Consultation Paper.

A report setting out the implications of the Technical Consultation paper for the Council and outlining the proposed approach to be adopted for the Council's response was considered at the Cabinet meeting on September 4th. It was agreed that the Council would:

- Submit a Rotherham specific response;
- Input to and endorse the SIGOMA response;
- Provide input for a South Yorkshire response, if there is one; and
- Share our response with the LGA.

The consultation period on the Settlement Proposals ends on the 2nd October. The DCLG's formal questions in the Consultation Paper focus on technical details such as: the proposals for implementing the 1% reduction in 2014/15 funding 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 in line with the approach being taken by both SIGOMA and the LGA it is proposed that responses should go beyond simply answering these technical questions and should highlight other issues and concerns around the proposals, in particular the impact of the significant reduction in funding.

The Leader of the Council has already written to Lord Freud (7th August) raising serious concerns about the negative impact of Welfare Reform and funding proposals on Rotherham's residents and economy and it is proposed that the Council's response should echo these concerns. In addition, the LGA and SIGOMA have both identified the following as key points:

- The lack of transparency in the process – the Technical Paper had not been announced in advance and was released during the holiday season, after Parliament had risen. It has proved difficult to replicate DCLG figures, in particular the much quoted reduction in spending power of 2.3% - local government estimates that real – terms reduction in core funding is over 15%.
- The impact of the reductions on RSG – which is now the only needs based element of funding. As baseline business rates' funding has been frozen until 2020, the largest portion of the cuts has had to come from RSG. RSG has been reduced: by the 1% announced in the Chancellor's Budget, top-sliced (e.g. to fund the rates safety net and NHB) and to reflect the increase in business rates income in 2015/16.
- In real terms RSG will have reduced by just under 30% by 2015/16 (and it will represent less than half of local government funding for the first time). This has a disproportionate impact on authorities like Rotherham with relatively high levels of need and limited capacity to increase their business rates income and which are therefore more dependent on needs based RSG. The link between resource allocations and assessment of spending need will be weakened with implications for local government funding going forward – in future the only way local authorities will be able to improve their resource outlook is to increase rates income.
- With respect to business rates - 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 rather than funding being taken from RSG to increase the Safety Net.

- New Burdens - both the LGA and SIGOMA share the view that that including funding for new burdens with an overall funding decrease, thus reducing the apparent cut, is misleading. This approach would also seem to run counter to the commitment made in the New Burdens Guidance (issued by the DCLG in June 2011 and still on their website) that all new burdens on local authorities must be properly assessed and fully funded by the relevant department.

7.7 Other responses

In preparing its response to the consultation the Council has liaised with and has shared its views with both SIGOMA and the LGA. The Council's response will make clear that it supports the submissions made by these authorities and a copy of the Council's submission will be shared with them. SIGOMA has called a meeting of Technical Officers on September 12th and should any further issues be identified following the meeting this will be fed back and the Council's response will be revised.

In addition to the LGA and SIGOMA, the Council is active within Local Government and the Humber – at present details of this organisation's response are not available but it is understood that should they submit a reply to the Consultation, like other submissions it will focus on the additional top-slicing/cut of resources from RSG and the funding of new burdens.

In the report to Cabinet of 4th September it had been suggested that a South Yorkshire response might be submitted, however there has not been any interest in this approach from the other 3 neighbouring authorities.

8. Finance

Although the proposals outlined in the Technical Consultation Paper have significant financial implications for the Council, there are no direct financial implications arising from this report.

9. Risks and Uncertainties

Again, although the localisation of Business Rates has significantly increased the proportion of risk borne by Councils and there remain significant uncertainties and pressures for the Council around the proposed Financial Settlements for 2014/15 and 2015/16 there are no direct risks associated with this report.

10. Policy and Performance Agenda Implications

There are no policy and performance agenda items arising directly from this report.

11. Background Papers and Consultation

- 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
- Report to Cabinet The Implications of the DCLG Technical Consultation on the Local Government Finance Settlement for 2014/15 and 2015/16 -4th September 2013
- Local Government Finance Settlement 2014/15 and 2015/16 Technical Consultations DCLG 25th July 2013.

- LGA Briefing
- SIGOMA Briefing
- Strategic Directors and Service Directors of the Council
- New burdens doctrine: guidance for government departments DCLG 20th June 2011

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Local Government Finance Settlement 2014-15 and 2015-16 – Technical Consultation – Rotherham MBC Response

Rotherham Council welcomes the opportunity to respond to the consultation on the proposed Local Government Finance Settlements for 2014/15 and 2015/16. As well as this response on its own behalf, as a member of both the Local Government Association (LGA) and Special Interest Group of Municipal Authorities (SIGOMA) the Council would also endorse their respective responses to this consultation.

Although, the Council has answered the specific technical questions included in the Consultation Paper, like SIGOMA and the LGA, the Council is of the view that there are several other issues surrounding the Consultation that also require consideration and resolution before any technical issues are addressed.

- Firstly, like SIGOMA and the LGA Rotherham Council is particularly concerned by the lack of transparency in the current process – the Technical Paper had not been announced in advance and was released during the holiday season, after Parliament had risen. Although described as a technical paper, the proposals being consulted upon have significant implications for the outcomes of the 2013 Spending Round, which had been announced only a month earlier.
- The current proposals amount to a significant funding reduction for local government on top of the 10% reduction in funding announced as part of the June Spending Round. It has not been possible to replicate all the figures quoted in the document, in particular the much quoted reduction in spending power of 2.3% - local government's own estimates suggest that taking into account the proposals in the current consultation, the real terms reduction in core funding by 2015/16 is 15%. Given this, transparency over the calculation of a 2.3% reduction in spending power would be most welcome.
- The impact of the funding reductions on RSG – which is now the only needs based element of funding, is worrying for authorities like Rotherham with high levels of need. As baseline business rates' funding has been frozen until 2020, the largest portion of the current cuts has had to come from RSG. In real terms, by 2015/16 RSG will have reduced by just under 30% (and it will represent less than half of local government funding for the first time). This weakens the link between resource allocations and assessments of spending need. This is all the more significant for authorities like Rotherham, as the current funding assessments are based on damped funding allocations, which did not fully fund the assessed need of authorities in order to protect others.
- It is also a concern that RSG has been reduced to take account of predicted RPI growth in the local share. This approach runs counter to the spirit of the Rates Retention scheme income but also redistributes funding from authorities with high levels of needs to those able to increase their rates income. In future, given the restrictions on increasing Council Tax, the only route for local authorities to improve their resource outlook will be to increase rates income.
- Overall the proposals will have a disproportionate impact on authorities like Rotherham with relatively high levels of need and limited capacity to increase their business rates income, who are, therefore, more dependent on needs based grant allocations like RSG. This is the issue considered by SIGOMA in its paper "A Fair Future?" which the

Council Leader referred to in a recent letter to Lord Freud. As indicated in Cllr Stone's letter, the Council is seeking government recognition that inequalities are being created under the new funding regime and that a fair method will need to be deployed to redress these imbalances if the smaller and poorer metropolitan authorities, like Rotherham, are to be equipped with the resources needed to stimulate economic growth and reach their full economic potential

- **New Burdens** – like the LGA and SIGOMA, Rotherham Council shares the view that including funding for new burdens with an overall funding decrease, thus reducing the apparent cut to resources is misleading. This approach would also seem to run counter to the commitment made in the New Burdens Guidance (issued by the DCLG in June 2011 and still on your website) that all new burdens on local authorities must be properly assessed and fully funded by the relevant department.
- **Question 1:** Do you agree with the Government's proposal on how to implement the 1% reduction to the Local Government Expenditure Limit (LG DEL)?

Reducing the needs based element of the Local Government Finance Settlement for 2014/15 will have a disproportionate effect on authorities like Rotherham with relatively high levels of need and limited capacity to increase their rates income.

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

Rotherham Council does not agree with the proposal and is of the view (shared by SIGOMA and the LGA) that - backdated appeals relating to the period before 2013/14 (when the business rates retention scheme came into being) should be charged to the pre 2013 rates pot rather than funding being taken from RSG or from provision for capitalisation to increase the Safety Net.

Capitalisation directions are only provided to authorities in exceptional circumstances and the conditions around their use mean that an authority would not request a capitalisation direction unless it was absolutely necessary and the Council would be loath to remove this option from authorities. That said the Council does not consider it appropriate to fund capitalisation directions from local authorities revenue funding.

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

The current proposals to holdback 35% of New Homes Bonus Funding to support investment by LEPs seem to run counter to the purpose of the New Homes Bonus as a grant paid by central government to local councils for increasing the number of homes and their use which authorities can decide how to spend. Furthermore, government guidance made it clear that local councils were expected to consult communities about how they will spend the money, especially communities where housing stock has increased, but no such requirement is passed on the LEPs.

Although the Council agrees with the principle that any top-sliced resources not used should be returned to authorities, as its response to question 2 indicates, with respect to the Business Rates Safety Net, the Council does not support the Government proposals to take funds from RSG.

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

In determining control totals for specific elements of funding it is important to reflect differences in need and authorities' potential to generate income from other sources. As stated, reducing RSG, which is needs based, has a disproportionate effect on authorities like Rotherham with high levels of need and relatively limited scope to increase rates income.

As an aside, the Council would welcome an indication of how the 2.3% spending reduction was calculated; when local government estimates that the funding reduction is actually over 15%. Like the LGA and SIGOMA, Rotherham Council considers that it is misleading to include funding for New Burdens in resources totals, offsetting an overall decrease in resources. This is particularly the case with respect to the additional pooled health and social care funding as there is not yet a clear indication of the terms conditions and payment schedule that will apply to this funding. These resources are linked to new responsibilities and duties for local government and therefore do not represent an overall funding increase to the sector.

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

Rotherham Council accepts the proposed methodology for transferring in the 2013/14 Council Tax Freeze compensation but would ask why a similar approach has not been adopted in respect of Council Tax Reduction Scheme funding?

- **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?

Yes

To conclude it is hoped that these comments will be of assistance in determining Local Government Funding Settlements for 2014/15 and going forward.