Provisional Local Government Finance Settlement 2016/17

17 December 2015
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Separate Excel Workbooks:
Appendix A: Core Spending Power Information
Appendix B: Local Authority Specific Tables
1. **Introduction**

1.1 On 17 December 2015, the Secretary of State for the Department for Communities and Local Government, Greg Clark MP, made a statement to Parliament on the provisional local government finance settlement 2016/17. This briefing note highlights key issues of note, and comparative information, for local authorities.

**Key Issues**

1.2 The key issues emerging from the provisional settlement are as follows:

- For the period 2015/16 to 2019/20, there is a reduction to the England Settlement Funding Assessment (SFA) of 31.8% (based on the adjusted 2015/16 figure), as per the table below.

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</thead>
<tbody>
<tr>
<td>SFA</td>
<td>£21,250</td>
<td>£18,601</td>
<td>£16,622</td>
<td>£15,536</td>
<td>£14,500</td>
</tr>
<tr>
<td>Change %</td>
<td>-12.5%</td>
<td>-10.6%</td>
<td>-6.5%</td>
<td>-6.7%</td>
<td></td>
</tr>
<tr>
<td>Cumulative change %</td>
<td>-12.5%</td>
<td>-21.8%</td>
<td>-26.9%</td>
<td>-31.8%</td>
<td></td>
</tr>
</tbody>
</table>

- In addition to SFA funding, starting in 2017/18, there will be an additional funding through the "Improved Better Care Fund". By 2019/20, this will be worth £1.5bn per annum. This funding will go to authorities with Social Care responsibilities to complement the new 2% Social Care Council Tax precept, which was previously announced in Spending Review 2015. This funding will take into account the amount that each authority can raise locally through a 2% increase in Council Tax.

- Rather than all local authorities receiving the same percentage reduction in Revenue Support Grant (RSG) funding, the government now propose to take into account the amount that can be raised locally from Council Tax, thereby increasing the reduction in RSG funding for higher taxbase authorities (in terms of the ratio of taxbase income to SFA) and lowering the reduction for lower than average taxbase authorities. The government has also altered the split of funding between tier of government, which would appear to favour upper tier services and lead to higher funding reductions for district councils.

- The Council Tax referendum limit remains at 2%; this applies to local authorities and fire authorities. However, local authorities with social care responsibilities will be able to increase council tax by up to 4%, providing that 2% is for social care. District councils with Band D Council Tax levels in the lower quartile will be able to raise Council Tax by up to £5 per annum to 2019/20.

- The Rural Services Grant will increase from £16m in 2015/16 to £65m by 2019/20.
It appears that there are no changes to the New Homes Bonus scheme planned before 2018/19, with in-year allocations increasing from £1,167m in 2015/16 to £1,485m in 2016/17, £1,493m in 2017/18 and then a reduction to £938m in 2018/19 and to £900m by 2019/20.

Core Spending Power

The Minister announced that the Spending Power calculation that has been published in previous years has been amended to exclude funding that is not directly controlled by local government and is now known as Core Spending Power. This now means that current Better Care Fund and Public Health Grant allocations have been removed from the figures.

The calculation now only includes the Settlement Funding Assessment, Council Tax, the Improved Better Care Fund, New Homes Bonus and the Rural Services Delivery Grant.

Table 1.1 below shows the national changes to Core Spending Power between 2015/16 and 2019/20. It shows a reduction of 2.8% for 2016/17 and an overall reduction for the period 2015/16 to 2019/20 of 0.5%.

Table 1.1 Core Spending Power figures for England 2015/16 to 2019/20

<table>
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</thead>
<tbody>
<tr>
<td>Settlement Funding Assessment</td>
<td>21,250</td>
<td>18,601</td>
<td>16,622</td>
<td>15,536</td>
<td>14,500</td>
</tr>
<tr>
<td>Council Tax, of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>22,036</td>
<td>23,148</td>
<td>24,436</td>
<td>25,821</td>
<td>27,314</td>
</tr>
<tr>
<td>Improved Better Care Fund</td>
<td></td>
<td>105</td>
<td>825</td>
<td>1,500</td>
<td></td>
</tr>
<tr>
<td>New Homes Bonus and returned funding</td>
<td>1,200</td>
<td>1,485</td>
<td>1,493</td>
<td>938</td>
<td>900</td>
</tr>
<tr>
<td>Rural Services Delivery Grant</td>
<td>16</td>
<td>20</td>
<td>35</td>
<td>50</td>
<td>65</td>
</tr>
<tr>
<td>Core Spending Power</td>
<td>44,501</td>
<td>43,255</td>
<td>42,690</td>
<td>43,170</td>
<td>44,279</td>
</tr>
<tr>
<td>Change %</td>
<td>-2.8%</td>
<td>-1.3%</td>
<td>1.1%</td>
<td>2.6%</td>
<td></td>
</tr>
<tr>
<td>Cumulative change %</td>
<td>-2.8%</td>
<td>-4.1%</td>
<td>-3.0%</td>
<td>-0.5%</td>
<td></td>
</tr>
</tbody>
</table>

Appendix A (excel spreadsheet) contains a copy of the DCLG’s Core Spending Power Excel workbook. There is a drop down menu on the spreadsheet to allow local authorities to see their own figures.
2. Local Government Funding 2016/17

Background

2.1. The 2016/17 provisional finance settlement represents the fourth year in which the Business Rates Retention (BRR) scheme is the principal form of local government funding. As in the previous three years, the provisional settlement provides authorities with a combination of provisional grant allocations and their baseline figures within the BRR scheme.

2.2. The provisional figures are expected to be confirmed in late January/early February 2016 (within the final settlement announcement).

2.3. The 2016/17 announcement includes local authority allocations up to 2019/20.

2.4. Further details on the main announcements made are set out below:

Revenue Support Grant Allocations

2.5. A new methodology for determining authorities’ RSG allocations has been proposed within the provisional settlement. Rather than applying the same percentage cut to all authorities, the new approach takes into account individual authorities’ council tax raising ability and the type of services provide. This would appear to favour upper tier authorities, with significantly larger funding reductions for district councils.

2.6. The methodology adds together authorities’ SFA amount and their forecast council tax income for 2016/17 (based on individual authorities’ actual council tax levels), before applying a percentage reduction. This approach means that authorities with a lower than average council taxbase (relative to their SFA amount) have a lower reduction in grant (and those with a higher taxbase have a higher reduction in grant).

2.7. Table 2.1 below shows the authorities with the lowest and highest SFA changes as a consequence of this proposed methodology (excluding Police and Fire authorities).
Table 2.1 Proposed SFA changes for 2019/20 – highest and lowest % changes

<table>
<thead>
<tr>
<th>Authority</th>
<th>Adjusted 2015/16 £m</th>
<th>2019/20 £m</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 highest % reductions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Dorset</td>
<td>2.2</td>
<td>0.4</td>
<td>-83%</td>
</tr>
<tr>
<td>Elmbridge</td>
<td>4.0</td>
<td>0.8</td>
<td>-79%</td>
</tr>
<tr>
<td>Reigate and Banstead</td>
<td>3.8</td>
<td>0.8</td>
<td>-79%</td>
</tr>
<tr>
<td>Mole Valley</td>
<td>2.1</td>
<td>0.5</td>
<td>-78%</td>
</tr>
<tr>
<td>Surrey Heath</td>
<td>2.5</td>
<td>0.6</td>
<td>-75%</td>
</tr>
<tr>
<td>Chiltern</td>
<td>2.5</td>
<td>0.6</td>
<td>-75%</td>
</tr>
<tr>
<td>Wokingham</td>
<td>26.7</td>
<td>6.9</td>
<td>-74%</td>
</tr>
<tr>
<td>Tandridge</td>
<td>2.6</td>
<td>0.7</td>
<td>-72%</td>
</tr>
<tr>
<td>Maidstone</td>
<td>5.2</td>
<td>1.6</td>
<td>-69%</td>
</tr>
<tr>
<td>Sevenoaks</td>
<td>3.7</td>
<td>1.2</td>
<td>-67%</td>
</tr>
<tr>
<td>10 Lowest % Reductions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birmingham</td>
<td>611.9</td>
<td>464.9</td>
<td>-24%</td>
</tr>
<tr>
<td>Liverpool</td>
<td>299.2</td>
<td>227.5</td>
<td>-24%</td>
</tr>
<tr>
<td>Southwark</td>
<td>197.9</td>
<td>150.7</td>
<td>-24%</td>
</tr>
<tr>
<td>Wandsworth</td>
<td>126.2</td>
<td>96.4</td>
<td>-24%</td>
</tr>
<tr>
<td>Tower Hamlets</td>
<td>187.9</td>
<td>143.8</td>
<td>-23%</td>
</tr>
<tr>
<td>Manchester</td>
<td>305.0</td>
<td>234.3</td>
<td>-23%</td>
</tr>
<tr>
<td>Knowsley</td>
<td>107.8</td>
<td>83.2</td>
<td>-23%</td>
</tr>
<tr>
<td>Hackney</td>
<td>187.3</td>
<td>144.9</td>
<td>-23%</td>
</tr>
<tr>
<td>Westminster</td>
<td>154.1</td>
<td>119.2</td>
<td>-23%</td>
</tr>
<tr>
<td>Newham</td>
<td>189.3</td>
<td>146.7</td>
<td>-22%</td>
</tr>
</tbody>
</table>

2.8. The methodology therefore aims to take into account the amount that an authority can raise locally/the impact on overall funding of RSG reductions. It is a similar approach to the Resources block, with the previous four-block model (last used to set the Baseline Need amounts in 2013/14). By using actual council tax levels, rather than an assumed level, this approach also favours authorities with below average Council Tax, and disadvantages those with above average Council Tax levels.
Due to this approach reducing some authorities’ RSG to £0 before 2019/20, it appears that the government plans to reduce top up/increase tariff amounts for these authorities, in order that the overall change in funding is consistent across all authorities.

The methodology for the RSG reductions is as follows:

Revenue Support Grant = (SFA15 + CTR15) x SF – (BFL16 + CTR16)

Where:
- SFA15 is the adjusted Settlement Funding Assessment for the council in 2015-16, including the 2015-16 Council Tax Freeze Grant
- CTR15 is the council’s council tax requirement in 2015-16
- BFL16 is the baseline funding level for the council in 2016-17
- CTR16 is set equal to the council’s council tax requirement in 2015-16
- SF is the scaling factor calculated for each tier

Rural Services Grant

There will be an increase in the Rural Services Grant of £15.5m in 2015/16 to £65m by 2019/20. The in-year allocations over the period will be as follows:
- 2015/16 (current) £15.5m
- 2016/17 £20m
- 2017/18 £35m
- 2018/19 £50m
- 2019/20 £65m

The individual authority allocations over this period appear to increase in proportion to the overall amount, suggesting that the allocation methodology remains unchanged i.e. in 2016/17, an authority will receive £20m/£15.5m multiplied by their 2015/16 allocation. For example, Cornwall received 4.9% of the national allocation in 2015/16 and this percentage is maintained over the period to 2019/20, as per table 2.2 below.

Table 2.2 Cornwall’s share of Rural Services Grant 2015/16 to 2019/20

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Cornwall</td>
<td>0.755</td>
<td>0.974</td>
<td>1.704</td>
<td>2.434</td>
<td>3.164</td>
</tr>
<tr>
<td>Nationally</td>
<td>15.5</td>
<td>20</td>
<td>35</td>
<td>50</td>
<td>65</td>
</tr>
<tr>
<td>% share</td>
<td>4.9%</td>
<td>4.9%</td>
<td>4.9%</td>
<td>4.9%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>
New Homes Bonus

2.13. The New Homes Bonus top-slice from RSG for 2016/17 is £1,275m. The 2016/17 forecast allocation of New Homes Bonus is £1,485m (£1,461m in allocations and £24m in returned funding). DCLG support for the scheme has fallen from £250m in 2015/16 to £210m in 2016/17.

2.14. At present, it appears that there are no changes to the scheme planned before 2018/19, with in-year allocations increasing to £1,485m in 2016/17, £1,493m in 2017/18 and then a reduction to £938m in 2018/19 and to £900m by 2019/20. The amounts for 2016/17 and 2017/18 would be consistent with authorities receiving allocations as per the current system. For example, the forecast allocation for Chorley (below) shows a pattern consistent with the national allocations, with a reduction to the scheme value to Chorley from 2018/19 onwards.

- 2015/16 (current) £3.4m
- 2016/17 £4.5m
- 2017/18 £4.5m
- 2018/19 £2.8m
- 2019/20 £2.7m

2.15. LG Futures will be publishing a separate, more detailed briefing note on this in the coming days.

Improved Better Care Fund

2.16. An additional £1.5bn by 2019/20 has been allocated to local authorities with social care responsibilities. As with the allocation of Revenue Support Grant, this funding takes into account local authorities' ability to raise resources locally. In this instance, it factors in the amount that each authority can raise from the 2% social care precept on Council Tax. The in-year allocations are as follows:

- 2017/18 £105m
- 2018/19 £825m
- 2019/20 £1,500m

2.17. The allocation methodology attempts to allocate funding as per the 2013 adult social care relative needs formula, taking into account the 2% council tax precept and the amounts above. The actual allocation methodology is as follows:

(i) Calculate the additional funding available to spend on adult social care at a national level, combining the 2% council tax flexibility for adult social care and the additional funding for the improved Better Care Fund.
(ii) Calculate the share of that national amount which each authority with responsibility for social care would receive if it were distributed according to the 2013 adult social care relative needs formula.

(iii) Calculate how much each authority with responsibility for social care could raise from the additional 2% council tax flexibility for adult social care.

(iv) The additional funding for the improved Better Care Fund is then allocated in such a way that, when combined with the money which could be raised from the council tax flexibility, each council would receive its share of the combined national amount, as calculated in step (ii) above.

(v) These allocations are adjusted so that, where an authority could receive more from the additional council tax flexibility for social care than its share of the national amount calculated in step (ii), its allocation for the improved Better Care Fund is set to zero rather than a notional negative figure.

(vi) The remainder of the allocations are then reduced proportionately, so that the combined totals sum to the national total for additional funding available to spend on adult social care, as calculated in step (i).

**Pooling**

2.18. The DCLG have provided key information for pooling groups within a spreadsheet; this can be accessed by clicking here. There are 29 proposed pools that cover 211 local authorities. Prospective pools now have 28 days to decide if the pool is to go ahead in 2016/17, or if the pool is to be dissolved.
3. The Provisional Settlement 2016/17 – Your Authority

3.1. The provisional settlement figures for your authority are shown in Appendix B (excel spreadsheet). An explanation as to what each of the tables show within Appendix B is set out below.

**Settlement Funding Assessment**

3.2. The government has announced the SFA figure for your authority within the provisional settlement.

3.3. The SFA amounts for your authority and comparative figures are shown as follows:

- **Appendix B Table 1 and Figure 1** shows your authority’s provisional SFA figures for 2016/17 to 2019/20 against the adjusted 2015/16 figure. At this stage the information relating to the adjusted 2015/16 figure has not been published at an individual authority level.

- **Appendix B Figure 1a** show your authority’s provisional SFA % change (in-year and cumulative) between 2015/16 and 2019/20.

- **Appendix B Table 2 and Figure 2** compare your authority’s change in SFA between 2015/16 and 2016/17 against comparator groups.

**Business Rates Retention**

3.4. The key figures for your authority in relation to Business Rates Retention are shown as follows:

- **Appendix B Table 3**: The determination of your authority’s top-up/tariff amount, its NDR Baseline and levy rate.

- **Appendix B Table 4**: The Safety Net Threshold for your authority and the percentage reduction in NDR income that would be required in order for your authority to reach the Safety Net (based upon current NDR income at NDR Baseline levels).

3.5. Due to the variable nature of the BRR element of local authority funding, the provisional settlement no longer provides the absolute funding level for authorities. Similarly, the government’s NDR Baseline for your authority is only based on an adjusted average income figure, and therefore may not be representative of your NDR Baseline. In order to illustrate the potential loss/gain in income that Business Rates could have, relative to your Settlement Funding Assessment, a sensitivity analysis is shown in Appendix B Table 5 and Figure 3.
4. Council Tax

Introduction

4.1. The documents providing guidance on increases to council tax are available at https://www.gov.uk/government/publications/council-tax-in-2016-to-2017

Council Tax Freeze Grant

4.2. As expected, there has been no announcement on a Council Tax Freeze Grant scheme for the period 2016/17 and beyond.

Referendum limits

4.3. For 2016/17, there will be differential limits that will trigger the need for a council tax referendum.

4.4. For upper tier authorities wishing to use the social care ‘precept’, a referendum will be triggered where council tax is increased by 4% or more above the authority’s relevant basic amount of council tax for 2015/16.

4.5. For 51 district councils who are highlighted at annex C of the draft report on the ‘Referendums Relating to Council Tax Increases (Principles) (England) Report’, a referendum will be triggered if they raise council tax by more than £5, compared to the authority’s relevant basic amount of council tax for 2015/16.

4.6. For the remainder of authorities, including the Greater London Authority, a referendum will be triggered where council tax is increased by 2% or more above the authority’s relevant basic amount of council tax for 2015/16.

Social Care Precept

4.7. As announced at SR2015, the government has confirmed that there will be a 2% social care ‘precept’. Those authorities with Adult Social Care responsibilities will be required to provide certain information and undertake a number of actions. The Secretary of State will take account of these authorities’ actions authorities when setting referendum principles in future years.

4.8. Guidance is provided on the new flexibility. This includes:

- There will be a requirement for Section 151 officers in these authorities to provide information demonstrating that an amount equivalent to the additional council tax has been allocated to adult social care. This must be done within 7 days of their authority setting its budget and council tax for 2016-17. In subsequent years of the Parliament, Section 151 officers will be required to confirm that this additional council tax continues to be allocated to adult social care.
These authorities must confirm the level of their average Band D (excluding parish precepts) council tax increase for 2016-17, and the proportion of it attributable to funding for adult social care on the Council Tax Requirement form that must be returned to DCLG within 7 days of their council tax having been set. The data provided will form part of the annual statistics release on council tax levels, which is usually published in March.

The amounts allocated to adult social care must be reflected in Revenue Account returns sent to DCLG in April/May 2016; and in the Revenue Outturn forms which will be submitted to DCLG in May 2017. The above information will be required each year that the scheme is in operation. From 2017-18 onwards, the requirement will also encompass the cumulative year-on-year revenue being allocated to adult social care.

Tax payers must be informed on the face of the council tax bill and in the information supplied with it about the part of the increase that is being used to fund adult social care.

4.9. Authorities are invited to give their views on the operation of this new flexibility. Section 151 officers in these authorities are requested to indicate whether their authority is minded to take up the 2% flexibility (in full or in part), by 5pm on 15 January 2016.

4.10. The guidance also suggests that authorities setting a council tax increase which does not make use of the additional flexibility in any year will still be asked to comply with some of the steps outlined in relation to any increases in council tax that will be used to fund adult social care services.

4.11. The Secretary of State will monitor the use of the additional flexibility and will take authorities’ actions into account when determining referendum principles each year.

Parish councils

4.12. Parish councils have not been subject to the referendum limit previously and are not subject to it for 2016/17.
5. **Next Steps**

**Responding to the Provisional Settlement**

5.1. The consultation document contains the following questions:

- Question 1: Do you agree with the methodology for allocating central funding in 2016-17, as set out in paragraphs 2.6 to 2.8?

- Question 2: Do you agree with the proposed methodology for calculation of the council tax requirement for 2016-17, as set out in paragraphs 2.10 and 2.11?

- Question 3: Do you agree with the proposed methodology in paragraph 2.12 for splitting the council tax requirement between sets of services?

- Question 4: Do you wish to propose any transitional measures to be used?

- Question 5: Do you agree with the Government’s proposal to fund the New Homes Bonus in 2016-17 with £1.275 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.15?

- Question 6: Do you agree with the Government’s proposal to hold back £50 million to fund the business rates safety net in 2016-17, on the basis of the methodology described in paragraph 2.19?

- Question 7: Do you agree with the Government’s proposed approach in paragraph 2.24 to paying £20 million additional funding to the most rural areas in 2016-17, distributed to the upper quartile of local authorities based on the supersparsity indicator?

- Question 8: Do you agree with the Government’s proposal that local welfare provision funding of £129.6 million and other funding elements should be identified within core spending power in 2016-17, as described in paragraph 2.28?

- Question 9: Do you agree with the Government’s proposal to include all of the grant funding for the Care Act 2014 (apart from that funded through the Better Care Fund) in the settlement, using the methodology set out in paragraph 3.2?

- Question 10: Do you agree with the Government’s proposal to include all 2015-16 Council Tax Freeze Grant in the 2016-17 settlement, using the methodology set out in paragraph 3.3?

- Question 11: Do you agree with the Government’s proposal to include all 2015-16 Efficiency Support Grant funding in the settlement and with the methodology set out in paragraph 3.5?
Question 12: Do you agree with the Government’s proposal to include funding for lead local flood authorities in the 2016-17 settlement, as described in paragraphs 3.6 and 3.7?

Question 13: Do you agree with the Government’s proposal to pay a separate section 31 grant to lead local flood authorities to ensure funding for these activities increases in real terms in each year of the Parliament?

Question 14: Do you have any views on whether the grant for lead local flood authorities described in paragraph 3.8 should be ring-fenced for the Spending Review period?

Question 15: Do you agree with the Government’s proposal to adjust councils’ tariffs / top ups where required to ensure that councils delivering the same set of services receive the same percentage change in settlement core funding for those sets of services? Question 16: Do you have an alternative suggestion for how to secure the required overall level of spending reductions to settlement core funding over the Parliament? Question 17: Do you have any comments on the impact of the 2016-17 settlement on persons who share a protected characteristic, and on the draft equality statement published alongside this consultation?

5.2. The deadline for written responses to the provisional settlement 2016/17 is 5pm on Friday 15 January 2016. Responses can be:

Emailed to: LGFConsultation@communities.gsi.gov.uk

Posted to:
Shafi Khan
Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF

Enquires should be made to:
Email: Shafi.Khan@communities.gsi.gov.uk
Tel: 0303 444 3132

LG Futures’ Support

5.3. LG Futures is also able to:

- Provide support to local authorities to analyse the implications of the finance settlement locally;
- Provide advice regarding the implications of the New Homes Bonus consultation;
Support authorities in the completion of their NNDR1 and NNDR3 forms, and, in particular, the provision for appeals;

Provide further interpretation of the settlement through our January funding events (dates and web links to book onto events are provided below).

7 JANUARY – LONDON  www.regonline.co.uk/Jan2016eventLondon1
11 JANUARY – YORK  www.regonline.co.uk/Jan2016eventYork
12 JANUARY – MANCHESTER  www.regonline.co.uk/Jan2016eventManchester
13 JANUARY – BIRMINGHAM  www.regonline.co.uk/Jan2016eventBirmingham
14 JANUARY – BATH  www.regonline.co.uk/Jan2016eventBath
15 JANUARY – LONDON  www.regonline.co.uk/Jan2016eventLondon2

5.4. If you have any queries about this note or for further information about our support, please contact Lee Geraghty at lee.geraghty@lgfutures.co.uk or by telephoning 07738 000368.