

## **Local Government Finance Settlement 2011-12 and 2012-13**

### **Purpose of report**

For decision

### **Summary**

This paper reports on the work done since the announcement of the Provisional Local Government Finance Settlement for 2011-12 and 2012-13, and the outcome of the final Local Government Finance Settlement for 2011-12 which is expected to be approved by Parliament on 9 February.

### **Recommendation(s)**

Members are asked to:

- note the work done to pursue the principal Spending Review lobbying objectives;
- approve further action proposed on Business Rates, Capitalisation, Top Slice for Academies' Central Functions and Concessionary Fares.

### **Action**

Group Finance Director

**Contact officer:** Stephen Jones  
**Position:** Group Finance Director  
**Phone no:** 020 7664 3171  
**E-mail:** [stephen.jones@local.gov.uk](mailto:stephen.jones@local.gov.uk)

## **Local Government Finance Settlement 2011-12 and 2012-13**

### **Background**

- 1 Last November's Group Executive discussed the outcome of the Spending Review 2010 (SR10) and agreed further lobbying action to ensure that:
  - 1.1 the impact of the loss of Working Neighbourhoods Fund, on top of significant reductions in general grant, was fully understood by government;
  - 1.2 the impact for individual authorities of the depth of the cuts and in particular of the front loading of cuts was fully understood by government;
  - 1.3 mitigation of the impact of front loading was fully explored and progress made on that to the maximum extent possible;
  - 1.4 clarity on the levels of all new specific grants and the transition from existing grants was obtained; and
  - 1.5 decisions about the distribution of grant in the settlement were made as fairly and equitably as possible, recognising the difficulty of this issue.
  
- 2 This work was progressed through meetings and correspondence with Ministers, and reflected in five proposals put to government, namely:
  - 2.1 reduce the impact of front loading;
  - 2.2 increase the size of the proposed £200m capitalisation to be allowed;
  - 2.3 clarify the position on all 'missing' grants;
  - 2.4 allow councils more flexibility to raise income locally; and
  - 2.5 avoid unfair grant distribution.
  
- 3 Following the publication of the Provisional Local Government Finance Settlement was published on 13 December, last month's Group Executive approved further action. This concentrated on seeking improvement in:
  - 3.1 the amount of redistributed business rates included in the settlement;
  - 3.2 the amount of capitalisation to be allowed;
  - 3.3 reinstatement of all or the majority of the £148m taken away in 2011-12 and £265m in 2012-13 to fund the central functions of academies;
  - 3.4 the mechanism for funding concessionary fares, including dismantling of the proposed funding arrangements through Formula Grant in favour of a new scheme under which concessionary fares funding and the Bus Service Operators Grant and would go into a local commissioning pot under the control of local authorities;
  - 3.5 the proposed Transition Grant; and

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3.6 various second order points raised by member authorities.

- 4 As members recognised at last month's meeting, these points were always going to be very difficult to win. Despite determined argument of our case through correspondence and meetings with Ministers and officials – and there has been substantive action on all six points – the final Settlement is not materially different from the provisional one. The net gain over 2011-12 and 2012-13 is just under £18m, made up of an improvement in the Transition Grant and concessions on several of the second order points raised in our formal response to the settlement consultation.
- 5 Transition Grant aside, though, there is no extra money in the settlement. This has meant that some of the other changes appear to have been funded by moving money between 2011-12 and 2012-13 – as is the case with the extra £10m for shire districts in 2011-12 in respect of concessionary fares issues. Most second order changes appear to have been or funded by spreading across all authorities the cost required to deal with issues legitimately raised by a few authorities.
- 6 As a result, and taking 2011-12 and 2012-13 together, the outcome of the consultation on the Provisional Settlement is that, whilst a minority of authorities get more money, the majority get slightly less. The detail is summarised in the Table shown below which gives details of aggregate changes to Formula Grant and Transition Grant for 2011-12 and 2012-13 as compared with the December proposals.

| Authority type                | Number gaining | Average gain (£000) | Number losing | Average reduction (£000) |
|-------------------------------|----------------|---------------------|---------------|--------------------------|
| Shire District                | 34             | 490                 | 167           | 25                       |
| Single Tier or County Council | 82             | 167                 | 68            | 125                      |
| Fire Authority                | 8              | 1                   | 13            | 1                        |

- 7 In short, whilst the Settlement has been materially improved for a few authorities, for the majority any difference is relatively small, and most of the key issues the Association has raised on behalf of member authorities remain unresolved.
- 8 The Settlement was announced by a Written Ministerial Statement on 31 January and a copy of the Minister's statement is **annexed**. The Settlement is expected to be approved by Parliament on 9 February. The remainder of this paper details the further action that might be considered, having regard to that.

**Business Rates**

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- 9 The Settlement maintains the original proposal for a business rates distribution of just £19bn in 2011-12. With distribution at this level, a surplus of undistributed business rates of £102m is forecast. The LGA has received legal advice indicating that the Secretary of State has no legal power to plan for a surplus on the business rates account. However, the response from Ministers has been that the government would seek in any event to main the total of business rates and Revenue Support Grant determined in the Spending Review. Given that position, there seems little mileage in pursuing the argument. It is recommended that, instead, attention should be focused primarily on getting the most advantageous outcome from the forthcoming Local Resource Review. However, officers will monitor the outcome of future movements on the business rates account and prepare further lobbying proposals if it appears that forecasts of yield, on which the Spending Review decisions were based, prove too pessimistic.

**Capitalisation**

- 10 The Association has continued to press the case for increased flexibility on capitalisation, both through dialogue with Treasury and CLG civil servants and through meetings and correspondence with Ministers. It is recommended that pressure on this topic is maintained, as we regard the analysis equating capitalisation with additional public spending or borrowing as fundamentally flawed. Opportunities to continue the debate on this topic will continue to arise.

**Top slice for academies' central functions**

- 11 The Settlement removes £148m in 2011-12 and £265m in 2012-13 removed from formula grant to pay for academies' central functions. The reduction has been taken from education authorities on a pro rata basis irrespective of whether academies exist in their areas. The quantum of funding taken out appears grossly excessive by reference to previous Department for Education costings, and the basis of allocation between authorities is indiscriminate. In correspondence and at a meeting with the Secretary of State for Education, members proposed an alternative approach that would recoup cost on a case by case basis. Ministers have declined to reconsider their position on this for 2011-12 and 2012-13, although a review to look at the funding transfer mechanism from April 2013 has been offered. And, on the costings themselves, whilst some additional information on the methodology has been supplied, the information made available to date falls well short of a clear, transparent and objective justification of the numbers. It is therefore recommended that further work is done to pursue this issue.

**Concessionary fares**

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12 Unfortunately, Ministers have not been persuaded to make other than a minor cosmetic change to the proposals in the provisional settlement. Putting an extra £10m into the 2011-12 Formula Grant for Districts was of course welcome. Unfortunately, the fact that this appears to have been funded by moving grant forward from 2012-13 means there is little real advantage. This issue, which is one of the main reasons why so many Shire Districts have seen a further reduction in funding, has been taken up with the Department for Communities and Local Government as a matter of urgency, as it appears possible that it may not have been the intended outcome. An update will be given at the meeting. But, beyond that, the underlying problems associated with concessionary fares funding have now been locked inside the complexity of the Formula Grant system, obscuring the real issues and making a fair solution much harder to achieve than would have been the case had the LGA's proposals been adopted. It is therefore recommended that this issue should remain on the table, although from where it now stands it is not easy to see how it can be satisfactorily resolved.

**Transition grant**

13 The additional money for Transition Grant is the main bright spot in what is otherwise a disappointing return from the arguments advanced by the Association on the Settlement. The government also responded positively to our technical arguments on the calculation of the grant, by taking out parish precepts from the calculation of 'spending power' and ensuring that grants allocated to a lead authority on behalf of others were correctly split between the ultimate recipients for the purposes of the calculation.

**Recommendations**

- 14 Members are asked to:
- 14.1 note the work done to pursue the principal Spending Review lobbying objectives;
  - 14.2 approve the further action proposed on Business Rates, Capitalisation, Top Slice for Academies' Central Functions and Concessionary Fares as set out in paragraphs 9-12 above.

**Financial Implications**

15 This is core work for the finance team and all work is contained within existing budgets.

ANNEX – MINISTERIAL STATEMENT ON THE SETTLEMENT

**DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT**

**Local Government Finance Settlement 2011-12**

**The Parliamentary Under Secretary of State (Bob Neill):** I have today laid before the House the *Local Government Finance Report (England) 2011-12 (HC 748)*. This report establishes the amounts of revenue support grant and non-domestic rates to be paid to local authorities in 2011-12, and the basis of their distribution. A draft of this report was issued for consultation on 13 December 2010.

We received a total of 330 written responses from 283 individual authorities, formal and informal groupings of authorities and others during the consultation, and Ministers met delegations from the Local Government Association, London Councils and a large number of individual local authorities.

Having considered the views of all those who have commented on the provisional settlement, I have decided to broadly confirm the proposals for the distribution of formula grant for 2011-12 as announced in December, after correcting a number of minor errors and inconsistencies that came to our attention during consultation.

We received many representations on concessionary travel. This is a prime example of how the last government introduced a policy with no idea of how it would be funded fairly. It has left us with a challenging legacy. It has left us with a challenging legacy. I have decided to help compensate shire district councils for the loss of what they used to spend on concessionary travel. To address this, a further £10m has been added to Formula Grant – for 2011-12 only – in order to mitigate the impact of the transfer on shire districts.

We have also improved the minimum guarantee so that now no council will receive a 'revenue spending power' reduction of more than 8.8% in either 2011-12 or 2012-13. Details on 'spending power' are set out in an explanatory note which is being placed in the Library of the House. In finalising our methodology, we have accepted a number of representations including the exclusion of parish precepts from our spending power calculations.

The need to reduce public spending means that this is a unique settlement – we are looking for councils to show how efficient they can be, and to root out the wasteful spending that still exists while ensuring that money goes to the frontline public services

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Despite the huge pressures on public finances, the Coalition Government has taken unprecedented steps to protect councils most reliant on central government funding and freeze council tax.

We have taken a progressive and fair approach to calculating how the £29 billion of central taxpayer funding for local government grants this year will be allocated. More money is being channelled to those areas of the country that have the highest levels of need.

We are also helping to protect the public from excessive council tax rises with our £650 million fund so town halls can freeze council tax this April. This will offer real help to families and pensioners. We will provide each authority that does not increase its basic level of council tax with a grant equivalent to the revenue it would have generated had it increased it by 2.5%. I would like to impress upon authorities that under the terms of the scheme they will not receive any grant if they increase their council tax at all.

The Government anticipates that authorities will choose to take up the freeze. However, where authorities opt to increase their council tax instead the Government is prepared to take capping action against excessive increases. The Secretary of State will set out the capping principles that he intends to use to compare authorities' budgets in the next few days, leaving ample time for authorities to consider their budgeting before the deadlines for setting their council tax.

I have also today laid before the House the *Limitation of Council Tax and Precepts (Alternative Notional Amounts) Report (England) 2011-12 (HC 774)*. This report takes account of changes to authorities' functions and grants during 2010-11, and contains details of the figures that will be used to compare authorities' budgets between years, should capping be necessary

I shall be sending copies of the Local Government Finance Report to all local authorities in England, and making available full supporting information on the Communities and Local Government website at:

<http://www.local.communities.gov.uk/finance/1112/grant.htm>

Copies of the report and related tables showing each authority's allocation of formula grant and other supporting material, and the *Limitation of Council Tax and Precepts (Alternative Notional Amounts) Report (England) 2011-12*, have been placed in the Vote Office and the Libraries of both Houses.