

The Final Settlement announcement - February 2014

1. The Announcement

On 5 February 2014, the Government published the final local government finance settlement, which is the annual determination of funding to local government. It needs to be approved by the House of Commons in the middle of the month. This follows the December announcement of the Provisional 2014/15 and 2015/16 Settlements by written ministerial statement. The December announcement marked the beginning of a consultation over the Christmas period, with a deadline for submissions of 15 January 2014. The County Council's response is at Annex 1(a).

The headline outcomes for East Sussex CC are summarised as follows:

2. Final Settlement Funding Assessment

Nationally, the Final Settlement Funding Assessment again reports a 9.4% fall in cash terms for 2014/15 and 13.2% in 2015/16. For East Sussex County Council, the reductions are 8.5% and 12.8%, which is also in line with the Provisional Assessment. Under the Final Settlement East Sussex County Council will receive an additional £19,000, over the figures provided within the Provisional Settlement. This is due to minor data adjustments within the formulas used to allocate the funding.

Settlement Funding Assessment (SFA)		adj 2013/14	2014/15	change	2015/16	change
- February 2014		£'000	£'000	%	£'000	%
Business Rates Retention		10,878	11,090	1.95%	11,396	2.76%
Business Rates Top-up		54,697	55,763	1.95%	57,302	2.76%
RSG		101,004	85,644	-15.21%	64,344	-24.87%
		166,579	152,497	-8.5%	133,042	-12.8%

3. Business Rates Retention Scheme

The Chancellor's Autumn Statement introduced a number of changes to business rates that would directly affect local authority revenues. The Government has confirmed that local authorities would be fully compensated for the loss of income. The decision to cap the rise in the business rate multiplier at 2% for 2014/15 (instead of a 3.2% increase (the September 2013 RPI figure), will be compensated by a S.31 Grant in 2014/15 and 2015/16.

The other reliefs announced at the Autumn Statement (further extension of the Small Business Rates Relief, new occupiers of previously empty shops and £1,000 discount where the RV is less than £50,000) are also planned to be funded via a section 31 grant.

The Provisional Settlement was based on a Government assessment of the impact of introducing the new reliefs. The Districts and Boroughs have now, in accordance with their statutory duties, made their initial estimates of amounts that will form the Section 31 grants payments for 2014/15. It is estimated that the County will have £1.2m of additional resources available to it in 2014/15 compared to the Provisional Settlement figures. .

4. Spending Power

A primary message of the Settlement announcement continues to be the Revenue Spending Power (RSP) figures for each council. These represent a basket of key revenue streams for local authorities, using a number of actual, provisional and indicative funding assumptions to provide a Government view as to how local authority spending is changing overall for 2014/15 and 2015/16. These show an overall national reduction in Revenue Spending Power of 2.9% in 2014/15 and 1.8% in 2015/16 (excluding the Greater London Authority).

For East Sussex CC there is minimal change from the Provisional Settlement. The Government records that the Revenue Spending Power of the County Council will reduce by 1.5% in 2014/15 and increase by 0.7% for 2015/16 summarised as follows:

Final Settlement Funding Assessment announcement -as at February 2014	2013/14 Actual £'000	2013/14 adj £'000	2014/15 £'000	change £'000	change %	2014/15 adj £'000	2015/16 £'000	change £'000	change %
Settlement Funding Assessment	164,144	166,579	152,497	-14,082	-8.45%	152,497	133,042	-19,455	-12.76%
Settlement Specific Grants	27,580	27,580	31,596	4,016	14.56%	31,596	33,686	2,090	6.61%
Pooled NHS & ESCC Better Care Fund (etc)	9,254	9,254	11,851	2,597	28.06%	20,622	39,621	18,999	92.13%
Council Tax	213,583	213,583	214,939	1,356	0.63%	214,939	216,304	1,365	0.64%
Government Assessed Illustrative Spending Power	414,561	416,996	410,883	-6,113	-1.47%	419,654	422,653	2,999	0.71%
Adjusted base elements		2013/14				2014/15			
2013/14 Ctax Freeze grant		2,435							
NHS funding to support social care & benefit health						-11851			
Adult Social care New Burdens						3070			
Pooled NHS & ESCC Better Care Fund						17552			
		2,435				8,771			

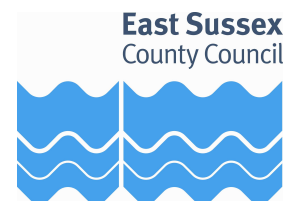
A full summary of the individual elements of the Government's Revenue Spending Power calculation is set out in the attached Table below. Council tax does not presume an increase in Band D rate, but only an on-going forecast of increased taxbase (due to new properties etc.) However, it does record compensations for council tax freeze grant (2014/15 and 2015/16), should the County Council not increase its basic amount of council tax. It should also be noted that the increase for 2015/16 is heavily influenced by the Better Care Funding streams transferring from NHS. Without this element, the East Sussex CC Revenue Spending Power would reduce by £8.7m (-2.1%) in 2014/15 and £16.0m (-4.0%) in 2015/16 respectively.

**Business Services
Department**

Kevin Foster
Chief Operating Officer

County Hall
St. Anne's Crescent
Lewes
East Sussex
BN7 1UE

Telephone: 0345 6080 190
Fax: 01273 482848
Website: www.eastsussex.gov.uk



Andrew Lock
Department for Communities and Local Government
Zone 5/D2
Eland House
Bressenden Place
London
SW1E 5DU

15 January 2014
your ref

when responding please contact our ref
Steve Potts SEP/
direct line
01 273 482579

Dear Mr Lock,

Local Government Finance Settlement 2014/15

Thank you for opportunity to respond to the Provisional Local Government Finance Settlement 2014/15. With the Settlement announcement being just prior to Christmas and a consultation response date set for 15 January, this (again) provides too limited an opportunity to respond satisfactorily to the effects of the proposed funding changes (reductions) on local services. There is also little opportunity to reflect on the inherent funding unfairness that is now embedded within the current funding distribution. However, we do recognise the Provisional Local Government Finance Settlement has rightly been published following the Chancellor's Autumn Statement and the funding trajectory was expected following the technical consultation arrangements in the Summer. For East Sussex County Council, the reductions in Provisional Settlement Funding Assessment are 8.5% (-£14.1m) and 12.7%,(-£19.4m). It is disingenuous to imagine that budget reductions of this nature can be made entirely through back office savings without causing front line service cuts.

East Sussex has one of the highest proportions of elderly residents of any county in England and an increasingly ageing population, and we feel strongly that the financial settlement fails to take into account the added strain this places on our resources. At the same time, the cost of providing services in the South East is higher than for other parts of the country for which the County Council (unlike elsewhere) receives little, if any, Area Cost Adjustment recompense. The County Council also incurs additional costs due to the rural nature of significant parts of its geography. While one of our lower tier authorities receives some "Efficiency Support for Services in Sparse Areas" funding, it seems very modest and provides no recompense for the increased costs of the County Council. An in-depth and comprehensive examination of the costs of delivering services in rural areas seems to be required. The County Council considers that the Department and Treasury should now commit to a full review of funding allocations prior to the 2020 reset.

Regarding the Settlement announcement, we have found the new presentation of information on the new gov.uk website to be quite user-friendly this year with the use of drop-down menus.

However, without the inclusion of a summary page showing what information had been published, we felt there was only limited assurance that important announcements had not been missed. We do refer to information from past Settlements on existing DCLG websites and certainly request that open access to this data be retained.

Following the Summer consultation, we welcome the decision not to transfer £400m local authorities' New Homes Bonus allocation into the £2bn Single Local Growth Fund, and to maintain the reward element of the grant funding. However the 80:20 split of funding in two tier areas, such as East Sussex, does not fairly reflect the service cost impact of new housing on upper tier authorities.

We also support the plans to help businesses through reduced business rates in 2014/15, but this must be subject to the Treasury keeping to its promise to fully fund local authorities for the forgone business rates on a permanent basis. This compensation, by way of a Section 31 Grant, has been indicated for both 2014/15 and 2015/16, but will need to be permanent if this is not to affect adversely the County Council's funding in the future. We hope that these payments are made early during the year unlike the small business rates relief for 2013/14 that still remain unpaid.

Unfortunately the spending power figures are starting to lose their already limited credibility by including the significant transferred NHS (Better Care Fund etc) funding, which is not entirely in local authorities' gift to control and is likely to have pre existing commitments as well as spending reductions set against it. If the funding wholly represents a new burden, as it seems to, it should be fully in the adjusted base for 2014/15 and not appear to represent a growth in spending power. Whilst the Spending Power calculation represents a basket of key revenue streams for local authorities, it appears incomplete and to use a mix of actual, provisional and indicative funding assumptions to present outcomes that are difficult to rationally defend (East Sussex CC Spending Power 2014/15, -1.5% and 2015/16 +0.7%).

We particularly regret the apparent ending of the Local Welfare Provision Grant in 2015/16, only two years after its introduction. Unless the burden of this has been removed, this is a further cut in the County Council's resources (£1.2m), especially as an on-going commitment to this spending has been established.

Finally, we are disappointed with the proposal to remove funding from local authorities to compensate the Treasury for the loss of revenue due to some authorities falling out of the Carbon Reduction scheme. We do not appear to have been funded for this "new burden" when it was brought in; therefore we fail to see why funding should then be removed to compensate the Treasury?

Question 1: Do you agree with the Government's proposal to remove the capitalisation holdback and re-allocate the funding?

We welcome the removal of the capitalisation holdback with the money being redistributed back into the grant funding. Capitalisation is not accounted for by central Government as deferred expenditure, which results in unfair local funding outcomes for the year taken. We regrettably believe that capitalisation with this annual funding consequence should not be encouraged.

Question 2: Do you agree with the Government's proposal to reduce the New Homes Bonus holdback from £800m to £700m.

The return and distribution of the £100m to local authorities is welcomed, presumably on the basis of reasonable financial projection. However the distribution of New Homes Bonus as a reward concept is significantly reduced because £700m comes from existing local authority funding, which would otherwise be distributed, with the minor share of £250m coming from DCLG's budgets. We also agree with the proposed £100m reduction in the holdback in 2015/16 for the New Homes Bonus.

Question 3: Do you agree with the Government's proposal to increase the roll in funding for local authorities?

We welcome the rolling in of council tax freeze grants into mainstream funding and also welcome the commitment to continue this further for the freeze grants on offer for both 2014/15 and 2015/16. The Government's recognition of a potential funding cliff edge in 2016/17 is welcomed, as is the statement to continue paying freeze grants through base funding. Whilst this offers some level of certainty, it is difficult to rely on unless the permanent funding solution is identified. Otherwise local authorities will fear losing the benefit amongst further reductions in RSG funding. Similar uncertainty extends to several funding streams, including Section 31 grants that hold no assurances beyond 2015/16.

It would have been particularly helpful to be able to recognise local council tax support funding as a separate rolled in funding item, in order to simplify the formulation of local schemes on a fair basis. The County Council has limited jurisdiction on local schemes and their cost, despite its council tax payers and service users "paying for" the majority of any Government funding reductions.

Question 4: Do you have any comments on the impact of the 2014-15 settlement on protected groups, as set out in the draft Equality Statement?

The 2014/15 and 2015/16 provisional settlements are based upon a funding baseline, set in 2013/14, following a very minor review of an unpopular way of funding local authorities. The new way of funding local authorities through part-retention of business rates requires that this funding baseline be left untouched until 2020. As a result there can be no reflection of aging or growing populations, rural populations or increased cost drivers – unless they have a direct and positive effect on the local economy.

We therefore agree with Section 3 of the draft equality statement that "*the level of funding could, without mitigating action and depending on spending decisions made by the authorities, have an adverse impact on protected groups*".

This makes it ever more important that the Government ensure all current and future policies are fully funded with calculations published in a transparent and clear consultative manner. The impact of underestimating future costs and/or demand, combined with the current magnitude of cuts to RSG, is likely to seriously impact many vulnerable people who rely on local authority services.

We hope that the above response and comments will assist you in the announcement of the 2014/15 Final Settlement, later this month, and also assist the formulation of new financial proposals affecting local authorities, and particularly East Sussex County Council, in years to come.

Yours sincerely,

Marion Kelly

Chief Finance Officer