

APPENDIX A

TECHNICAL ANALYSIS

Safety net shortfall

1. The rates retention system includes a “safety net” to protect local authorities from significant negative shocks to their income by guaranteeing that no authority will see its income from business rates fall below 7.5% of their individual baseline funding level. The safety net is funded by a levy on the disproportionate financial gains caused the uneven distribution of business rates bases and the different spending needs of local authorities
2. Forecasts of the expected income local authorities expect to receive from the rates retention scheme suggest that the £25 million held back to fund the safety net will not cover all of the demands on the safety net in 2013/14.
3. As final figures for 2013/14 from local authorities will not be available until August 2014, the government are intending to increase the amount Revenue Support Grant held back in 2014/15 to ensure they have sufficient funding to meet safety net payments in 2014/15.
4. Based on local authority estimates, the government considers that it will need to hold back an additional £95m in 2014/15 (a total of £120m), £45m coming from RSG and £50m of the £100m capitalisation funding already taken from the baseline in 2014/15.
5. These resources will only be used as needed and any funding not used will be returned to authorities as specific grants in proportion to their 2013/14 Start-Up Funding Assessment. However, once removed from the baseline, these resources no longer form part of the council tax requirement calculation and cannot be used within the budget setting process.

Effect on funding to local authorities in 2014/15

6. The table below shows the effect of the proposals on total government funding to local authorities in 2014/15.

England 2014/15	Retained business rates	Business rate top up	Total Baseline	RSG	Total
	£m	£m	£m	£m	£m
2013/14	10,888.016	10.538	10,898.554	15,175.402	26,073.956
2014/15 Previously announced	11,221.964	10.861	11,232.825	12,624.041	23,856.866
Annual Movement	333.948	0.323	334.271	(2,551.361)	(2,217.090)
Annual Movement %	3.1%	3.1%	3.1%	(16.8%)	(8.5%)
RSG increase on baseline ¹	21.072	0.020	21.092		21.092
1% budget reduction ²				(218.864)	(218.864)
Safety net claw back ³				(44.999)	(44.999)
Change in funding ⁴	21.072	0.020	21.092	(263.863)	(242.771)
Revised 2014/15 Total	11,243.036	10.881	11,253.917	12,360.178	23,614.095
Total Movement	355.020	0.343	355.363	(2,815.224)	(2,459.861)
Total Movement %	3.3%	3.3%	3.3%	-18.6%	-9.4%

- Note 1 - Baseline increased by £21.1m to match June 2013 RPI of 3.3%
- Note 2 - Reduction of £218.9m for 1% reduction announced in SR2013.
- Note 3 - Further reduction of £45.0m for additional safety net clawback.
- Note 4 - Total funding reduced by further £242.8m (£263.9m - £21.1m)

Effect on funding to Southwark in 2014/15

7. The table below shows the proposed effect on Southwark in 2014/15 from the proposals.

Southwark 2014/15	Retained business rates	Business rate top up	Total Baseline	RSG	Total
	£m	£m	£m	£m	£m
2013/14	57.943	43.278	101.221	152.150	253.371
2014/15 Previously announced	59.720	44.606	104.326	124.628	228.954
Indicative Annual Movement	1.777	1.328	3.105	(27.522)	(24.417)
Indicative Annual Movement %	3.1%	3.1%	0.061	(18.1%)	(9.6%)
RSG increase on baseline ¹	0.113	0.084	0.197		0.197
1% budget reduction ²				(2.198)	(2.198)
Safety net claw back ³				(0.488)	(0.488)
Change in funding	0.113	0.084	0.197	(2.686)	(242.771)
Revised 2014/15 Total ⁴	59.833	44.690	104.523	121.942	226.465
Total Movement	1.890	1.412	3.302	(30.208)	(26.906)
Total Movement %	3.3%	3.3%	3.3%	(19.9%)	(10.6%)

- Note 1 - Baseline increased by £0.2m to match June 2013 RPI of 3.3%
- Note 2 - Reduction of £2.2m for 1% reduction announced in SR2013
- Note 3 - Further reduction of £0.5m for additional safety net clawback.
- Note 4 - Total funding reduced by further £2.5m (£2.7m - £0.2m)

Effect on funding to local authorities in 2015/16

8. The government announced in the 2013 Budget speech that public spending needed to reduce by a further £11.5 billion to help reduce the public deficit. Included in this is a reduction in the amount available to fund local authorities of 10% when compared to 2014/15.
9. It was announced at the 2013 Spending Round that the 2013/14 Council Tax Freeze Grant was transferred into the funding baseline, and from 2015/16 will be rolled into Revenue Support Grant.
10. The table below shows the effect of the proposals on total government funding to local authorities in 2015/16.

England 2015/16	Retained business rates	Business rate top up	Total Baseline	RSG	Total
	£m	£m	£m	£m	£m
2014/15 RPI ¹	11,243.036	10.881	11,253.917	12,360.178	23,614.095
2013 Budget ²	315.456	0.305	315.761		315.761
Roll in 2013/14 council tax freeze grant				-3,413.031	-3,413.031
				176.558	176.558

2015/16	11,558.492	11.186	11,569.678	9,123.705	20,693.383
Total movement ³	315.456	0.305	315.761	-3,236.473	-2,920.712
Indicative Annual Movement %	2.8%	2.8%	2.8%	-26.2%	-12.4%

Note 1 - Baseline increase of £315.8m (2.8%) represents the governments forecast of 2014 RPI

Note 2 - Reduction of £3,413m (27.6%) reduced to £2,921m (26.28%) by inclusion of 2013/14 council tax freeze grant of £176.6m.

Note 3 - Further reduction of £3,413m (27.6%) reduced to £2,921m (26.28%) by inclusion of 2013/14 council tax freeze grant of £176.6m.

Effect on funding to Southwark in 2015/16

11. The table below shows the proposed effect on Southwark in 2015/16 from the proposals.

Southwark 2015/16	Retained business rates	Business rate top up	Total Baseline	RSG	Total
	£m	£m	£m	£m	£m
2014/15 RPI ¹	59.833	44.690	104.523	121.942	226.465
2013 Budget ²	1.678	1.254	2.932		2.932
Roll in 2013/14 council tax freeze grant				-36.062	-36.062
2015/16	61.511	45.944	107.455	86.809	194.264
Total movement	1.678	1.254	2.932	-35.133	-32.201
Indicative Annual Movement %	2.8%	2.8%	2.8%	-28.8%	-14.2%

Note 1 - Baseline increase of £2.9m (2.8%) represents the governments forecast of 2014 RPI

Note 2 - Further reduction of £38.7m (31.1%) reduced to £35.1m (28.8%) by inclusion of 2013/14 council tax freeze grant of £0.9m.

Revenue Spending Power

12. The table below shows the effect Revenue Spending Power for Southwark.

	2013/14 £m	2014/15 £m	Change £m	Change %
Revenue spending power (Excl Public Health)	342.3	321.7	(20.6)	(6.02%)
Less reductions from LGFS consultation	0.0	(2.5)	(2.5)	(0.73%)
Less reductions from NHB consultation	0.0	(3.8)	(3.8)	(1.12%)
Revised Spending power (excl Public Health)	342.3	315.4	(26.9)	(7.87%)
Add Public Health	21.8	22.9	1.1	5.21%
Revised Total spending power	364.1	338.3	(25.8)	(7.09%)