Appendix G
Technical Information on the Autumn Statement
London Councils response on New Homes Bonus Proposals

1. On 9 December 2013, London Councils released a statement with regard to the £70m withheld from London authorities;
   - New Homes Bonus is granted to councils in recognition of the pressures they and their communities face when new housing is built in their borough. For example, the cost of more people using locally delivered services, such as adult care or libraries, or investment in infrastructure. The Autumn Statement announced that, from 2015, London boroughs will face a cut of £70 million in the New Homes Bonus. It also announced that outside of London the New Homes Bonus will not be given to Local Enterprise Panel (LEPs), as had been originally proposed, but would instead continue to go to the councils who deliver local services. The government has, however, decided that in London the New Homes Bonus will be given to the London Local Enterprise Panel, chaired by the Mayor of London.

   - The Chair of London Councils, Mayor Jules Pipe, said: "All Londoners should be outraged by this move. If the New Homes Bonus is essential for councils in Leeds and Manchester to fund the pressures of growth, why should Londoners be any different? This must be reversed. The very fact that it has been proposed raises fundamental questions about the governance of the growth agenda in London and the government's commitment to it."

Economic growth

2. The latest economic forecasts suggest that the economy will move from a deficit to surplus in 2017, the table below shows the recovery profile

	2012/ 13	2013/ 14	2014/ 15	2015/ 16	2016/ 17	2017/ 18	2018/ 19
Public sector current receipts (a)	37.8	37.7	37.8	37.9	38.1	38.1	38.3
Total managed expenditure b	42.9	43.7	42.7	41.9	40.7	39.5	38.4
Of which							
Public sector current expenditure (c)	41.9	40.8	39.6	38.9	37.8	36.6	35.6
Public sector net investment (d)	(0.4)	1.5	1.6	1.5	1.5	1.5	1.5
Depreciation(e)	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Deficit							
Public sector net borrowing (b-a)	5.1	6.0	4.9	4.0	2.6	1.3	0.1
Surplus on current budget (a-c-e)	(5.5)	(4.5)	(3.3)	(2.5)	(1.1)	0.2	1.4

Future inflation

3. Based on the latest economic forecasts, the ONS have produced their latest inflation forecasts. These are shown below with previous forecasts for comparison.

4. The Treasury's 2% CPI inflation target is not expected to be achieved until 2016.

CPI Inflation (Target 2.0%)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
CPI – Dec 2013	**2.8%**	**2.6%**	**2.3%**	**2.1%**	**2.0%**	**2.0%**
CPI – Mar 2013	2.8%	2.8%	2.4%	2.1%	2.0%	2.0%
CPI - Dec 2012	2.8%	2.5%	2.2%	2.0%	2.0%	-

CPI Inflation (Target 2.0%)	2012	2013	2014	2015	2016	2017
CPI – Mar 2012	2.8%	1.9%	1.9%	2.0%	2.0%	-

RPI – Dec 2013	**3.2%**	**3.1%**	**2.9%**	**3.3%**	**3.6%**	**3.7%**
RPI – Mar 2013	3.2%	3.2%	2.8%	3.2%	3.6%	3.9%
RPI – Dec 2012	3.2%	3.0%	2.6%	3.1%	3.4%	-
RPI – Mar 2012	3.2%	2.3%	2.5%	3.6%	4.0%	-

Provisional Finance Settlement

Settlement Funding Assessments (previously start up funding) and damping

5. On 18 December 2013, the government announced the provisional settlement for 2014/15 and illustrative figures for 2015/16. These figures give Southwark's Settlement Funding Assessment (SFA) at £227.4m. This is some £0.9m higher than the indicative allocation issued in July as part of the consultation, and included in the report to October cabinet. However 2013/14 council tax freeze grant has been rolled into SFA in2014/15, so the two figures are comparable and will not materially effect the current 2014/15 budget position.

6. Overall Southwark's SFA has been reduced by £26.9m (10.6%), this compares with Inner London £259.6m (10.7%), and £504.4m for all London authorities (10.4%). At a national level the reduction is £2,473.9 (9.4%.)

		Southwark	Inner London	London	England
Adjusted 2013/14	£m	254.3	2,415.6	4,859.2	26,256.4
2014/15 Funding	£m	227.4	2,156.0	4,354.8	23,782.5
Change	£m	(26.9)	(259.6)	(504.4)	(2,473.9)
Change	£m	(10.6)	(10.7)	(10.4)	(9.4)
2015/16 funding	£m	194.0	1,835.5	3,727.1	20,650.8
Change	£m	(33.4)	(320.5)	(627.7)	(3,131.7)
Change	%	(14.7)	(14.9)	(14.4)	(13.2)

7. For Southwark, the government's calculation of settlement funding comprises of the following:

	Adjusted 2013/14 Funding	**2014/15 funding**	**Change**		**2015/16 Funding**	**Change**	
	£m	**£m**	**£m**	**%**	**£m**	**£m**	**%**
Upper - tier funding	161.416	144.294	(17.122)	(10.6%)	120.996	(23.298)	(0.161)
Lower - tier funding	62.728	53.773	(8.955)	(14.3%)	45.000	(8.773)	(0.163)
Formula Funding	**224.144**	**198.067**	**(26.077)**	**(11.6%)**	**165.996**	**(32.071)**	**(0.162)**
Add Grants rolled in							
2011/12 Council Tax Freeze grant	2.257	2.247	(0.010)	(0.4%)	2.247	0.000	0.000
Early Intervention	14.416	13.298	(1.118)	(7.8%)	12.162	(1.136)	(0.085)
Homelessness Prevention	1.541	1.518	(0.023)	(1.5%)	1.518	0.000	0.000

	Adjusted 2013/14 Funding	2014/15 funding	Change		2015/16 Funding	Change	
	£m	£m	£m	%	£m	£m	%
Lead Local Flood Authority	0.183	0.180	(0.003)	(1.6%)	0.180	0.000	0.000
Learning Disability and Health Reform	10.831	10.933	0.102	0.9%	10.930	(0.003)	0.000
2013/14 Council Tax freeze grant	0.929	0.929	0.000	0.0%	0.929	0.000	0.000
Returned holdback	0.000	0.272	0.272	-	0.000	(0.272)	(1.000)
Settlement Funding Assessment	**254.301**	**227.444**	**-26.857**	**(10.6%)**	**193.962**	**(33.482)**	**(14.7%)**

8. For 2014/15, Southwark have the second highest settlement funding reduction (12th highest % decrease. The cash reductions range between £27.1m for Tower Hamlets (11.1%) to £4.7m for Richmond-upon Thames (9.2%)

9. For 2015/16, Southwark have the highest settlement funding reduction (11th highest % decrease. The cash reductions range between £33.4m for Southwark (14.7%) to £4,9m for Richmond-upon-Thames (10.6%).

Revenue spending power

10. As part of the 2014/15 finance settlement the government announced for all councils' reductions in their spending power when compared to the previous year. According to DCLG analysis, Southwark have incurred a £17.7m reduction (4.8%). This compares with a reduction for Inner London of £179.5m (4.8%) and £327.7m (3.9%) for all London boroughs. At a national level the reduction is £1,668.7m (3.1%).

11. The Governments announcement gives the national funding reduction at 2.9%, (1.8% in 2015/16) this is because it excludes the GLA. The national figures above include GLA, so to provide a like for like comparison between previous years.

12. For 2014/15, Southwark have the third highest spending power reduction (11th highest % decrease. The spending power reductions range between £18.7m for Lambeth (5.0%) to £1.2m for Richmond-upon Thames (0.7%)

13. For 2015/16, Southwark have the second highest spending power reduction (5th highest % decrease. The cash reductions range between £19.7m for Newham (6.1%) to £3.3m for Bromley (1.4%).

14. The table below shows the reductions in spending power for Southwark, London and England since 2011/12, it can be seen that over the five year period Southwark and London have borne a disproportionate share of the reductions.

		Southwark	Inner London	London	England
2011/12	£m	33.7	303.3	514.8	2,578.50
	%	8.4	7.8	5.9	4.7
2012/13	£m	16.9	175.1	325.3	1,742.90
	%	4.6	4.9	4.0	3.3
2013/14	£m	21.4	206.4	398.7	1,966.80
	%	5.9	5.9	4.9	3.8

		Southwark	Inner London	London	England
2014/15	£m	17.7	179.5	327.7	1,668.6
	%	4.8	4.8	3.9	3.1
2015/16	£m	18.8	172.0	267.6	1,053.3
	%	5.3	4.9	3.3	2.0

15. The 2015/16 spending power reductions are further disguised by the inclusion of the £3.5bn Better Care Fund designed to enable local places to integrate care that is currently commissioned by the NHS and local authorities. This is a pooled budget that will fund both NHS and local services, depending on local needs, it is possible that only a small amount of this could go to local government.

16. The table below shows the reduction in spending power if this is excluded.

		Southwark	Inner London	London	England
2015/16	£m	29.0	284.4	571.8	2,868.7
	%	8.4	8.3%	7.2%	5.7%

17. A DCLG explanatory note said it was right to include this money in the spending power calculation because “it is for local authorities and NHS to agree locally how the funding will be spent through Health and Wellbeing Boards”, Simon Parker, director of the think tank New Local Government Network, said “It’s surely either in the NHS ring-fence or it isn’t”,

18. These reductions for Southwark follow on from the loss of £33.7m (8.4%) in 2011/12 and £16.7m (4.6%) in 2012/13. For all years, the assessment is in cash terms and takes no account of inflation, albeit that pay awards have been frozen through most of the period. The real terms analysis of these reductions in spending power would clearly worsen the overall loss.

Retained Business Rates

19. For the transition to the business rates retention system, the government have calculated for each local authority a baseline funding level. For Southwark this is £103.193m for 2014/15, and £106.041m for 2015/16.

20. 40% of Southwark’s baseline amount is passed on to the GLA, leaving £59.071m, see below.

	2014/15 £m	2015/16 £
Net forecast rate yield	196.970	202.344
Less: amount to be paid to central government (50%)	(98.452)	(101.172)
Business rate baseline	**98.452**	**101.172**
Less amount to be passed on to the GLA (40% of business rates baseline, 20% of net rate yield)	(39.381)	(40.469)
RBR income for Southwark Council (30%)	**59.071**	**60.703**

21. This figure is deducted from the baseline funding to determine the top-up or tariff, Southwark will receive a top-up of £44.122m in 2014/15 and £45.339 in 2015/16

22. The 2014/15 baseline funding of £103.193m is then deducted from the start up funding £227.4443m to determine the amount of revenue support grant, for Southwark this will be £124.251m in 2014/15, the total of each of the above element of the retained business rates system matches the start up funding as can be seen below. For 2014/15 the government have capped the increase to 2% for the uplift of the baseline funding amount.

		2014/15 £m	2015/16 £m
Retained Business Rates (RBR)	Variable	59.071	60.703
RBR top up from government	Fixed	44.122	45.339
Baseline funding level		**103.193**	**106.042**
Revenue Support Grant (RSG)	Fixed	124.251	87.920
Total Funding		**227.444**	**193.962**

23. Actual retained business rates income for 2014/15 will be dependent on the assessed rateable values, effect of appeals and collection rates. An NNDR1 return to estimate this was submitted by the council to DCLG. The net rate yield from the NNDR1 report is then adjusted to take account of the central government (50%) and Greater London Authority (GLA) share (20%):

24. As for any new scheme of this material significance, there is much uncertainty over the operation of the business rate retention scheme. This presents significant risk to the council but also some opportunity in the event of an increase in business rate yield that surpasses government targets. Any uncollected business rates, or unfavourable variation from government estimates of rateable values, will impact directly on council resource available and therefore on resources available to fund and to provide services.

25. Although the business rates retention scheme will include a safety net at 7.5% to protect local authorities from significant reductions in business rates, this means that shortfalls from 0-7.5% will not be protected and will have to be borne by the local authority. It would be possible for a local authority to lose just below 7.5% for a number of years and never receive any safety net payment. In addition, the council has to estimate for the impact of appeals, of which there are 1,400 outstanding at present.

26. The Strategic Director of Finance and Corporate Services and acting as S151 Officer has earmarked part of the Financial Risk Reserve to help protect the council from the risks and variations inherent in the new funding system and especially risks underlying business rate retention.