

## Spending Power Reduction

### The Provisional 2015/16 Local Government Finance Settlement

1. The Provisional Local Government Finance Settlement was released on 18<sup>th</sup> December. The key Hammersmith and Fulham figures are summarised in Table 1 and Table 2.

**Table 1 – Unringfenced Government Funding**

	2014/15	2015/16
<b>Confirmed Allocations</b>	£'000s	£'000s
Revenue Support Grant	66,647	47,429
New Homes Bonus Grant <sup>1</sup>	4,638	4,105
Other Unringfenced Grants	4,866	4,275
<b>Total Confirmed</b>		
<b>Total All</b>	<b>76,151</b>	<b>55,809</b>
Grant fall - cash		-20,342
Grant fall – cash terms %		-27%
<b>Grants for New Burdens</b>		
Adult Social Care – Care Act 2014		840

- 2 The settlement includes funding of £0.840m for new burdens (such as prison social care and the early assessment of the cap on care costs) associated with the Care Act 2014. It is assumed that this funding will be required to meet new expenditure commitments.

**Table 2 - Ringfenced Funding Allocations**

	2014/15	2015/16
	£'m	£'m
Public Health Grant	20.9	20.9
NHS Funding to support social care and benefit health	6.3	0
Pooled NHS and LA Better Care Fund		13.1
	<b>27.2</b>	<b>34.0</b>

- 3 The main change is the significant increase in NHS funding made available in 2015/16. This is part of a national pot of £3.8bn. This funding is a pooled budget intended to improve the integration of health and care services. The NHS and local authorities must agree locally through Health and Wellbeing Boards how it is spent. For now it is not assumed that any of this funding will be available to

<sup>1</sup> The 2015/16 allocation is estimated. The figure quoted by the government excludes a deduction required to fund the London Enterprise Partnership. This figure is not yet confirmed.

support the MTFS – it will replace existing health funding or be a new burden. This assumption will continue to be reviewed.

### **2015/16 Spending Power**

- 4 As part of the settlement announcement the government state their view of the cut in local authority spending power. As well as government funding this includes their assumption on what local authorities will collect through council tax and business rates. The figures are set out in Table 2. The Hammersmith and Fulham cut is more than twice the national average. In part this is because a low proportion of Hammersmith and Fulham funding comes from council tax.

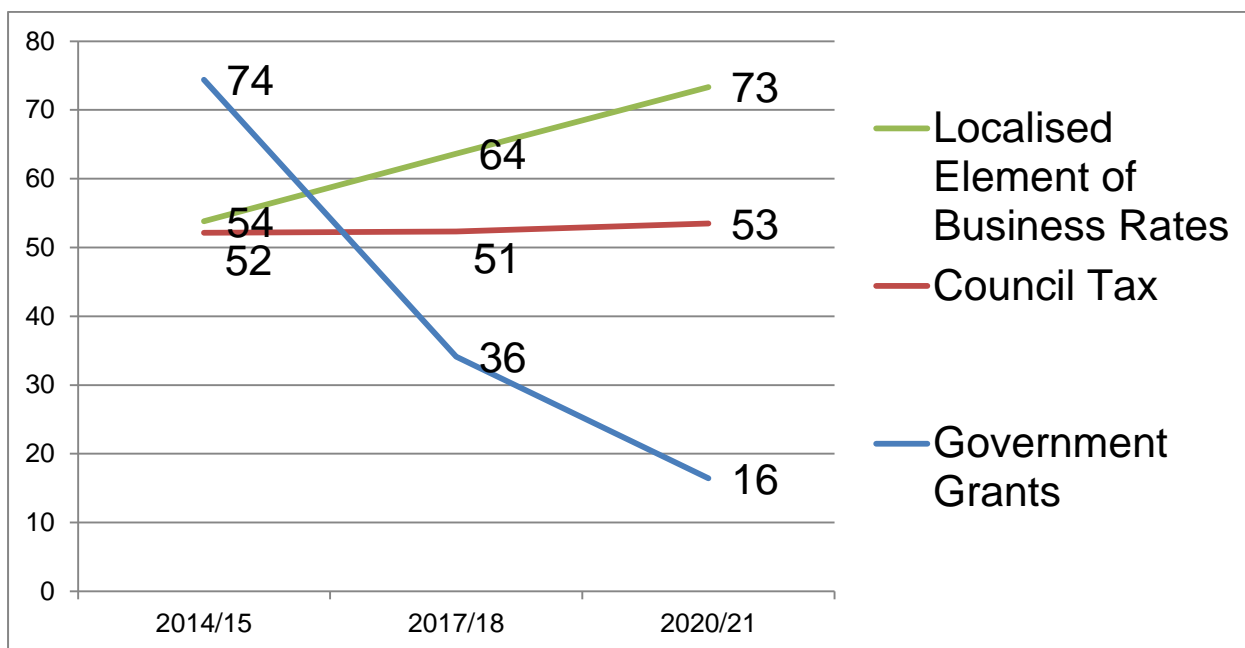
**Table 2 – Government Spending Power Calculation.**

	2014/15	2015/16
LBHF	-4.8%	-4.7%
London Average	-3.9%	-3.4%
National	-2.9%	-1.8%

5. The Government spending power calculation is questionable. It takes no account of inflation or demographic pressures. In addition:
  - In London it takes no account of the top-slice of £1.6m, from new homes bonus grant, made to fund the London Local Enterprise Partnership.
  - It muddles together ringfenced grants (such as the £20.9m for Public Health) and unringfenced grants. This masks the true cut in funding for core local authority services.
  - The comparison of better care funding between 2014/15 and 2015/16 is not on a like for like basis. Hammersmith and Fulham is not £6.8m better-off when the burdens associated with this funding are allowed for.
  - Government assumptions on business rates income take no account of the impact of business rates appeals. These have meant that what many authorities can collect, including a £2m to £3m shortfall for Hammersmith and Fulham, is less than assumed in the calculation.
- 6 The spending power calculation issued by the government suggests a 4.7% reduction for Hammersmith and Fulham. Initial review by this authority suggests the real reduction is more than 10%.
7. In terms of budget requirement, the actual reduction for Hammersmith and Fulham, assuming a council tax freeze, is from £180m in 2014/15 to £160m in 2015/16. This is a cut of 11%. The reduction is close to 14% if inflation and demographic pressures are allowed for.

### **Funding Beyond 2016/17.**

8. Government funding beyond 2015/16 is not yet confirmed. The current forecast is set out out in the graph below (all figures in £'millions):



9. The general government grant receivable by Hammersmith and Fulham will reduce significantly by 2020/21. The latest forecast is set out below:

**Table 1 – Grant Forecast for Hammersmith and Fulham**

	2014/15	2017/18	2020/21
Revenue Support Grant	£66m	£26m	£10m
Other General Grants <sup>2</sup>	£8m	£10m	£6m
	<b>£74m</b>	<b>£36m</b>	<b>£16m</b>

10. The main grant is revenue support grant. This is determined by the government based on their view of what funding an authority should receive, the (Settlement Funding Assessment (SFA)). This also takes account of the expected contribution from the local share (30%) of business rates. The figures for 2014/15 and 2015/16 are shown in Table 2.

**Table 2 - Hammersmith and Fulham – Key data from the 2014/15 and Provisional 2015/16 Local Government Finance Settlements.**

	2014/15	Provisional 2015/16	Cash (Reduction) / increase	% (Reduction) / Increase
Settlement Funding Assessment	£121.2m	£103.6m	(£17.6m)	(14.6%)

<sup>2</sup> The main other general grants are for the new homes bonus, council tax freeze, housing benefits administration and education support grant.

Of which:				
Revenue Support Grant	£66.1m	£47.4m	(£18.7m)	(28.2%)
Baseline Business Rates Funding level <sup>3</sup>	£55.1m	£56.2m	£1.1m	2%

11. In modelling future funding reductions the SFA is the relevant figure. So for 2015/16 the overall reduction in the SFA is 14.6%. As business rates are expected to increase in line with forecast inflation (2.3%) then the reduction in revenue support grant is much greater (28.2%).
12. The Medium Term Financial Strategy currently includes the provisional grant figures for 2015/16. A 10% reduction in the SFA is then modelled to 2018/19 and 5% per annum to 2020/21. The figures are shown Table 3. Because the business rates baseline figure does not reduce then all the 10% reduction in the SFA falls on Revenue Support Grant (ie a 10% cut on government funding translates to a much greater % cut in RSG).

**Table 3 – Reduction in RSG to 2017/18**

	2016/17	2017/18	2020/21
Prior Year SFA	£103.6m	£93.3m	£74.9m
Less 10% Reduction to 2018/19 and 5% after	(£10.4m)	(£9.3m)	(£3.7m)
<b>Updated SFA</b>	<b>£93.2m</b>	<b>£83.6m</b>	<b>£71.2m</b>
Of which:			
Revenue Support Grant	£36.4m	£26.4m	£9.6m
Business rates funding baseline	£56.8m	£57.2m	£61.6m

<sup>3</sup> This is the amount of the settlement funding assessment that the government assume is collected through business rates.