|  |  |
| --- | --- |
| **Local Government and Communities** **Directorate**  Local Government Division  T: 0131-244 7037  E: Stephen.gallagher@scotland.gsi.gov.uk |  |
| **Local Government Finance Circular No.  6/2013**    Chief Executives and Directors of Finance of Scottish Local Authorities  Chief Executive, Convention of Scottish Local Authorities (COSLA) |  |

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Our Reference:

11 December 2013

Dear Chief Executive/Director of Finance

**LOCAL GOVERNMENT FINANCE SETTLEMENT 2014-15 AND BUSINESS RATES POUNDAGE LEVEL AND RELIEF THRESHOLDS.**

1.This Local Government Finance Circular provides details of the provisional total revenue and capital funding allocations for 2014-15. The Circular also gives details of the Non Domestic Rate Distributable Amount for 2014-15. In addition, this circular also provides the latest information on current known redeterminations for 2013-14 as well as details of the business rates poundage levels and confirmation of the relief thresholds.

2. The provisional total funding allocations form the basis for the annual consultation between the Scottish Government and COSLA ahead of the Local Government Finance (Scotland) Order 2014 being presented to the Scottish Parliament in February 2014. COSLA is invited to respond to these provisional allocations in writing by **6 January 2014**. In submitting any comments, we expect local authorities to inform COSLA, and for COSLA in turn to inform the Scottish Government of any discrepancies in these distributions. Any redistribution to address any agreed discrepancies will be undertaken within the total settlement allocations set out in this Circular and not through the provision of any additional resources by the Scottish Government. The allocations are therefore only provisional at this stage and local authorities should not set their final budgets on the basis of these until the final allocations are confirmed following the end of the consultation period and the publication of the February 2014 Circular.

3. The Cabinet Secretary for Finance, Employment and Sustainable Growth wrote to COSLA on 11 September 2013 reaffirming the terms of the settlement to be provided to local government in return for the provisional funding allocations set out in this Circular. The 2014-15 provisional allocations set out in this Circular assume that all councils will sign up to the package and therefore that the **full** amount (£9.321 billion) will be issued.

4. The allocations have been arrived at using the standard agreed distribution methodology. The Circular also includes a separate column in Annexe B and C showing the general revenue changes since the previous relevant Local Government Finance Circular. As in previous years the final column in Annexe C provides the amount of the Council Tax element, for illustrative purposes, which the Scottish Government plans to hold back under the terms of the Cabinet Secretary for Finance, Employment and Sustainable Growth’s letter of 11 September 2013 to COSLA on the sign-off arrangements, set out on a council by council basis. The letter of 11 September 2013 also confirmed that if any council does not agree to the full package available then it will have its allocation reduced by its needs based share of a package of resources worth in total £109 million across the whole of local government. This package of resources to be removed is made up of each council’s needs based share of:

* £70 million to deliver a Council Tax freeze; and
* £39 million for the teacher commitments.

5. As with last year, for 2014-15 only, those Council Leaders who do not intend to take up the offer and agree the full package of measures set out in the 11 September letter are required to write to the Cabinet Secretary for Finance, Employment and Sustainable Growth setting out the reasons why they do not wish to comply by no later than 10 March, but preferably by the end of February (and ideally as soon as possible after they have set their budgets and announced their council tax rates for 2014-15). If any Council Leader replies to say that their Council does not so agree, the full amount of the Council’s needs based share of the £109 million sanction will be withdrawn from the overall local government settlement and redeployed by Scottish Ministers in the Budget Bill which will be laid before Parliament in January 2014.

6. In early February 2014, it is envisaged that the 2014-15 Budget Bill will complete its stages and be approved by Parliament. Very shortly after that, the Government will table the Local Government Finance (Scotland) Order 2014 setting out the formal allocations of the funding settlement for 2014-15, less the amount of holdback for the Council Tax freeze monies.

7. In mid-March 2014 the Government will table an amendment Order (to the Local Government Finance (Scotland) Order 2014), to pay out the full amount of the council tax holdback monies to all those councils whose Leaders have not written to us as detailed in the preceding paragraphs. For those councils whose Leaders have subsequently written confirming they do not intend to take up the offer, the amendment Order will not allocate the council tax holdback monies and will remove the needs based shares of the remaining sanction monies for Teachers (£39 million).

8. The figures in this Circular are necessarily provisional and any changes required will be discussed and agreed between the Scottish Government and COSLA, and included in the 2014 Order. Accordingly, if a council considers there are any errors or revisions that require to be addressed they should, in the first instance, contact COSLA immediately.

9. The various parts and annexes to this Circular, listed below, provide more of the detail behind the calculations.

Part A: Local Government Finance Settlement – Revenue: 2014-16 and changes in 2013-14;

Part B: Local Government Finance Settlement – Capital: 2014-15 and confirmation of 2013-14 figures; and

Part C: Non-Domestic Rates for 2014-15 including BRIS.

Annex A: All Scotland Aggregated Funding Totals 2013-16;

Annex B: Individual Revenue Allocations for 2013-14;

Annex C: Individual Revenue Allocations for 2014-15;

Annex D: Explanatory Notes on the Revenue Distribution;

Annex E: Individual Share of the Additional £70 million;

Annex F: Estimates of Ring-Fenced Grant Revenue Funding for 2014-15;

Annex G: Reconciliation of Revenue Allocations for 2014-15;

Annex H: Redeterminations of Revenue funding for 2013-14;

Annex I: Individual Capital Grant Funding for 2013-14;

Annex J: Individual Capital Grant Funding for 2014-15;

**Part A: Local Government Finance Settlement - Revenue: 2014-16 and changes in 2013-14**

10. This Finance Circular sets out the provisional distribution of revenue funding allocations for 2014-15. The distribution of the indicative allocations for 2015-16 are the subject of on-going consideration following COSLA Leaders decision that the allocations for 2014-15 should be rolled forward for 2015-16. An update on the 2015-16 allocations will be provided once those considerations have concluded. **Annex A** of this Circular sets out the all-Scotland aggregate totals for 2013-16.

11. **Annexes B and C** set out the distribution of the total revenue funding allocation between councils and the allocation of the different elements (General Revenue Funding, Non-Domestic Rate Income and Ring-Fenced Revenue Grants) for each council for 2014-15. The basis behind the grant distribution methodology, as explained in Finance Circular 6/2007, has been retained as agreed with COSLA, and the Scottish Government’s new 85% floor is included at the end of this process. The explanatory notes contained in **Annex D** explain the basis behind the calculation of the individual council grant allocations.

12. **Annex E** sets out how the additional £70 million available to councils that choose to freeze their 2014-15 council tax levels at 2013-14 levels as part of the overall funding package will be distributed.

13. **Annex F** gives a breakdown of the individual council shares of Ring-Fenced grant revenue allocations for 2014-15.

14. The calculation and effects of the main floor adjustment for 2012-15, which provides councils with a maximum *decrease* in funding of -1.2%/ -1.4%/ -1.4%, was set out in Annex H of Circular 11/2011.

15. The changes to the 2014-15 GRG figures since Local Government Finance Circulars 2/2013 are set out in **Annex G**.

16. This Local Government Finance Circular provides details of current known redeterminations at **Annex H** for the General Revenue Grant. The final redetermination allocations for 2013-14 will be included in the Local Government Finance (Scotland) Order 2014.

17. The methodology for calculating Loan Charge Support (LCS) and support for Public Private Partnership (PPP) projects (level playing field projects only (LPFS)) is set out in Annex H of Finance Circular 2/2011. The total amounts included for loan charge support and PPP support are included in the revenue figures in **Annex A** and column 3 of **Annexes B and C**.

**Part B: Local Government Finance Settlement – Capital Grants 2014-15, and confirmation of 2013-14 figures**

18. The Local Government settlement includes a total of £773.2 million for 2014-15 and £817.3 million for 2015-16 of capital grants.

19. This Finance Circular sets out the provisional distribution of capital funding to local authorities for 2014-15. These are in line with the figures from the Draft Budget 2014-15 published on 11 September 2013. As in the case for revenue, the capital allocations for 2015-16 are the subject of further consideration. **Annex A** of this Circular sets out the all-Scotland aggregate totals for 2013-16.

20. **Annex I** sets out the revised capital grants for 2013-14 since Finance Circular 2/2013.

21. **Annex J** set out the provisional distribution of the General Capital Grant and Specific Capital Grants included in the settlement for each council for 2014-15. Capital grants which remain undistributed are identified as such. Information on the support that has been provisionally agreed for local authorities outside of the settlement for 2014-15 to 2015-16 is included. This includes specific capital grants to be provided in support of the Scotland’s Schools for the Future programme and Digital Infrastructure funding. The methodologies used to calculate these provisional allocations have been agreed with COSLA.

**Part C: Non-Domestic Rates for 2014-15 including BRIS**

22.The Distributable Amount of Non-Domestic Rate Income for 2014-15 has been set at £2,649.5 million. This figure uses the latest forecast of net income from non-domestic rates in 2014-15 and will also draw on council estimates of the amounts they will contribute to the Pool from non-domestic rate in 2013-14. Included in the estimated figure is a calculation of gross income, expected losses from appeals and estimated expenditure on mandatory and other reliefs as well as write-offs and provision of bad debt. As proposed under the Business Rates Incentivisation Scheme the distribution of Non-Domestic rates income for 2014-15 will match the shares based on the 2011-12 mid-year estimates provide by councils. General Revenue Grant, as it has done previously, will continue to provide the balance of funding. This change provides a clearer presentation and greater transparency in how councils are actually funded.

23. The Scottish Government confirmed the increase for the 2014-15 Non-Domestic Rate poundage rate will be restricted to 2%.

24. The Scottish Government also confirmed more assistance for small businesses under the Small Business Bonus Scheme (SBBS) by increasing the upper threshold for businesses with multiple properties from £25,000 to £35,000 for the lifetime of this Parliament. The table below contains the revised 2014-15 thresholds.

|  |  |
| --- | --- |
| **Combined rateable value (RV) of all business properties in Scotland:** | **2014-15** |
| Up to £10,000 | 100% |
| £10,001 to £12,000 | 50% |
| £12,001 to £18,000 | 25% |
| £18,001 to £35,000 | 25% on each individual property with a rateable value not exceeding £18,000\* |

\*This will allow a business with 2 or more properties with a cumulative rateable value of under £35,000 to qualify for relief at 25% on individual properties with a RV up to £18,000.

25. As announced earlier, the Scottish Government will also expand the Fresh Start rates relief to give 50% rates relief to businesses who take on even more kinds of long term empty properties to help rejuvenate high streets. This includes additional types of empty premises, including those previously used as pubs, hotels and restaurants. Further guidance will be provided early in the New Year when the Regulations are finalised.

26. As previously confirmed the revised 2012-13 BRIS targets are currently under consideration by COSLA and individual local authorities and a final decision will be taken until the 2012-13 audited returns are available (February 2014). Targets for future years will be considered once the 2012-13 review is complete.

**Enquiries relating to this Circular**

27.It should be noted that a few of the figures in this Circular may be marginally different because of the roundings. Local authorities should note that if they have any substantive specific enquiries relating to this Circular these should in the first instance be addressed through COSLA. We have given an undertaking to COSLA to respond to these queries as quickly as possible. Contact details for COSLA are:

Vicki Bibby

0131 474 9232 [vicki@cosla.gov.uk](mailto:vicki@cosla.gov.uk)

Any other queries should be addressed to the following:

Local Government Finance Settlement (Revenue and Capital)

Bill Stitt 0131 244 7044 [bill.stitt@scotland.gsi.gov.uk](mailto:bill.stitt@scotland.gsi.gov.uk)

Non-Domestic Rates

Marianne Cook 0131 244 5328 [marianne.cook@scotland.gsi.gov.uk](mailto:marianne.cook@scotland.gsi.gov.uk)

28. This Circular will be made available through the Local Government section of the Scottish Government website at:

http://www.scotland.gov.uk/Topics/Government/local-government/179

Yours faithfully



**STEPHEN GALLAGHER**

Deputy Director, Local Government Division

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ALL SCOTLAND AGGREGATE FUNDING TOTALS 2013-16** | | |  | **ANNEX A** |
|  |  |  |  |  |
|  |  | **2013-14** | **2014-15** | **2015-16** |
|  |  | **£ million** | **£ million** | **£ million** |
|  |  |  |  |  |
| **Revenue Funding** |  |  |  |  |
|  |  |  |  |  |
| General Resource Grant |  | 7,232.459 | 7,064.479 | 9,709.701 |
| Non Domestic Rate Income |  | 2,435.00 | 2,649.500 | n/a |
| Specific Revenue Grants |  | 98.932 | 90.932 | 90.900 |
|  |  |  |  |  |
|  |  |  |  |  |
| **Total Revenue** |  | **9,766.391** | **9,804.911** | **9,800.601** |
|  |  |  |  |  |
| *less* Teachers' Induction Scheme |  | 27.600 | 27.600 | 37.600 |
| *less* Criminal Justice Social Work |  | 86.450 | 86.450 | 86.450 |
| Council Tax Reduction Scheme |  | 70.200 | 343.000 | 343.000 |
| Council Tax Reduction Scheme Admin |  | 0.000 | 7.050 | 0.000 |
| Scottish Welfare Fund |  | 0.000 | 0.000 | 0.000 |
| Discretionary Housing Payments |  | 0.000 | 20.000 | 0.000 |
| Changes to former AME Grants |  | 0.000 | -0.247 | 0.000 |
|  |  |  |  |  |
| **Distributable Revenue Funding** |  | **9,582.141** | **9,321.058** | **9,257.83** |
|  |  |  |  |  |
|  |  |  |  |  |
| **Capital Funding** |  |  |  |  |
|  |  |  |  |  |
| General Capital Grant |  | 449.908 | 622.975 | 672.200 |
| Specific Capital Grants |  | 86.976 | 127.722 | 123.200 |
| Distributed to SPT |  | 15.337 | 22.524 | 21.900 |
|  |  |  |  |  |
| **Total Capital** |  | **552.221** | **773.221** | **817.300** |
|  | |  |  |  |
| **Total Funding** | | **10,318.612** | **10,578.132** | **10,617.901** |
|  |  |  |  |  |
| \*The General Revenue Grant/Non Domestic Rate (NDR) guaranteed sum is shown as a | | | | |
| combined figure until final decisions are taken on 2015-16 NDR. | | |  |  |



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**EXPLANATORY NOTES ON THE REVENUE DISTRIBUTION ANNEX D**

The explanation of each of the columns within the tables at Annexes B and C is as follows:

**Column 1** – represents the updated ongoing service provision and includes the following combined information: (i) the updated Grant Aided Expenditure (GAE) assessments; (ii) the revised Special Islands Needs Allowance (SINA); (iii) each council’s individual share of the ongoing revenue grants which have been rolled up into the core local government finance settlement; (iv) each council’s share of all the baselined redeterminations since Spending Review 2007; (v) the shares of both the £350 million for the council tax freeze over the period 2008-13 and the £70 million for the council tax freeze in 2013-14.

**Column 2** – is the new combined total, non‑ring‑fenced, changes in general provision resulting from Spending Reviews 2007, 2010, 2011, and allocated pro‑rata to each council’s share of GAE plus SINA.

**Column 3** – represents the updated share of the loan charges support for outstanding and new debt and the same level of ongoing PPP level playing field support.

**Column 4** – is the main floor adjustment which has been calculated as in previous years by excluding PPP level playing field support. The amount of the ongoing revenue grants which have been rolled up into the core local government finance settlement and the council tax freeze amounts were also excluded on the grounds of stability.

**Column 5** – this is the net revenue expenditure recognised by the Scottish Government and represents the sum of columns 1 to 4.

**Column 6** – is the assumption of the amount of Total Estimated Expenditure to be funded from the council tax. Any changes are as a result of buoyancy or projected numbers of properties.

**Column 7** – was each council’s share of the on-going Ring-Fenced revenue grants at the time of Spending Review 2011 excluding Police.

**Column 8** – is each council’s share of the estimated non‑domestic rate income which has been distributed proportionately on the basis of council’s 2011-12 mid-year income returns net of prior year adjustments.

**Column 9** – is the balance of funding provided by means of general revenue funding and is calculated by deducting columns 6, 7 and 8 from the Total Estimated Expenditure in column 5.

**Column 10** – represents the total revenue funding available to each council in that year assuming that Councils accept the full package agreed with COSLA’s Leadership.

**Column 11** – is the 85% floor adjustment which has been calculated at the end of the process to meet the Scottish Government’s commitment to ensure that no Local Authority receives less than 85% of the Scottish average in terms of revenue support at the time of the outcome of Spending Review 2011.

**Column 12** – The total funding from the most recent published figures 2013-14 (Finance Circular 2/2013) and for 2014-15 (Finance Circular 1/2013).

**Column 13** – represents the changes to the funding allocations since the most recent Finance Circular.

**Column 14** This revised total column shows the total at column 10 less the changes in column 12 and includes the share of the 85% floor adjustment.

**Column 15** - The final column of Annex C shows the amount, for illustrative purposes, which the Scottish Government plans to holdback under the terms of the offer letter, set out on a council by council basis. This has been distributed using the same underlying methodology as was used in calculating the actual settlement.

|  |  |
| --- | --- |
| **Local Authority £million** | **2014-15 Annual**  **Share of £70 million** |
|  |  |
| Aberdeen City | 3.275 |
| Aberdeenshire | 3.558 |
| Angus | 1.396 |
| Argyll & Bute | 1.423 |
| Clackmannanshire | 0.667 |
| Dumfries & Galloway | 1.874 |
| Dundee City | 1.743 |
| East Ayrshire | 1.492 |
| East Dunbartonshire | 1.616 |
| East Lothian | 1.402 |
| East Renfrewshire | 1.355 |
| Edinburgh, City of | 6.996 |
| Eilean Siar | 0.293 |
| Falkirk | 1.833 |
| Fife | 4.637 |
| Glasgow City | 7.694 |
| Highland | 3.294 |
| Inverclyde | 1.015 |
| Midlothian | 1.134 |
| Moray | 1.134 |
| North Ayrshire | 1.753 |
| North Lanarkshire | 3.785 |
| Orkney | 0.244 |
| Perth & Kinross | 2.150 |
| Renfrewshire | 2.329 |
| Scottish Borders | 1.529 |
| Shetland | 0.248 |
| South Ayrshire | 1.643 |
| South Lanarkshire | 3.870 |
| Stirling | 1.341 |
| West Dunbartonshire | 1.190 |
| West Lothian | 2.087 |
|  |  |
| **Scotland** | **70.000** |

**ANNEX E**

**INDIVIDUAL SHARE OF THE ADDITIONAL £70 MILLION FOR THE COUNCIL TAX FREEZE**

**ANNEX F**

**ESTIMATES OF RING-FENCED REVENUE GRANT FUNDING FOR 2014-15**

|  |  |
| --- | --- |
|  | **Gaelic\*** |
|  | **£m** |
| Aberdeen City | 0.104 |
| Aberdeenshire | 0.037 |
| Angus | 0.045 |
| Argyll & Bute | 0.383 |
| Clackmannanshire | 0.000 |
| Dumfries & Galloway | 0.000 |
| Dundee City | 0.000 |
| East Ayrshire | 0.152 |
| East Dunbartonshire | 0.074 |
| East Lothian | 0.000 |
| East Renfrewshire | 0.020 |
| Edinburgh, City of | 0.299 |
| Eilean Siar | 0.991 |
| Falkirk | 0.012 |
| Fife | 0.000 |
| Glasgow City | 0.518 |
| Highland | 0.951 |
| Inverclyde | 0.090 |
| Midlothian | 0.000 |
| Moray | 0.000 |
| North Ayrshire | 0.085 |
| North Lanarkshire | 0.289 |
| Orkney Islands | 0.000 |
| Perth & Kinross | 0.080 |
| Renfrewshire | 0.033 |
| Scottish Borders | 0.004 |
| Shetland Islands | 0.000 |
| South Ayrshire | 0.000 |
| South Lanarkshire | 0.158 |
| Stirling | 0.137 |
| West Dunbartonshire | 0.020 |
| West Lothian | 0.000 |
|  |  |
| **Scotland** | **4.482** |

\*Note: The figures for this are provisional and represent the best estimates of the funding available. The actual allocation of these specific revenue grants will be notified to the relevant local authorities in due course.

**ANNEX G**



**ANNEX H**



**INDIVIDUAL CAPITAL GRANT FUNDING FOR 2013-14 ANNEX I**



**INDIVIDUAL CAPITAL GRANT FUNDING FOR 2014-15 ANNEX J**

