# The LGA's Budget 2016 Submission

Date: 29 January 2016

## Summary


1. The 2015 Spending Review ('Spending Review') and Provisional Local Government Finance Settlement 2016/17 ('Settlement') set the course for important changes to the funding and delivery of our public services over the next Parliament. The Government forecasts the resources available for council services to be broadly similar in 2019/20 as it is today, with revenue support grant reducing sharply (27%, or £2.6 billion in 2016/17 alone) and councils increasing their council tax income significantly to compensate for this by the end of the decade.

2. Reforms to the allocation of central government grant and rising cost pressures on local government will impact on the delivery of local public services. Even with the same amount of money to spend in four years' time pressures on spending will need to be funded by councils finding savings elsewhere.

3. Proposals to provide local government with longer term financial settlements, devolve powers for business rates and give councils more flexibility in setting their council tax shows government has listened to calls from the Local Government Association (LGA) and councils. Recent announcements also confirm that the devolution of power from central to local government is an important part of public service reform for this administration. The ultimate goal must be to continue to recognise the important role of councils in saving money to the public purse through preventative services rather than expensive acute interventions and driving economic growth, to secure further fiscal devolution and the localisation of revenue from existing national taxes, and to deliver high quality services that people need.

4. Our submission provides a commentary on the financial outlook for local government over the Spending Review period following the direction set out by the Government in late 2015 (Part 1), focusing on social care and public health in more detail (Part 2).

5. It also sets out our offer to work with the Government on measures to achieve our shared ambitions to provide value for money services and grow the economy (Part 3). Our proposals would give councils the additional freedoms and flexibilities they require whilst supporting the Government to achieve these shared goals.

   5.1. Momentum around the widespread devolution of powers and responsibilities to all parts of England must not be lost. More deals need to be quickly agreed to ensure the benefits of devolution reach all communities and businesses across the country, especially those in non-metropolitan areas. Devolution should take approaches to place based finance to heart, especially when it comes to the further integration of care and health services.


Submission


Local Government Association

Local Government House, Smith Square, London SW1P 3HZ
Email info@local.gov.uk
Tel 020 7664 3000 Fax 020 7664 3030
**Information centre 020 7664 3131 www.local.gov.uk**

5.2. The move to full business rate retention is the most ambitious reform to local government finance of the last few decades. We look forward to being fully engaged in relevant discussions on the move to 100 per cent business rate retention ensuring that any new system works effectively, and will facilitate a discussion with local authorities. Reducing the scope for avoidance and financial uncertainty due to appeals must be a key consideration in reforming business rates. The move to business rate retention should contain an assessment of relative needs for services and also go hand in hand with further flexibilities to council tax.

5.3. National housing reforms risk combining to reduce the number of existing council homes, which local authorities will be forced to sell and struggle to replace. If residents are forced to move into the more expensive private rented sector as a consequence of fewer council homes being built, this could also have the unintended consequence of pushing up the housing benefit bill. Only an increase of all types of housing – including those for affordable or social rent – will solve our housing crisis. Councils must be able to keep playing a lead role in ensuring new affordable homes continue to be built and that they remain able to invest in the homes and infrastructure communities so desperately need.

5.4. Helping more people to move into employment is crucial to boosting local growth and reducing the welfare bill. Almost 55,000 more disadvantaged jobseekers and people with disabilities and health conditions would be supported into work if funding and responsibility for national employment schemes was devolved to local areas.

5.5. Councils worked tirelessly to protect communities from extreme flooding this winter. New flood defence funding must go towards projects that reflect the needs of local areas, with communities and businesses coming together to ensure investment provides maximum protection and value for money. Capital investment, and subsequent revenue funding, should be devolved to councils, working in partnership with Local Enterprise Partnerships (LEPs), to decide on the best use of this money to limit the risk of future devastation to communities caused by extreme weather.

5.6. The current system of delivering statutory notices to the public is antiquated. The archaic regulations mean that councils spend at least £26 million each year in an age where information is best delivered through other media with far greater reach.

6. The ambitions set out in this submission for central and local government to work together on in this Parliament could dramatically improve people's lives, protect the services valued by residents and deliver sustainable savings to the public purse.

# PART 1. FINANCIAL PROSPECTS OF LOCAL GOVERNMENT

## The impact of the Spending Review and Settlement

7. Local government is already the most efficient part of the public sector. While dealing with a 40 per cent real terms reduction in core government grant funding over the previous Parliament and demand pressures, councils have already made significant savings to their budgets. In adult social care alone, a funding gap of at least £5 billion has been managed through efficiencies and diverting savings from other services.

8. In the Spending Review and the Settlement, the Government stated that total available funding for core council services will broadly be the same in 2019/20 as it is today. This is based on revenue support grant reducing sharply (27%, or £2.6 billion in 2016/17 alone) and assumptions on councils increasing their council tax income significantly to compensate for this by the end of the decade. The new way of administering grant reductions and the reliance on local taxation increases to achieve this outcome means that consequences for councils in different areas and circumstances are varied.

9. This year the Government has changed the distribution method for Revenue Support Grant to take account of council tax at 2015/16 levels so that councils delivering the same set of services have the same or similar percentage change in 'settlement core funding'. As a result of this change in the way that the funding reduction has been allocated, some councils are facing reductions in 2016/17 that are significantly higher than they had been planning for.

10. Councils feel it would have been appropriate to consult on these distributional changes during the summer as has been the case with previous significant amendments.

11. The LGA will not take a formal position on the distributional changes.

12. In addition to being unexpected, these changes mean that the Government has made amendments to the system of business rate retention after committing to it being fixed until the reset.

13. The Government's assertion that local government has received a 'cash-flat' settlement also relies on significant increases both in council tax levels and the number of homes liable to pay council tax. In effect, the settlement set an expectation that:

    13.1. All councils with social care responsibilities will increase council tax each year by at least 3.75 per cent on average for the next four years – this is a total increase of almost 16 per cent, or approximately £190 on a typical Band D council tax bill for those authorities. Political consequences aside, in some places this may not be affordable for some residents who already have a lower ability to pay due to local economic circumstances.

    13.2. All other councils will increase council tax each year by 1.75 per cent on average in each of the four years, with the exception of councils which have the flexibility to increase council tax by £5. The expectation is that these councils will use this power in full.

13.3. An additional 1.3 million additional Band D households will become liable for full council tax by 2019/20. Given that the Government's own ambition is for a million new homes to be built, this growth in the taxbase will have to include existing homes losing discounts or exemptions. The scale of the challenge is also different for different authorities. For some, the assumption is 0 per cent new Band D households over the next four years. For others, it is as much as 25 per cent, with a national average of 7.8 per cent. We address council tax policy later in this submission.

14. The announcement of the provisional settlement was made very late in the calendar year, minimising the time available to councils to amend their plans accordingly. An even bigger cause for concern is that the allocations for many other grants, such as public health grant, the Independent Living Fund, some section 31 grants and other funding, all amounting to billions of pounds worth of resource, have not yet been announced.

15. Local authorities cannot reasonably be expected to make the most of the four-year certainty over revenue support grant when undertaking financial planning if all the other funding allocations are made so late.

16. This is not consistent with the Government's wish to empower councils through devolution and certainty of funding. This delay means that a welcome move towards multi-year settlements is being undermined.

**Cost pressures facing local government**

17. In reality, even having the same amount of money to spend in four years' time would mean that there are still very significant challenges ahead for councils who will have to make savings sufficient to compensate for any additional cost pressures they face over the next four years. The settlement also comes in the context of some savings still being made to deal with reductions to council funding from previous years.

18. Cost pressures include those arising from:

18.1. **General inflation increases in demand for everyday services as the population grows.** In its 2015 Spending Review submission, the LGA estimated these to be worth at least £3.6 billion by 2019/20. However, this is a conservative estimate. Demand pressures are estimated as directly related to general changes in population age groups, yet demand for specialist and expensive social care services, such as those for learning disabilities, has been rising at a faster rate. The estimate also includes assumptions about increases in fees and charges which are largely controlled by central government, and an assumption of efficiencies of at least 1 per cent in all services in each of the four years of the Spending Review.

18.2. **Ending of contracting out of National Insurance.** State pension contracted out arrangements will end from April 2016. This will mean a consequent increase in employers' national insurance contributions for all employers who provide pensions, including councils. The estimated additional annual cost to councils of this is £797 million. Councils are affected by this policy disproportionately to the rest of the public sector due to the nature of the Local Government Pension Scheme (LGPS). As a result, we believe that the new burdens doctrine applies.

18.3. **The introduction of the National Living Wage.** LGA analysis shows that introducing the National Living Wage (NLW) for council employees will cost at least £7 million in 2016/17, with further contract cost pressures of £330 million to introduce the NLW for domiciliary and residential care staff. By 2019/20 these figures could rise to at least £85 million and £834 million respectively as the NLW moves towards the £9.00 per hour target and outpaces general wage inflation. The NLW is likely to have an impact on other council contracts but information is more limited – as such, these estimates are a minimum.

18.4. **Deprivation of Liberty Safeguards (DoLS).** The widening of scope following the Supreme Court's ruling goes well beyond anything assumed in the Department of Health's original impact assessment and therefore constitutes a new burden. The Law Commission's impact assessment found that proper implementation of the existing legal system to authorise deprivation of liberty would cost local authorities £172 million a year for authorisations within DoLS alone.

18.5. **Business rates appeals.** The current system of business rates appeals continues to result in significant backlogs and is a source of financial uncertainty to councils. For example, the Valuation Office Agency currently struggles with a backlog of 330,000 appeals. In 2013/14, councils set aside £1.75 billion for unresolved appeals and this amount is likely to increase when the 2017 revaluation is introduced as a fresh wave of appeals is highly likely. In addition, NHS Trusts are seeking to be granted charitable relief which may cost councils up to £1.5 billion of business rate income. If councils had greater financial certainty arising from a reformed business rate system, some of the money held up in these provisions could be released to fund services. We address business rates later in the submission.

18.6. **The introduction of the Apprenticeship Levy** which is estimated to cost up to £200 million.

18.7. **Unclear funding in relation to the Independent Living Fund**. With funding allocations for 2016/17 not yet announced, up to £260 million is at risk.

19. Councils also face a £12 billion backlog on pothole repairs. The Government announced additional funding of £250 million over the next five years. While councils will welcome any additional funding, this is not sufficient to address the backlog.

20. Taking cost pressures and funding reductions together, there is a small group of councils who are close to the edge of financial sustainability. The Government should set out plans to manage a situation where a council has insufficient resources to operate.

21. While a full scale financial crisis is possible for some councils, others are facing a series of 'fiscal cliffs' likely to force them to stop providing services which contribute highly to the wellbeing of residents. For example, the concessionary fares system is increasingly unaffordable. To ensure sustainability it and is likely to require significant cutbacks in other services, often used by some of the more vulnerable in society, such as removing bus subsidies for rural routes.

22. As recognised by the National Audit Office (NAO), the Government needs to improve the way it recognises and funds new burdens for local authorities. Funding for new burdens, such as those set out above, should be provided to councils in the year the burden materialises, as any delay just builds up unfunded costs for later years which have to be funded each year from other services.

**Pensions**

23. Public sector pension costs are a large and increasing pressure. However, the issues facing the LGPS are virtually unique because, unlike the bulk of public servant pension schemes, it is a funded scheme, entirely governed by Statute and Statutory Instruments. The deficit at the last triannual valuation in 2013 was some £48 billion, an increase of £11 billion since the previous valuation in 2010, driven by historically low interest rates and gilt yields, a reducing workforce and increased longevity. Following the last valuation, employer contributions rose from £5.9 billion to £6.5 billion and local government actuaries are likely to require similar increases from 2017 and again in 2020. Even though this deficit is a small part of the £1.3 trillion liability facing the whole of government it bears particularly hard on local authorities.

24. The rest of the public sector 'pays as it goes', making contributions just sufficient to meet the cost of current pension payments. Local government by contrast is making contributions (including returns from investments) more than £3 billion per annum greater than its in-year liabilities, a figure that the actuarial process will increase. A small increase in interest rates or a less cautious set of actuarial assumptions could probably significantly reduce the deficit, if not erode it entirely.

25. In view of this, the LGA asks that the Government considers relaxing the level of prudence built into actuarial assumptions and/or the period over which deficits can be recovered. This temporary relaxation, in place until 2020, would provide local government time to reduce the target deficit (ie the calculated funding level) so as to avoid rapid subsequent rises in contribution rates. Even with this, local government will still be making provisions at a better rate than the 'pay as you go' approach in the rest of the public sector.

## PART 2. SOCIAL CARE, PUBLIC HEALTH AND PREVENTION

26. It is commonly held wisdom that prevention is better than cure. Instead of waiting for people to become vulnerable and require public services, it is more financially prudent – and beneficial to society and the individuals – to create an environment in which people do not become reliant on public services in the first place. This means saving money to the public purse through supporting independent living, health and wellbeing and intervening early to stop problems from growing.

27. Over the previous Parliament councils had to scale back their own investment in preventative services in order to meet their savings targets. This creates risk and spending pressures to the public purse in the long term.

### Children's social care

28. England and Wales together spend nearly £17 billion a year dealing with issues that affect children and young people, such as mental health, unemployment and youth offending. Of this £17 billion, councils spend £6.5 billion, the NHS spends £3 billion, the welfare system picks up £3.7 billion, with the rest spent by the Police, the justice system and education providers. This cost estimate does not capture the long term economic and social implications.

29. Councils have faced sharply increased demand for children's social care since the Peter Connolly case in November 2008. From March 2009 to March 2014, the number of referrals increased by 20 per cent, the number of children subject to a child protection plan rose by 42 per cent and the number of looked after children rose by 13 per cent. The service has seen expenditure increase by 19 per cent in cash terms over the same period.

30. Councils have responded by reducing costs and remodelling services. But in the face of a 40 per cent real terms reduction to core government funding over the previous Parliament some local authorities have also had to protect budgets for these vital services by cutting investment in other preventative services. 2014/15 budget figures show reductions of 20 per cent for spending on children's centres and early years services, and 45 per cent in spending on youth services over the four years of the 2010 Spending Review. By contrast, spending on looked-after children rose by 26 per cent, and on safeguarding by 21 per cent.

31. The Coalition Government said it recognised the importance of preventative services and created the Early Intervention Grant for councils. But these resources have been cut by 48 per cent, from £2.7 billion in 2010/11 to £1.4 billion in 2015/16. This makes it difficult for councils to invest in services which improve children's outcomes and reduce demand for more costly interventions. By contrast, between 2013/14 and 2014/15, care application levels increased by 5 per cent, and figures published so far for 2015/16 show they are continuing to rise with Cafcass[1] receiving 11 per cent more applications in April-May 2015, compared to the same two months last year.

32. In addition, the Early Intervention Foundation estimates that late intervention spending in response to anti-social behaviour and youth offending costs the public purse as much as £1.4 billion annually, and yet the Home Office and the Ministry of Justice only spend £200 million a year on preventing youth crime.

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[1] Children and family court advisory support service

33. Spending on schools continues to be protected as part of the 2015 Spending Review. The Dedicated Schools Grant (DSG), currently at £28 billion, will be roughly four times larger than the revenue support grant for all council services next year. Recent reforms have reduced the scope for schools to agree to make a contribution to early help approaches through a ‘top-slice’ or pooling of DSG resources at a local authority level. This flexibility previously allowed councils and schools to work together to ensure children are ‘school ready’, reduce drop-out rates and improve children and young people’s physical and mental health.

34. It is no longer sustainable to continue to protect the budgets of schools while reducing funding for services provided by councils which contribute to the educational attainment and wellbeing of the children attending school. Removing obstacles to schools and councils pooling resources will help local partners to improve the safety, wellbeing and educational attainment of local children and young people.

35. Uniquely situated with the knowledge of what their local areas need, councils have managed to create more than 300,000 extra primary school places over recent years through increasing class sizes, converting non-classroom space and diverting money from vital school repair programmes. Previous analysis revealed that councils had to divert at least £1 billion of their own money on creating school places. We estimate the total cost of creating places for the 880,000 pupils expected at England's schools over the next decade could be £12 billion. This needs to be resourced adequately.

36. The Troubled Families programme and others of its kind, such as the work undertaken with young people by fire and rescue services across the country, could be put at risk of future failure and discontinuation due to the disparate way in which public spending decisions are made. This would also cost the taxpayer significantly more in the long term. For example, of the £9 billion spent on troubled families, only £1 billion was preventative before the start of the programme. It is also not clear if all partners working together on the Troubled Families programme would continue to support this initiative if it was not backed by targeted funding, as it is at the moment, as they are often not direct beneficiaries of the scheme and may have to focus on other targets and priorities.

37. Councils have worked hard to protect these vital services for children and young people. However, increasing demand from residents and a more onerous Ofsted inspection regime is putting significant pressures on children’s services, which will also be exacerbated by the proposed £600 million reduction to the Education Services Grant which supports councils in their education functions. Central government and local government must consider how to improve the services we provide to children and vulnerable families, whilst being realistic about the cost pressures.

**Adult social care**

38. Adult social care is critical to the health and wellbeing of people with a range of often complex needs, their carers and families, and our communities more generally. Our aspiration is for better, more coordinated and personalised care, enabling people to stay healthy, be supported to live in their community and to be in control of their care and their lives. Achieving this requires a social care service that is adequately funded, responsive to people’s individual needs and seamless between different parts of the system. Care needs to be safe and of decent quality, protecting people from abuse and neglect.

39. Following the Spending Review and Local Government Finance Settlement local government faces an outlook in which total available funding for core services will be broadly similar in 2019/20 to what it is today. The Spending Review announcements of a council tax precept for social care, and additional funding for social care through the Better Care Fund (BCF), are both seen as welcome recognition by the Government of the importance of care and support. These measures will go some way to addressing the funding gap facing social care but still leave a significant funding gap in the initial years of the Spending Review period.

40. In reality, even having the same amount of money to spend in four years' time would mean that any pressures on spending (such as inflation, increased demand, costs of policy changes such as the National Living Wage or the end of contracting out of National Insurance) will have to be funded by councils reducing their spending on other services. It should also be noted that:

    40.1. There is no increase in Better Care Fund funding until 2017 and the additional £1.5 billion will not be available in full until 2019/20, with only £105 million allocated in 2017/18. This is not all new funding as this is part-funded by an expected £800 million saving from New Homes Bonus reform. Due to the proposed distribution methodology, a handful of councils will receive no additional Better Care Fund cash through this route, and some others will also lose more in their forecast New Homes Bonus income than they gain back in BCF contributions. It is also unclear whether the full £1.5 billion would still be allocated if the Government does not achieve the intended New Homes Bonus savings.

    40.2. The positive impact of being able to increase the council tax precept, will not materialise in full until 2019/20 even if councils use the flexibility in full each year.

    40.3. The relative protections from grant reductions for social care authorities do not take effect until the latter part of the Spending Review period either.

41. This means that despite some welcome measures towards the end of the decade, the situation remains extremely challenging given that the crisis in social care is with us now. At the very least, the Government must consider bringing forward at least £700 million of additional funding from the total £1.5 billion pot.

42. Savings required to deal with these pressures will inevitably impact on adult social care, which in turn will impact on the quantity and quality of commissioned care. This will have knock-on effects to individuals and their families, other local government services, providers, the NHS and local communities.

43. Adult social care is already on an unstable foundation. Over the course of 2010-2015 the service had to close a funding gap of £5 billion, half of which came from savings and service reductions from within care and support. This has serious implications for the provider market, the quality, quantity and duration of commissioned care, and the ability of the sector to help mitigate demand pressures on the NHS. It is important that the state of the adult social care sector is monitored and addressed with further financial measures adopted where needed. The social care sector needs to be appropriately funded to ensure we can improve people's lives by integrating care and health services.

**Prevention in the care and health sector**

44. There is widespread general recognition of the benefits of early intervention work, including the savings this can bring to the public purse. Preventing or delaying the development of needs amongst adults and carers is now codified in the Care Act.

45. There is no one clear definition of 'prevention' and, indeed, often public services can be seen as 'tiers' of preventative behaviour. For example, while spending on adult social care prevents demand for NHS services, spending on public health can prevent reliance on both. Public health serves as the 'primary' level of intervention and adult social care serves as a 'secondary' level. Some of the services provided by the NHS, such as stroke rehabilitation, also serve as preventative from the perspective of social care.

46. Prevention activity to increase independence and limit the need for more expensive ongoing care and support is core to national and local policy and is intrinsic within the Care Act. However, while councils are planning to spend £880 million on primary prevention in 2015/16 and see it as a source of savings for the future, this amount represents only 6.6 per cent of the adult social care budget and has fallen by 6 per cent in cash terms since 2014/15. Pressures on wider social care spending reduce the capacity of the service to alleviate pressures on the NHS.

47. Resources available for prevention are further affected by a 9.7 per cent cash terms reduction to the public health grant announced as part of the 2015 Spending Review. It makes sense for councils to drive the prevention agenda, including picking up the mantle of public health from 2013. However, many will now feel that they have been handed all of the responsibility but without the appropriate resources to do so.

48. At a time when the Government has issued a firm commitment to the NHS Five Year Forward View, with prevention put very much at its heart, cutting the public health budget is short term and may ultimately prove counterproductive. We are concerned that this decision could undermine the objectives we all share to improve the public's health and to keep pressure off the NHS and adult social care.

49. Given that the largest sections of the public health budget commission the NHS to deliver vital prevention services like sexual health, public health nursing, drug and alcohol treatment and NHS health checks, it will be impossible for these reductions to avoid hitting the NHS. Any reduction to public health budgets will be a cut to the NHS in all but name.

50. It is crucial that councils are given a free hand in how best to find the savings locally. Anything less, will make the task of finding the reductions more difficult. Councils are best placed to decide how reduced resources should be used to meet national public health ambitions locally.

51. We have consistently argued that there is a need for a separate transformation fund with the aim of implementing a new prevention strategy to drive real change. This would, in the short term, enable local areas to spend money on new investment in preventative services alongside ‘business as usual’ in the current system, until savings can be realised and new ways of working become commonplace. Preventing or delaying ill health amongst adults and carers is now codified in the Care Act. LGA research on a range of local prevention schemes suggests that investment in prevention could yield a net financial return of 90 per cent in five years, with wider benefits in outcomes to individuals.

52. A large-scale shift to spending on preventative services across the care and health sector could build on joint work with between councils, clinical commissioning groups, Public Health England and the NHS Prevention Board to develop a joint, evidence-based approach to demand management by promoting health and wellbeing. This should be underpinned by a review of the NHS Tariff to encourage prevention rather than late intervention.

53. The newly granted flexibility to use future capital receipts on the revenue costs of reform projects provides another source of finance that could be considered when making the shift to prevention spending and joint work could be undertaken to consider the best way to make use of this power within the care and health setting.

54. The Fire and Rescue Service has, through combining prevention, protection and response, been highly successful at reducing the incidence of fires (down by more than 50 per cent over the past ten years). It is now working closely with health and social care services to maximise the benefit of the 670,000 home fire safety visits carried out each year by extending the focus of the visits beyond just fire safety to the delivery of wider support for vulnerable people and the work of the Fire and Rescue Service in the field of public health was acknowledged in Sir Michael Marmot’s review of health inequalities. Providing the Fire and Rescue Service continues to be funded based on risk rather than activity, this work will be able to grow along the lines envisaged in the recently signed consensus statement on improving health and wellbeing thereby making a significant contribution to NHS savings targets.

55. Yet, as the experience in services to vulnerable children has shown, it is programmes like this that are likely to be at risk as increasing shares of shrinking budgets have to be spent on late intervention.

## PART 3. ACHIEVING OUR SHARED AMBITIONS

### Devolution and place-based finance

56. The LGA welcomes the devolution deals that have been, and continue to be, agreed with councils and combined authorities across the country, radically changing the relationship between local and national government in those places. Through the deals, councils and their partners are working together to design and deliver better and more joined-up services and support businesses to grow.

57. Devolving powers and responsibilities locally starts to give councils the levers they need to drive up growth and address the pressures on services through place based finance. However, maximising the opportunities from devolution relies on leadership at a national level to join up government departments and ensure they are working with local leaders to achieve shared aims.

58. The Cities and Local Government Devolution Act, the first Act of the new Parliament, has demonstrated the importance accorded to devolution by the current government. This momentum must not be lost. We need to see more deals signed in non-metropolitan areas, including those where discussions with government have been underway since well before the end of the year, so the benefits of devolution are available to communities and businesses across the country. Places should also be able to determine the right model of governance for their area, as opposed to any one-size-fits-all solution. The LGA has consistently argued that the challenge for the public finances is not only about spending less, but also about spending smarter. We will work with councils and government to ensure that the ambition in devolution deals results in real and lasting change on the ground.

59. Very often, councils can draw together multiple agencies to create a unified approach to complex cases. The initial Community Budget pilots, which looked at new ways of funding, organising and delivering services in four areas, have already paved the way and made the case for place based funding. They have shown that there is significant potential to make savings across the public sector in the medium term, while at the same time improving outcomes, as long as it is underpinned by significant investment and appropriate powers to make decisions on cross-government spending locally. The Troubled Families programme is an example of this approach in action.

60. Devolution is an opportunity to build on this experience and to make public spending on local services more accountable to local people. The sustainable way forward is to look at public service delivery across all services in a place and assess how they can best contribute to desired outcomes for individuals and not be constrained by organisational silos. This has been supported by the Independent Commission on Local Government Finance.

61. Local government has a track record and is ready to provide the required leadership to help make those spending decisions. Place-based funding which enables integration of public services is a way to decrease unintended consequences, prioritise prevention over reaction, continue improving the value for money that the public sector provides, keep valued services running, and deliver better outcomes for residents.

62. There are a number of systematic problems with the current way of delivering services and savings which results in taxpayer money being used ineffectively or simply lost.

62.1. The United Kingdom has one of the most centralised systems of government in the developed world. Many services which are delivered at a local level are controlled by government departments, resulting in artificial boundaries in terms of decision making and accountability.

62.2. When investing in prevention, it is often one organisation which has to meet upfront costs with another organisation reaping the financial benefits. This discourages interventions which are beneficial to the service users and, more widely, taxpayers, just because the 'silos' mentioned above exist.

62.3. More widely, under the current situation, one part of the public sector does not have a direct financial stake in making sure other parts of the public sector are financially sustainable.

63. This encourages cost shunting and opportunistic behaviour when building strategies to achieve savings. What is needed is a completely different way of delivering local services which cuts across organisational boundaries and establishes shared objectives and outcomes among all the stakeholders involved, from people who use services to organisations which provide them. A single, shared local budget underpinned by shared accountability and decision making mechanisms is crucial to make such a change a reality or to at least align resources against desired outcomes better. This is the next logical step to take from the progress already underway through devolution deals.

64. The freedoms and flexibilities in devolution deals are a welcome stride in the right direction. However, the ultimate goal of the devolution process must be place-based public services supported by further fiscal devolution and the localisation of revenue from existing national taxes. A more localised system of tax and spend will recognise the important role councils play in creating economic growth, which has a broader impact on the tax take than solely generating business rates, and will help councils deal with spending pressures through a mix of tax and spend decisions in-line with the kind of flexibility currently available exclusively to central government.

## **Integration of care and health services**

65. Integration of social care and health is the most high-profile example of an early-stage place-based finance system. There is widespread support that integration of social care and health is the right approach, particularly for improving outcomes for citizens, but also because it is the best chance of improving value for money in the long term. Recent care and health reforms and the NHS Five Year Forward View further reinforce this position.

66. The Better Care Fund (BCF) is a step in the right direction but we must consider the future of social care and health services by the end of the decade and beyond. Despite serious concerns about the process, the introduction of the BCF has marked an important change in how care and health interact in local areas with residents being placed at the heart of the services they receive from both councils and the NHS.

67. The 2015 Spending Review announced that all areas will be required to agree care and health service integration plans by 2017.

68. We support a system-wide place-based approach to improving health and integrating services. Identifying the right footprint for a ‘place’ is the first step. All partners – the council, the Clinical Commissioning Group (CCG), NHS providers and the community – need to ensure that there is a real and purposeful dialogue on the best ‘footprint’ on which to plan a place-based approach. While progress is being made at pace, there has been a proliferation of different plans and accountability procedures for integrated services.

68.1. The NHS Planning Guidance, published before Christmas will require each ‘area’ to develop sustainability and transformation plans, the first draft of which is due in February 2016.

68.2. The Department of Health (DH) and the Department for Communities and Local Government (DCLG) published policy guidance on the Better Care Fund (BCF) for 2016/17 – in many areas the BCF plan forms the basis of shared integration plans for health and social care.

68.3. All Health and Wellbeing Boards (HWBs) are required to agree Joint Health and Wellbeing Strategies, which identify the key shared priorities for improving the health and wellbeing of the area.

69. It is important to work together to provide clarity to local areas on how all these plans fit together and to maximise alignment. Furthermore, we want to ensure that the primary plan takes a place-based, preventative approach to integration and gives a prominent leadership role to the HWB in driving forward integration. Moreover, the plans need to be based on a shared vision of what an integrated system will deliver in terms of better health and wellbeing outcomes and better services and support. They shouldn’t simply be about pooling budgets or joint commissioning: the plans need to set out what outcomes we want to achieve collectively for improved health and wellbeing.

70. Ultimately, integration needs to take place with a permissive local approach based on agreement between councils and their health partners. It needs to be locally-led and not dictated by Whitehall or NHS England. We are calling for a commitment from government to the principle of subsidiarity in commissioning decisions, accountability, setting priorities and objectives – so that these activities are carried out at the most local appropriate level.

71. In line with this aim, we would support a single national outcomes framework for health, public health and social care, provided there is only a limited number of key national outcomes for the whole system. This would empower HWBs to determine their priorities locally. This national framework should include a national strategy for coordinated workforce planning and integrated workforce development across health, public health and social care.

## <u>Business rates</u>

72. The Chancellor has proposed to allow English local government to collectively retain all business rates income in England. Local government and the LGA have long called for this and the measure has the potential to provide a vital boost for local communities, businesses and our high streets. The challenge is to now implement this policy in a way to ensure the right balance between rewarding councils for growing their local economies and avoiding unexpected outcomes.

73. The LGA and local authorities will work with the Government on the move to 100 per cent business rate retention to ensure that any new system works effectively. We understand the Government’s aim is to formally consult on detailed proposals starting from summer 2016. We will work with our members on a set of guiding principles and we would like to have extensive discussions with the Government before any specific proposals are published on policies in the following areas.

74. The Government has also committed to announce the results of its review of business rates as a tax by Budget 2016. We set out some specific issues later in the paper, but it is important that the review reduces the scope for business rate appeals and avoidance. One way of doing so is through making decisions on, and eligibility criteria for, reliefs and discounts locally led.

## Transfer of responsibilities

75. The Government’s intention is for the reform of business rates to be fiscally neutral. The Spending Review and the Settlement set out options for services and grants that may be transferred to be funded by these additional retained resources:

    75.1. Public health grant
    75.2. Transport for London capital grant
    75.3. Housing benefit administration grant
    75.4. Responsibility to support older people with care needs, including people who, under the current system, would be supported through Attendance Allowance. There will be protection for existing claimants and new responsibilities will be matched by the transfer of equivalent spending power.

76. Devolving responsibility for skills and transport services to all areas, not just transport capital for London, would empower local areas to close skills gaps, boost employment and improve public transport. It would also provide businesses paying rates with an assurance that some of this extra local income would be invested in services that support local economies and drive local economic growth.

77. The proposal to include the public health grant in the package of services to be transferred is important given the increased role of councils in supporting people in living healthy lives, providing preventative services and delivering sustainable savings to public expenditure.

78. We will engage in discussions with the Government about the proposal to give more responsibility to councils to support older people with care needs. An important aspect is that in such services demand pressures can increase fairly quickly while the growth of the business rates taxbase can take time, creating timing pressures.

79. Dealing with any new demand-led services may require councils to make difficult decisions on how to manage costs. For that to be the case, local authorities should have full control over the delivery of services that will be funded from business rates. There also needs to be an acceptance by government that local variation can improve outcomes of these services as change can reflect local priorities.

80. The LGA understands that, assuming all the areas so far mentioned do go ahead, further responsibilities will need to be devolved to make the reform fiscally neutral. In developing the new system and considering the transfers of responsibilities, the Government should take into account the proposals put forward as part of places' devolution deals.

81. The move to full business rate retention will require a consideration of how future new burdens procedures are undertaken to maintain the principle of fiscal neutrality and whether there is a need to update the current protocol.

### Certainty and transparency of the system

82. It is very important that the calculations of the business rates baseline to be used for 100 per cent retention are transparent and are shared with local government. Revenue support grant (RSG) will fall by more than £7 billion over the Spending Review period. These cuts are being taken out of the central share of business rates, as part of the Government's deficit reduction strategy. As the amount of RSG to councils falls it is to be replaced by other grants to local government within the central share of business rates. It is very important that the calculations on the business rates baseline are transparent and are shared with local government.

83. From 2013/14 to 2015/16 the reductions to RSG were carried out on a broadly proportional basis without taking account of council tax income. The 2016/17 settlement and the indicative figures to 2019/20 published in December 2015 take account of council tax income at 2015/16 levels. This results in 168 councils having 'negative RSG' by 2019/20, with at least 15 councils moving to this position as early as 2017/18. They will have zero RSG and their baseline funding will be reduced accordingly through adjustment to top-ups and tariffs to contribute towards revenue support grant for other authorities.

84. Affected councils could not have reasonably been expected to plan for this outcome. Once the 100 per cent retention scheme comes into force it should no longer be possible for the Government to reduce the income to local government in the way that it has been doing during the 50 per cent scheme. For the benefits of the reform to be maximised, councils must have the certainty that once the system is in place, the rules will not change in unexpected ways and without significant prior notice.

### Balancing needs and incentives

85. One of the main concerns within the sector is around the impact of the business rates proposals on those councils currently receiving top-ups to their business rates income, as their relative needs are higher than the resources available through locally raised business rates. For example, concern has been expressed by areas where business rates cannot grow, such as national parks, or conversely, city centres where the trend is away from non-domestic towards residential properties.

86. The key issue will be to balance fairness and ability to raise business rates with incentive. The 50 per cent system provides for periodic resets of the needs and resources base. It is essential that there is an effective system of equalisation between local authorities following the move to full retention and that this is transparent. Local government is keen to work with the Government on this issue at pace. Any solution must take into account decisions on which grants and responsibilities will be funded from business rates, including an account of different cost profiles facing urban and rural authorities.

87. Central government, the LGA and councils need to work together on the following issues related to business rates equalisation:

    87.1. The principles for, the process of, and the regularity of resets and updates to relative needs assessments after 100 per cent retention has been introduced.

    87.2. The split of business rates between ‘collecting’ and ‘precepting’ authorities will need to be revisited alongside the relative needs profile, once the detail is provided on the type and value of services and grants.

    87.3. The LGA would also like to explore the scope for subnational distribution arrangements as recommended by the Independent Commission on Local Government Finance. Areas working together may be able to develop their local economies. However it would be essential for this system to be kept under review.

## Dealing with appeals

88. With full business rate retention comes a greater transfer of risk of loss of funding. One of the primary sources of risk that needs to be managed better by central government is appeals, including historic appeals which have been pending decision for a number of years.

89. There are 300,000 outstanding business rate appeals, the majority of which were submitted at the end of the cycle. This is causing uncertainty for councils who need to keep money aside to insure against any appeals they may lose. This figure can be as high as £1.75 billion and a £245 million safety net top-slice over four years. These affect the financial position of councils, lead to less grant and therefore more reductions in expenditure than would otherwise be the case.

90. One of the main reasons for the size of the 2013/14 provisions for losses was the need to write off losses from backdated appeals, including costs related to the period before business rate retention was introduced. The LGA has consistently called for pre-April 2013 costs to be covered by central government in full.

91. The liability for any backdated costs following the move to full retention should be shared between central and local government depending on the proportion of rates retained during a relevant period. For example, where an appeal relates to the period when 50% retention was in place, councils should only bear 50% of the cost.

92. In addition, there is a number of high-profile cases which can have a significant impact on business rate income on a national scale. These include the business rate liabilities of power stations (where small district councils can be disproportionately affected should they lose the rates due to their geared business rate taxbase) and GP surgeries.

93. If the appeals issue is not dealt with, business rate appeals will continue to have a negative impact on frontline services. With the move to 100 per cent retention, resolving this issue is a high priority for local government. The fact that government is proposing to reform appeals is positive.

94. The Government’s aim is that the new 'Check Challenge Appeal' system should lead to a more streamlined appeals system that will save resources for all. The key test of success for this proposal will be if it leads to less uncertainty for local government and a material reduction in provisions.

95. There is good practice in other sectors which could help inform a solution for business rates appeals purposes. The insurance industry, for example, has:

95.1. Introduced an appeals portal similar to the portal used for low value injury claims. The portal operates to strict timescale, 35 days for decision on liability, and use of agreed documentation. Appellants make payment for submitting appeals and this funds the portal.
95.2. Used joint independent experts. This could be a role for rating agents taking into account any possible conflicts of interest.
95.3. Encouraged parties to negotiate and settle at an early stage with financial incentives and penalties.
95.4. Created a principle of one way cost shifting whereby in a legal dispute the losing party compensates the costs incurred by the winning party.

96. The proposals for a ratepayer account are an important step forward. The LGA supports the further digitalisation of the system for both assessment and collection assuming that billing authorities are able to correctly account for the amounts due to them from individual ratepayer accounts. If a substantial proportion of valuations could be done via the provision of data online, which had to be signed as true and fair and updated every year, it would be more efficient and may remove the need for five yearly revaluation, at least for mainstream property types.

## Other matters concerning business rate setting, discounts and reliefs

97. At the same time as business rates retention, the Government is expected to announce the conclusion of its business rates review as part of Budget 2016. It also consulted on changes to the way business rates appeals are dealt with.

98. It is important to see action on business rates appeals and avoidance to minimise the financial uncertainty for councils. A very recent high profile example is application for non-domestic rate relief by NHS trusts under the Local Government Finance Act 1988. The request for relief includes backdating for a period of six years, with the potential cost estimated to be around £1.5bn if applied in full. The issues raised may need to be tested in the courts.

99. Other key issues not mentioned above are:

100. **Reliefs.** Business rate reliefs can be a powerful tool in building and shaping local economies. Councils should have full flexibility on reliefs to make the most of the reforms. When 50 per cent business rates retention was introduced the relief regime was kept largely unchanged. There should be a more fundamental review of reliefs before 100 per cent retention is introduced. This needs to be considered alongside business rates avoidance, where councils need more effective powers to tackle issues such as abuse of charitable reliefs and bankruptcy.

101. **The business rates multiplier.** In the current period of fiscal consolidation the rise in the multiplier is taken account of in the reductions of RSG which is paid from the central share of business rates so it does not make a difference to the income local government receives. However once full retention comes in, the multiplier represents the deflator by which total business rates will rise each year, in the absence of any decisions taken by local authorities to vary it. It is important that in the decision on what multiplier to use the Government takes into account the views of both business and the cost of local government services funded through business rates and that local government has full freedom to vary this up or down.

102. **Revaluation.** The review is expected to consider whether business rate valuations should be revalued more regularly than every five years. The current view of the LGA is that we are in favour of regular revaluation to ensure that the tax base is up to date and reflects current market conditions . However we are concerned about the large number of appeals this may create. We would not want to see a more frequent revaluation cycle if the only result was that the number of appeals, and the uncertainty and volatility this creates, increased.

103. **Safety nets and levies.** The 50 per cent retention system includes a provision for a 'safety net' when a council has a loss of retained business rate income below its funding baseline of more than 7.5 per cent. This is supposed to be paid for by a levy of up to 50 per cent on gains from the scheme but has so far been partly funded by a top-slice from RSG. In the four years to 2016/17 this top slice totals £245 million. The Government has announced that some sort of safety net arrangement will continue to exist in the 100 per cent system but that there will no longer be any levies. The LGA considers that one of the issues to be considered is how the safety net is funded. This could be through the setting aside of funding, either nationally or through a sector-led self-insurance arrangement.

104. **Financing sector-led improvement and support.** Since the abolition of the Audit Commission the LGA has taken on a role in coordinating sector-led improvement and support. This is currently funded through top-sliced RSG. The LGA considers that one of the decisions that needs to be taken is how this work is financed in the future, whether by setting aside funding or government grant.

105. **How the ability to cut and raise business rates will work.** The statement announced that councils will have the power to cut the business rates multiplier but it is not clear at what level this is intended to operate. The LGA supports councils being given maximum flexibility in this. For example, a council should not be forced to apply a multiplier cut to every area and type of business, although it would have discretion to do so if it wished. The power to raise business rates should also be given to all areas.

## <u>Council tax</u>

106. The announcements in the Spending Review and the Provisional 2016/17 Local Government Finance Settlement signalled a significant shift in the expectations of what decisions councils will take on council tax levels in their area. The following was confirmed:

106.1. The council tax freeze scheme has been ended.

106.2. Council tax increases at the rate of Consumer Price Index inflation have been factored into calculations by the Treasury, the Office of Budget Responsibility and the Department of Communities and Local Government.

106.3. Social care authorities have been given the power to raise council tax levels by 2 per cent in addition to the current referendum limit to pay for adult social care exclusively.

107. The Government has signalled that the council tax referendum principle will continue at 2 per cent for the Spending Review period. The certainty is welcome, however we oppose the referendum limit in principle and recommend councils have full flexibility. We note that according to legislation the Government has to confirm the referendum principle one year at a time and we hope to see the commitment translate into formal decisions throughout the rest of the decade.

108. We continue to call for the referendum limits to be abolished as referendums are expensive (as it could cost from £100,000 to as much as £1 million to hold a referendum to ratify a decision to increase council tax by as little as 38p per week) and central government does not hold them when it changes tax policy so there is little reason to apply them to local democratic decisions. Council tax setting is not a matter for Government and should be left to local councillors who are accountable for their decisions at the ballot box.

109. The key announcement of the Provisional Settlement, and the Spending Review, was that core spending power for councils would be broadly the same in cash terms in 2019/20 as today. This rests on assumptions about assumed council tax base growth and increases in the tax levels.

110. The former in particular is a problematic assumption. DCLG estimated tax base growth as equivalent to average growth in the number of Band D dwellings chargeable for council tax between 2013/14 and 2015/16. This was worth 3.8 per cent, or more than 600,000 Band D dwellings. In comparison, 100,000 new homes were built on average each year over the past eight years. Arguably the rest of the additional dwellings liable for council tax have come about as a result of increasingly restrictive council tax support schemes.

111. At an individual level, there is a wide variation of what this means when extended to a four year Spending Review period, and the expectation looks challenging at a national level as well. Such levels of growth will require 1.3 million additional Band D households to be liable for full council tax, and some councils will need to grow their tax base by 25 per cent to fulfil the settlement prediction. The Government's own target is for one million homes to be built over the same period.

112. We would like to work with the Government to provide more freedom over council tax for local communities and politicians, making council tax a truly local tax and meeting the ambition of the Settlement.

113. In particular, we would like to work with the Government on the following six reforms:

113.1. All types of local authority should be subject to the same council tax raising rules, with the power to raise council tax levels by a maximum of £5 or 2 per cent (whichever is higher) available to all.

113.2. Councils should be granted full flexibility in assessing the eligibility to access local council tax support schemes as this would help sharpen the incentive to work. This devolution of power should encompass the full range of council tax discounts and exemptions.

113.3. As long as the referendum principle system is in place, the same approach as used for social care precepting could be applied to other areas and services where full additionality can be shown and where local support is obtained. This would allow local residents to contribute towards funding specific projects and initiatives that might otherwise go unfunded.

113.4. In some council areas, Internal Drainage Board (IDB) Levies constitute a large share of council tax. Increases to the levy have a direct pressure on council tax, but are not subject to referendum principles directly. Instead, subject to local agreement, IDBs could be financed through a separate line on the council tax bill rather than a levy on local authorities, along the lines of funding arrangements for the new Somerset Rivers Authority.

113.5. Recent research has shown that in 2014/15 there were more than 475,000 homes yet to be built where planning permission had been obtained. To help tackle this backlog, councils should have appropriate powers to ensure homes are built within a reasonable timescale once planning permission is obtained. One such way to do so could be through a council tax surcharge on homes not built in a pre-agreed amount of time until the point they become occupied.

## Financing housing

114. The LGA supports the Government in its ambition to increase housing supply. Councils must play a central role in expanding the stock of housing where it is most needed. Every local housing market is different and tackling the housing deficit will require an increase in supply across all tenures in line with local needs, including sub-market rented homes for families not ready to buy.

115. The Government is seeking to implement a range of initiatives that will have a significant impact on local housing markets around the country. We have concerns that some elements of reforms will not help us achieve our collective ambitions for increasing housing supply and supporting home ownership, while reducing welfare spending and homelessness.

116. We urge government to open discussions with local government nationally and locally on the cumulative impact of policies in different areas and on council Housing Revenue Accounts (HRAs), with a view to agreeing flexibilities that mitigate unintended consequences and enable councils to adapt to reforms and finance the building of the new homes that communities need.

117. Overall, the delivery of the planned increase in housing stock over the next four years will have to be underpinned by the ability of councils to deliver the necessary infrastructure behind it. Councils ability to finance this investment in infrastructure with long term certainty will be crucial to making this happen, and this will require certainty over using long term income streams, such as the Community Infrastructure Levy, section 106 contributions, council tax premiums and business rates imaginatively to finance the necessary up-front investment.

118. Nationally, there are several areas where we would seek additional flexibilities in order to finance new homes:

118.1. **Social rent reductions:** Councils will lose around £2.2 billion in planned revenue over the four years up to 2019/20 and will have an annual funding gap of almost £1 billion in long-term housing finance strategies beyond 2020, undermining 30 year housing investment strategies agreed with the Government just three years ago. The measure makes council house building from the HRA significantly more difficult, reducing available finance and increasing uncertainty. We recommend the Government: introduces exemptions to protect investment in supported housing and specialist accommodation for the vulnerable; offers stability to HRAs by committing to no further reductions from 2020; reviews the impact of the policy before April 2020 with a view to allowing councils to set their own rents, and; considers compensating councils that took on debt as part of the move to self-financing. In the future, councils and housing associations should be free in setting their own rents.

118.2. **Council Right to Buy**: Rent reductions will make it increasingly difficult for councils to replace council homes sold through Right to Buy under the current rules. We anticipate 66,000 council tenants will pursue the Right to Buy up to 2020. We recommend that the Government: allow councils to recycle 100 per cent of Right to Buy receipts into building new homes, and as a minimum retaining 50 per cent to replace homes at the current rate when taking into account rent reductions; give councils flexibilities to recycle Right to Buy receipts into building new homes on council owned land, and to combine receipts with other funding sources, and; allow councils more time to replace homes sold through Right to Buy where it will enable the building of more homes.

118.3. **Sale of high value council homes**: Councils are committed to managing their housing stock in a way that benefits local communities. The Housing and Planning Bill effectively gives the Government the power to decide how much it would like to 'tax' each council with housing and to define high value to deliver that figure, diverging significantly from the policy's original intent. We believe that: councils should retain 100 per cent of receipts from selling their assets to reinvest in building more new homes, and at least retain sufficient funds to replace every home sold in the local area; exemptions from the formula should apply to property built after 2008 and likely to have higher levels of debt, housing for vulnerable groups and specialist homes that reduce health costs, and housing tied to regeneration schemes, and; the policy should be time limited to two years subject to review of impact on asset management and housing investment plans.

118.4. **Right to Buy extension to housing associations**: There is a need to ensure homes sold through the extended Right to Buy are replaced locally and that housing associations continue to invest in new affordable homes. The scheme should be delivered with minimum cost to the taxpayer. Should council Right to Buy rules extend to housing association tenants, we project 24,000 will take up the offer each year with an average discount of £63,000, costing £6 billion up to 2020. We recommend that: measures should be put in place to manage the take up of the extended Right to Buy, which would also apply to council Right to Buy; that the range of specialist accommodation and vulnerable residents are protected; government use the receipts from development of public land to help fund the extension, and; housing associations, which have significant assets and financial flexibilities, are required to manage and utilise their assets effectively to make a contribution to the costs of the scheme.

118.5. **Mandatory rents for high income tenants:** Tenants need to be protected so they can remain in their own home and retain the incentive to work and earn more. There is also a potential for significant new administrative burdens, especially if information sharing between HMRC and councils is not effective. The proposal should also be delivered at minimum cost to the taxpayer and with minimal administrative complexity. It should be fair. A couple with three children earning £15,000 each cannot be defined as high income. And it should be locally responsive. Proposed national thresholds particularly affect households across the south and the east. For instance 12 per cent of all social tenants in the East of England would be affected and five per cent would not be able to afford market rent or to pursue Right to Buy, meaning they would have to leave the area to find a similar property.

We would recommend that: the policy should be voluntary to councils as it will be for housing associations; all additional rental income should be retained by councils to invest in new and existing homes as tenants would expect. This local flexibility will allow councils to manage the policy in a way that does not discourage career progression, supports key workers and protects low-income working families, and consider whether administrative costs to do not surpass additional financial returns. We also recommend; a taper is introduced so tenants are not discouraged from earning above the threshold; that a range of tenants are exempted, and; that 'high income' definition is applied to the tenancy holder rather than the household.

118.6. **Social housing tenancies.** Councils should be free to manage tenancies flexibly to support strong local communities while driving the best value from stock, as was government's intentions for introducing fixed-term tenancies in the Localism Act. We oppose proposals in the Bill would remove flexibilities on councils to offer different kinds of tenancies in response to local need. Mandatory restrictions on tenancy length would only apply to council tenants, not to those living in housing association homes. It would also generate significant administrative costs as councils are forced to review 1.7 million tenancies every two to five years, any mandatory requirements must be fully funded by Government.

118.7. **Starter homes.** National starter homes should be delivered in line with local housing strategies based on local need and viability. As currently defined, starter homes are unaffordable to every household in need of an affordable home in 220 council areas. We recommend that: as local planning authorities, councils gain the flexibility to shape the number, type and quality of starter homes on a site by site basis alongside other types of affordable housing. To make best use of public investment, we also recommend that: the discount on starter homes should be recycled in perpetuity, or extended (for example, to 20 years) so that more families can benefit, or that home owners are required to gradually buy out the discount over time with the funding retained locally to invest in associated infrastructure.

118.8. **Better use of public land**: There is significant value to be realised through more strategic management of public sector land, part of which could be used to fund the extension of the Right to Buy to housing associations. While local government is set to achieve £13.3 billion land and property sales up to 2018, the Government had a target of realising just £5 billion by 2020. We therefore recommend that: the Government raise its own target to £13 billion by 2020; councils are given the 'power to direct' the strategic development and sale of publicly owned sites in order to bring forward the land to develop 180,000 additional homes, and; the Government use receipts from the sale of surplus land to fund the extension of the Right to Buy, allowing councils to retain 10 per cent of receipts to reinvest in further development.

118.9. **A better resourced planning system**: The planning system is not holding back house builders from delivering the homes we need. Locally-set planning fees would ensure effective, responsive and fully funded council planning services, removing the burden from taxpayers who currently subsidise 30 per cent of total costs. Local authorities should have flexibilities over licensing fees as well.

118.10. **A fit-for-purpose section 106 contribution and Community Infrastructure Levy (CIL) system:** Removing national exemptions to the above, replaced by a more robust and transparent local viability assessment process, would ensure development and supporting infrastructure meets community need. Councils would be able to better use this revenue for local infrastructure if guidance and regulations were simplified and if the restriction on pooling section 106 contributions for strategic sites identified in local plans was lifted.

## Dealing with and preventing flooding

119. Councils care passionately about protecting their communities from the devastating effects of flooding. The Government's decision to invest £2.3 billion of capital funding in flood defences by 2020/21 (and just over £1.9 billion by 2019/20) is welcome as it is a real-terms increase on investment in the previous Parliament. However, appropriate revenue funding is also necessary to cover the day-to-day costs of these projects once they are completed. Given the financial position of councils, we ask for more clarity around the subsequent revenue funding from the Government for this purpose.

120. Following the floods in Winter 2015 and 2016 the Chancellor's announcement of £40 million to repair and improve those flood defences that were affected was welcome. The Bellwin scheme is also now in operation with 100 per cent compensation available to those affected areas, which the LGA had called for. We would, however, caution that the full extent of the damage, and the financial cost to remedy it, will take time to assess.

121. It is vital that new flood defence funding goes towards projects that reflect the needs of local areas, with local communities and businesses coming together to ensure the investment provides maximum protection and value for money. This is why the capital investment, and subsequent revenue funding, should be devolved to councils working in partnership with LEPs to decide on the best direction for this vital programme.

122. It is important to focus not only on dealing with the aftermath of such events, but also on making sure future disasters are prevented. Councils are ready to take more control of the work that prevents flooding or mitigates damage at a local level, working with local partners, including the Environment Agency. For this to be possible, there has to be genuine devolution of powers, responsibilities and funding from the Agency to councils, where there is local support. A notable example would be full flexibility for the system of charges on processing ordinary watercourse land drainage consents.

123. In terms of the immediate response to flooding, we would like to work with the Government on the following three proposals:

123.1. Flooding in the north of England in December 2015 affected more than 16,000 properties. This will result in a substantial increase of waste going to landfill in the form of flood-damaged goods from affected businesses and households as well as many thousands of used sandbags. With the landfill tax being £82.60 per tonne this will result in a significant additional cost to local taxpayers. The Government should return the landfill tax to flood-affected councils to be invested back into local flood projects which will help to improve resilience of local communities to future extreme weather events.

123.2. There need to be further incentives to secure more private sector investment in flood alleviation work. We welcomed the Government's response to LGA calls to introduce tax relief for businesses contributing to flood defence projects last year. However, currently businesses can only get tax relief if the Environment Agency has allocated funding by way of grant-in-aid to the project. Entirely privately funded flood defence projects are excluded. This is inequitable. All flood defence projects should be eligible for tax relief to incentivise private investment, saving the public purse money in the long term.

123.3. Following the 2013/14 floods, the Government provided some new burdens funding for councils in relation to the administrative costs of delivering the Repair and Renew Grant. This principle should apply to the recently announced Resilient Repair Grant and we will be engaging the Department for Environment, Food and Rural Affairs on this issue.

123.4. The flooding has also caused some disruption and unexpected pressures on adult social care services provided by councils in affected areas. One example of the source of such pressures is the need to find ways to provide care to vulnerable people displaced from their own home for an indefinite amount of time, with residential care a likely short term destination. Councils need to be compensated for this as part of the Bellwin scheme arrangements or another compensation mechanism.

## Supporting people into work and learning

### Apprenticeships

124. The Government has committed to creating three million new apprenticeships in this Parliament, with two primary measures to achieve this ambition.

Targets

125. The Enterprise Bill will give Ministers the power to set public sector organisations with 250 staff or more an apprenticeship target of 2.3 per cent of the workforce headcount per year. Councils have a long history of supporting young people into work and learning. However we oppose centrally driven mandatory targets on councils as we are concerned about their applicability, given many have reduced workforce numbers and this means councils may lack both the job opportunities and the people to deliver them. We will now work closely with Government to ensure the targets are implemented appropriately and that the 2.3 per cent target is based on FTE rather than headcount.

Levy

126. An Apprenticeship Levy will pay for the three million new apprenticeships. Taking effect from April 2017, it is expected to raise £3 billion by 2019/20 across the UK.

127. All public and private employers with a pay bill of over £3 million, including local authorities, will be subject to the Levy, contributing 0.5 percent of payroll (in effect a tax). It is estimated that this will cost councils over £200 million per year. Contributing employers will receive an allowance of £15,000 to offset their levy payment.

128. The Levy applying to local authorities is likely to be a financial burden at a time of reductions to funding.

129. To ensure provision is relevant to the local economy and the Levy used to best effect, the LGA calls for all public and private contributions to be pooled locally. This would enable local areas to assess demand, commission provision, and work to promote and ensure the fund works for all employers across the local area. It should be up to local places to design a mechanism for pooling that works for them, particularly in areas which have secured other responsibilities for skills and employment through their devolution deals. The Levy should not replace national apprenticeship funding streams funding. Rather national funds should be matched with it, and devolved locally. Pooling in this way would support local growth, reduce bureaucracy of coordinating funding streams with varying age criteria and deadlines, and align well with local areas' Area Based Reviews to reform post 16 learning.

## Employment support for jobseekers

130. The Spending Review announced changes to the way jobseekers are supported into work. A new specialist Work and Health Programme (WHP) for claimants with health conditions or disabilities and those unemployed for over two years, will replace the national Work Programme and Work Choice contracts expiring in 2017. Jobcentre Plus will support all other jobseekers. The LGA and councils have long argued for specialist employment support, but it is critical that it is delivered alongside local services which jobseekers rely. Devolution and alignment with other provision is critical for jobseekers to get the right support at the right time.

131. Much of the WHP detail is yet to be agreed, but many of the principles reflect LGA proposals. We are however concerned by the proposed low levels of funding as compared to its predecessor the Work Programme, especially given these claimants require intense, integrated support. This could result in either too few claimants benefitting from support or inadequate interventions, which leave them no closer to securing a job.

132. Prior to the 2015 Spending Review, the LGA put forward a wider offer to the Government for devolved employment support to replace national Work Programme contracts, eligible for up to one million of the most disadvantaged jobseekers including Employment and Support Allowance (ESA) work ready claimants. Such a change would recognise health and skills interventions are equally important. Using a case worker approach, it would apply flexibly across England, taking into account devolution deals, and would require a budget of £2.75 billion, drawn from central government employment, health and skills budgets (Department for Work and Pensions, Department of Health, and the Department for Business, Innovation and Skills). Our estimation is that it could improve job outcome performance by 50 percent, resulting in 54,000 more people securing employment. This would be different to the current highly centralised national funding system, which makes it difficult to coordinate and target funding locally (£13 billion employment and skills funding was scattered across 28 national schemes in 2013/14).

133. We are now calling on the Government to use the LGA proposal as the basis for implementing the WHP, and for groups of councils across England to lead commissioning for it using combined Whitehall budgets, as opposed to nationally commissioned support in all but seven city region areas.

## Statutory notices

134. Councils are forced to spend money on publishing statutory notices in commercial newspapers, subsidising the industry by £26 million a year instead of using this funding to support frontline services. In an age where the public's news and information consumption habits have changed (a move online and to mobile technology) and the circulation of local newspapers is falling, this out-of-date requirement must be replaced with new, improved ways of communicating the information. In addition, there are many areas with only one local newspaper so in effect operate a monopoly, and often charges for statutory notices are higher than for general advertising of the same size.

135. Working with DCLG, the LGA has, over the last year, supported a series of 24 pilots to look at alternatives, both reducing the costs to councils and increasing access to information about planning, licensing and so on for local residents. We ask that the current, costly and largely ineffective requirement

be lifted to allow councils freedom to communicate in the most appropriate way for their residents.