Local Government Association

# The LGA's Autumn Statement 2014 Submission

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# Contents

# Introduction

Over the lifetime of the current Parliament local government has borne a greater share of austerity measures than most of the public sector. Core grant funding for local authorities will have been reduced by 40 per cent[1] in real terms. Councils have also successfully kept council tax down, with a 5.8 per cent real terms reduction to local taxation faced by residents.

The Communities and Local Government Select Committee last year concluded that the Government did not develop a sufficient understanding of the impact of funding reductions on local authorities[2]. Funding decisions so far have not been adequately underpinned by an appropriate risk assessment, and consideration needs to be given to different governance structures of local authorities as part of such an assessment. For example, the Independent Review into Terms and Conditions of Firefighters is an important review and Government should be mindful of the cost to fire and rescue authorities of any recommendations since 80 per cent of their costs are workforce[3].

Nevertheless, local government has proved itself to be the most efficient and innovative part of the public sector. Protection for Education, the NHS and International Development has meant local government has borne a greater share of funding and service reductions than the rest of the public sector.

Despite this, surveys show that the public continue to trust councils more than central government to make decisions about local public services (80 per cent and 14 per cent respectively, July 2014)[4] and satisfaction with the way councils have delivered services with their reduced resources has improved[5].

Despite their best efforts, councils have already been forced to cut services. If funding reductions continue in the new Parliament councils will face a funding shortfall of £12.4 billion by 2020[6]. In a 2013 LGA survey, 60 per cent of councils surveyed reported that they are considering stopping some services in 2015/16[7]. As the economy starts to recover, there will be an expectation amongst the public that local services will improve, not be cut back further, but without real change further service cuts are inevitable.

Following the Scottish referendum, the UK needs a considered conversation about its future, in particular the potential for a new devolved settlement for the UK as a whole. It should involve the UK Government, delegates from local government across the UK, representing their local communities, and the Governments of the four nations of the UK. The agenda should be to debate and agree a settlement for all the countries of the UK, including a challenge to their governance to ensure that as much decision-making as possible is brought as close as possible to their people.

1 Excluding ringfenced grants
2 CLG Select Committee, 2013. ‘Financial sustainability of local authorities’
3 LGA, 2013. ‘Fire future funding report’
4 Polling by Populus Data Solutions in July 2014 on behalf of the LGA
5 BBC, October 2013. ‘Public service cuts: did we notice?’
6 LGA, 2014. ‘Future funding outlook 2014’
7 ‘Under Pressure’. LGA, 2014

The city regions and county areas of England have history and identity akin to those of the devolved nations, but this is not recognised under the current system of governance and public service delivery. Local decisions, such as how to train people in the skills needed by local businesses, are dictated by Government miles away in Whitehall.

Greater power must be devolved to local communities through their democratically elected local representatives so they can decide for themselves how their services should be run. Devolution must not stop at Westminster, Holyrood or Cardiff, but continue outwards to the people in the cities, towns, and counties of England, Scotland and Wales.

The new Parliament presents an opportunity to renew the partnership between central and local government. The LGA has published a carefully costed offer for the new government saving the public sector £11billion. It is not a bid for more funds, and the Autumn Statement represents an opportunity for the current Government to commence early working on that. This offer will enable sustainable reductions in public spending, unlock cross government savings, spark locally tailored economic growth, and improve the wellbeing of the population. Above all, it will empower communities to have a real say over how public services are run in their local area and drive further value for money in what is an already challenging financial climate.

We address a number of proposals in more detail in this submission. In short, we are calling on the Government to:

1. **Make place based finance the default method of funding and delivering local public services**, empowering local partners to work towards shared outcomes.
2. **Ensure that communities are empowered to make meaningful decisions about their public services by accepting the proposals in this submission**, to be ratified as part of the devolution agenda.
3. **Fully fund all new burdens arising from the Care Act and the deprivation of liberty safeguards ruling, with authority-level allocations confirmed before December 2014**. This is the only way to put these crucial reforms on a sustainable footing and meet the high expectations of those in need of social care support.
4. **Devolve all funding for local growth, regeneration, skills and employment support through councils to Local Enterprise Partnerships in a single investment fund**, increasing the pace and scale of councils' fiscal autonomy to help drive economic growth and increase local skill levels creating a more efficient and effective way to invest in local growth.
5. Remove blocks to faster growth of small enterprises by **creating a streamlined, efficient and effectual licensing system.**
6. **Introduce long term local government finance settlements**, including integrated funding between health and social care.
7. **Improve the business rates retention system, including complete local retention of business rate revenue** whilst also equalising for need. Other improvements include reviewing the basis of valuation, managing the risk of appeals and avoidance, and administrative streamlining.
8. **Implement a range of financial freedoms, flexibilities and reforms that would improve the financial sustainability of local authorities** such as greater local control over council tax, fees and charges, financing and funding options and access to new local taxes.
9. **Share out tax and spending between the four countries of the UK** on a new, sustainable and fair basis.

## Place based budgets

We call on the Government to **make place based finance the default method of funding and delivering local public services**, empowering local partners to work towards shared outcomes.

The public service delivery system is immensely fragmented. Spending is at risk of getting locked in organisational silos even within central government itself. We identify almost £400 billion of public spending as attributable to places. Council core services constitute only about 21 per cent of total spending in a place with schools adding 18 per cent, clinical commissioning groups 27 per cent, with the remaining third split into 70 individual funding streams.

But this is not only a problem of fragmented funding. The economies, histories, and strong local identities of places are also not recognised in a one-size-fits-all model of public services. People are ill-served by a system that seeks to serve all communities in the same way. We believe that a fresh streamlined approach, targeted at incentivising public service providers to work together towards shared outcomes and governed on a place basis, would:

- Help tackle complex needs of local communities that require large upfront investment to reap benefits in the long term, while releasing immediate savings to the Exchequer as a result of reduced duplication of spending;
- Provide a powerful, coordinated approach to local infrastructure investment; and
- Simplify and improve access to public services to those most in need, enabled by providers sharing knowledge and buildings.

Evidence is mounting of the effectiveness of locally integrated and shaped public services. Ernst & Young research showed applying the lessons of the community budget pilots nationally could potentially save up to £20 billion in five years[8].

8 'Whole Place Community Budgets: A Review of the Potential for Aggregation'. Ernst & Young, 2013.

The Troubled Families programme has already helped turn around the lives of more than 52,000 families, which were each estimated to cost the taxpayer an average £75,000 per year before intervention.

The Better Care Fund is set to build nationally on local integration pilots - Greenwich Integrated Care's service redesign enabled an immediate 5.5 per cent productivity saving on the health service with the social care budget reduced by £900,000.

There are also benefits in place based systems for skills. For example, devolving Youth Contract support to groups of councils freed councils to help significantly more unemployed young people into work or learning than the national equivalent of 27 per cent: Leeds, Bradford, and Wakefield achieved 57 per cent and Newcastle and Gateshead 47 per cent.

Questions of governance and accountability will need to be addressed before place based finance can become wholesale. Solutions will mostly require administrative reform rather than large scale legislative change.

The size and geographical definition of a 'place' should be flexible, but could take county areas and city regions, already operating effective emergent joint governance structures such as combined authorities, Economic Prosperity Committees, LEPs and Health and Wellbeing Boards, as a starting point for such a discussion.

Some places are better prepared for taking over responsibility for place based spending and devolved tax powers – they should not be stopped from continuing making progress and other places should be able to join in when prepared.

## Adult social care

We call on the Government to:

- **Fully fund the cost implications of new burdens faced by local government**:
    - Changes to the deprivation of liberty safeguards (our work with the Association of Directors of Adult Social Services shows a potential minimum cost of £68m due to the judgement). This should be followed by a review of the legislation to ensure that the people's needs are met in the best way possible, as well as reduce lengthy judicial processes and minimise the cost to the public purse.
    - On Care Act new burdens, including additional assessments and costs related to services for carers, we remain concerned that costs may be greater than the Department of Health is allowing for. The Department's modelling of the 2015/16 costs illustrates that there is a high degree of uncertainty and sensitivity to assumptions that are not easy to test, such as likely take-up of services and assessments. Indicative funding for other elements of the reforms, including the introduction of a national minimum eligibility threshold, is questionable and poses potential further pressures. We welcome the Department's commitment to monitor actual costs next year. Where that shows councils are shouldering additional costs over and above their allocations the Government must provide compensatory funding.
- **Confirm allocations of funding for the Care Act as soon as possible**. The proposed allocation formulae for Care Act funding result in funding allocations vastly different to those indicated in December 2013 as part of the local government finance settlement. Whichever allocation mechanism the Government uses it must communicate the results to local authorities as soon as possible to assist local areas in their financial planning.
- **Fully integrate the funding for the commissioning of care and health as a step towards a single point of commissioning**, supported by long-term funding settlements and a transformation fund to ease the initial impact of the changes required to achieve this.

Adult social care is under significant pressure. In response to cuts to local government funding adult social care departments have had to make significant budget savings of 26 per cent – the equivalent of £3.5 billion over the last four years. On top of this, the recent Supreme Court judgement on deprivation of liberty safeguards is placing additional in-year (and on-going) funding pressures on the system.

From April next year the system will face further costs once the Care Act goes live. Particular pressures include additional assessments, services for carers and the introduction of the national minimum eligibility threshold. In light of the Government's risk assessment of affordability of the reforms we remain concerned that costs may be greater than the Department of Health is allowing for.

Funding for the Care Act in 2015/16 is not just an issue of quantum but also of distribution. The Department of Health will need to ensure that the implications of any distributional approach are transparent and carefully thought through. This is essential for ensuring that not only is the funding sufficient in total, but that it is sufficient for every locality as well.

Pressures such as these are significant in themselves. But they are also significant in terms of their potential impact on local authorities' ability to shift the focus of the care and support system from crisis response to prevention and early intervention. Investment in prevention in 2014/15 is very similar to 2013/14; £923 million, or only 6.8 per cent of the net budget.

The Better Care Fund provides an important opportunity to move to a more integrated health and social care system, geared at prevention or delay of the onset of costly conditions, but more ambition must be demonstrated.

Moving the health and care system in this direction also requires lining up appropriate incentives. The Government should therefore review the tariff system of NHS services to embed personalisation (not treatment) and consider how a share of VAT and duty on soft drinks, fast food, tobacco and alcohol could be used to combat childhood obesity and the harm caused by smoking and excessive drinking.

## Local growth funding

To promote economic growth, we call on the Government to **devolve all funding for local growth, regeneration, skills and employment support through councils to Local Enterprise Partnerships in a single investment fund** and remove blocks to faster growth of small enterprises by **creating a streamlined, efficient and effectual licensing system**.

Councils and businesses have big ambitions to unlock growth in their areas and ensure that people in all parts of the country have a share in the nation's rising prosperity. However, the current national framework for funding and supporting local growth is holding them back, as are fragmented and bureaucratic licensing controls, which could be replaced by a single business licence tailored to individual businesses.

Businesses and local partners have to navigate a costly, highly centralised and fragmented funding landscape. In 2013-14 there were over 124 funding streams across 20 government departments, amounting to over £22 billion. This is not an efficient, effective way to invest in local growth.

The current system also requires local partners to jump through costly bureaucratic hoops in order to access resources to invest in their local economies. Our research shows that there may have been up to 60 different competitive processes to allocate funding for local growth. It is estimated that the average cost to councils alone of preparing one bid is over £30,000, meaning that the cumulative cost burden is counterproductive. To illustrate the magnitude, the total cost of the 180 bids to the Local Pinch Point Fund may have amounted to £6million, which is 7% of the value of the fund. This is not good value for money for the taxpayer.

Councils and businesses strongly agreed with the Heseltine Review's recommendation to pool and devolve almost £50 billion in government funding for local growth and regeneration through a single pot. But the Local Growth Fund, at £2 billion per year, amounts to only 10% of what central government is currently spending on local growth and regeneration.

The Autumn Statement is an opportunity for the Government to signal a bolder commitment in the next Parliament to pool and devolve all funding for local growth and regeneration through the Local Growth Fund from the outset. This will:

- Provide better value for money without increasing public spending;
- Unshackle councils, businesses, and other partners from a system that imposes departmental priorities at the expense of local solutions;
- Save the taxpayer millions of pounds by minimising the costs to the public purse in order to access public funds;
- Reduce the significant delays local partners are facing in accessing resources and delivering schemes;
- Boost investor confidence and create more certainty for businesses.

# Financial freedoms and reforms

## Long-term local funding settlements

The Government should **introduce a system of long term local funding settlements, in line with those received by government departments**, including integrated funding between health and social care.

Late and changing settlement allocations make sustainable and long-term local financial and service planning, and investing for the future, extremely difficult. Councils consistently rank greater certainty over funding allocations as a top priority to help them deliver local services more efficiently and more effectively. The Government's announcement in December 2013 that it will work "with departments to give local public services the same long-term indicative budgets as departments from the next Spending Review"[9] is therefore welcome.

This reform would require a new central government budgetary process to be designed and implemented. Once established any costs of the process, mostly just officer time, would be minimal and outweighed by the benefits. Stable, long term settlements would allow councils to plan long term strategies to drive further efficiencies, make prudent financial management decisions and drive value for money. HM Treasury should work with the LGA, DCLG, and other departments to develop the mechanics of how such a system might work in practice.

## Business rates

We call on the Government to:

- **Increase incentives by allowing local government to retain 100% of business rate revenue, including inflationary growth**. An accordingly adjusted mechanism of top-ups and tariffs would preserve the balance of need and incentive.
- **Bear the full risk arising from business rate appeals lodged before April 2013**.
- **Commit to an immediate review of business rates, including appeals, avoidance and other aspects of administration** to protect businesses from an unfair tax burden and councils from uncertainty over their income.

From April 2013, local authorities have been able to retain some of the growth in business rate revenue locally. This change has provided councils with a larger stake in their local economy, but has also transferred significant risks. We support this reform but for the incentive effect to be maximised business rate revenue should be fully retained by local government.

The redistribution system should be adjusted to preserve the balance of need and incentive and to ensure that the system is fair to all authorities, including those with greater need and lower ability to raise business rates. Using local knowledge about what reliefs are most appropriate is vital to ensure that business rate retention provides councils with the incentives and with the tools to make economic growth truly locally inspired.

There are still more than 130,000 appeals awaiting decision and this causes great uncertainty to councils which need to be able to budget for potential losses properly. In addition, local authorities now bear half the risk of all appeals before April 2013. The government consulted on streamlining the appeals system but has now announced that they will not be implementing any changes until other reforms are announced in 2017.

These problems should be addressed with an immediate review of administration of business rates. This would not be a costly exercise, with significant benefits to businesses and local authorities. Potential tax revenue should not be affected. Businesses would benefit from the tax burden being shared more fairly as the scope for avoidance and speculative appeals would be reduced, and local government could plan for the future with more certainty, unlocking scope

9 Autumn Statement 2013 https://www.gov.uk/government/publications/autumn-statement-2013-documents

for infrastructure investment decisions and more sustainable public services. The review could also look at business rates in terms of turnover and e-commerce.

## Financial freedoms and flexibilities

There are a range of other freedoms and flexibilities which the Government should give local authorities. They need not have a net impact on total revenue, but allow councils to consider if the burden of the cost of services can be shared more fairly among residents. Residents would be empowered by having a truly meaningful vote at the ballot box. These include:

- **Reforming council tax discounts and exemptions** to give councils the levers to avoid reductions in council tax support hitting the poorest in society.
- **Providing access to revenue from other taxes**, including new local taxes which would be suitable to particular characteristics of places – for example, a tourist tax.
- Reforming fees and charges to ensure that, for example, charges for planning and licensing genuinely reflect local circumstances.
- Allowing councils to consider **whether a business is up to date with its business rates when assessing licensing applications**. This would help make sure that all businesses bear their share of responsibility towards the general prosperity of the local area.
- **Removing local authority housing borrowing from the Public Sector Borrowing Requirement measure and lifting the Housing Revenue Account borrowing cap**; this should be seen as investing in homes not as a debt.
- **Relaxing council tax referendum rules**, allowing local communities to decide on local policy priorities through the ballot box. The referendum system is particularly punitive for local authorities that levy relatively low council tax levels and precepts, such as standalone fire and rescue authorities.

## Fair funding

Following the referendum in Scotland, sharing-out of tax and spending between the four countries of the Union on a new, sustainable and fair basis must be considered. The current system is a simple and straightforward way to calculate changes to funding of Scottish, Welsh and Northern Irish Parliaments.

However, over 35 years the funding imbalance that was locked in back in 1979 has persisted. We would support a rebasing of the funding allocations between the nations of the United Kingdom, phased in over a number of years, to reflect relative need for public services.

Devolved parliaments should be given further fiscal powers to help manage the adjustment of grant funding, with some of those powers resting directly with local government. How funding allocations are adjusted annually during and after this rebalancing can be part of the next Spending Review, one option being the preservation of the current convention applied to a revised base.

This would unlock at least £3.9 billion to fund investment into preventative and early intervention services in local government in England and Wales. Initiatives such as the Better Care Fund and the Troubled Families programme, will result in vastly improved outcomes and significant financial savings to the whole public purse which could then be reinvested, creating a continuous cycle of returns and improvements.

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