Spending Smarter: A Shared Commitment

The Local Government Association's 2015 Spending Review Submission

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Introduction

The previous Parliament was a time of great challenge and opportunity for local government – and now the expectation is that the next five years are likely to follow a similar course. Since 2010, councils have dealt with a 40 per cent real terms reduction to their core government grant. In adult social care alone, funding reductions and demographic pressures have meant dealing with a £5 billion funding gap.

Even in this challenging context, local government continued to deliver. Public polling has shown that roughly 80 per cent of those surveyed are satisfied with local services and that more than 70 per cent of respondents trust councils more than central government to make decisions about services provided in the local area – a trend that has been sustained during the last five years.[1] Since 2010, councils have made significant efforts to minimise the impact of funding reductions. However, this hasn't been without cost:

- 350,000 full-time staff have been lost
- 150,000 fewer people now receive adult social care
- 470 libraries have been closed.

The Government's terms of reference for the Spending Review rightly prioritises the radical devolution of power within England on the grounds that it is essential to growing the economy, raising productivity and improving services while driving out efficiencies. The introduction of the Cities and Local Government Devolution Bill as the new Government's first major piece of legislation has sent a signal about the importance to this Parliament of pushing power down to people.

We fully support further devolution to local authorities. However, to realise the promise of devolution, we need the decisions in the Spending Review to be guided by the fundamental principle that local people will know best how to spend money and run services in their local area.

Councils and their partners in the public, private and voluntary sectors have developed specific proposals that show how they could capitalise on growth prospects and use public spending more effectively to meet local needs. In the negotiations that follow, we urge Government departments to match the ambitions of places and support the delivery of ambitious deals proposed by local partners.

While the Spending Review is an opportunity to start this process, it needs to continue throughout this Parliament to ensure that the benefits of devolution can be extended to residents and businesses in all parts of the country. Outside the deal process, better coordination and more flexibility on the part of Whitehall departments is needed so that local partners in all places have greater ability to align the levers of growth and public service reform in their areas, eg ensure that infrastructure, health services and school places will be in place alongside housing growth.

Fundamentally, we believe the Spending Review should be about spending smarter, not only about spending less.

1 Local Government Association Reputation Tracker, LGA, February 2015

Summary of our key recommendations

In June 2015, we set out a broad range of proposals for the Government to consider as part of the Spending Review, aimed at streamlining public services, growth generating investment and social care and health – all while saving the public purse almost £2 billion a year by the end of the Parliament.

Our official submission focusses on five core issues originally highlighted in 'A Shared Commitment', published earlier this year. This is the culmination of the Local Government Association's (LGA) work over the past four years in building a case for an empowered local government sector to lead the way in balancing the nation's books while improving public services and the local economic environment. The Government set itself some clear priorities for the Spending Review and this is our offer to work together to achieve those goals and to deliver new, transformed and high-quality local services while at the same time reducing costs to the public sector.

In short we believe the Spending Review should:

- **Enable wider integration of social care and health services to deliver savings and improve outcomes**. This can only be successful if both parts of the system are funded appropriately, including closing the annual £700 million funding gap in social care services and providing a transformation fund, worth £2 billion in each year of the Spending Review period, to allow new ways of working to become commonplace. The Spending Review is also an ideal opportunity to go even further and **implement a single place-based budget approach for delivering all local services through a Local Public Services Fund as part of at least five devolution deals**.
- Promote growth and productivity by accepting the case for further devolution of powers and funding that stretches beyond 25 November. In this submission, we call for devolution of, or local influence over, more than £60 billion of growth, skills and infrastructure funding over the Spending Review period, including:
    - the components for **an ambitious and effective Local Growth Fund with agreed settlements in devolution deals that last until 2020/21**
    - **a central-local partnership to deliver effective and targeted skills and employment initiatives**
    - **unlocking the ability of councils to contribute to the Government's target of 275,000 affordable homes** built over the lifetime of the Parliament.
- Help councils adequately resource and deliver high quality public services by **transforming the business rate mechanism and providing a four year local government finance settlement**.
- Help councils focus on driving efficiency and value for money through **an assessment of the impact of unfunded cost burdens that core council budgets are going to face over the Spending Review period**.

Social care, health and public service reform

KEY POINTS

Social care and health are increasingly collaborating to develop joint services and tackle demand which improve outcomes to vulnerable members of our society and do so in a financially sustainable way. To ensure the future viability of care and health services we need to move spending from expensive acute care to primary care and prevention activity in communities and councils and tackle demand drivers properly. Provided that social care and health are funded appropriately, this Spending Review is an opportunity to go further. We explore these arguments in the thematic adult social care submission.

This is also time to think boldly about the opportunities and challenges further beyond the Spending Review period and to start preparing now. Locally-led approaches to service provision have proven to be a success, but have so far been done on a piecemeal basis. We believe local government can go further and propose to work with the Government to establish devolution of all local service provision and funding in the shape of a Local Public Services Fund.

Social care and health

Our shared aspiration is for better, more coordinated and more personalised care for people. This means people staying healthy, supported to live in their community and in control of their care and their lives. It means a social care system that is responsive to people's needs and seamless between different parts of this system. It means care that remains safe as safeguarding referrals increase and which protects people from abuse. It also means care that delivers better outcomes for every £1 spent.

We share the Government's vision of integrated care and health services.[2] However, in order for social care and health to be able to achieve this shared vision both partners need to start from a sustainable financial footing.

2 The Conservative Party Manifesto 2015, Conservative Party, April 2015

Only when adult social care is funded appropriately can ambitious reforms succeed, as recognised by the Government in its decision to delay Phase 2 of the Care Act.

Mitigating the pressures outlined in this submission and ensuring a sustainable and well-functioning adult social care and support system will require:

- Providing sufficient grant funding to close the social care funding gap that is already present in the social care system and growing on average by just over £700 million a year. Until the system is stable enough to implement the delayed Phase 2 Care Act reforms, social care must be supported in the interim by releasing the earmarked funding into the care service through the Settlement Funding Assessment, with the rest of the funding coming from reductions to spending on other Government departments.

- Monitoring and funding in full all identified pressures and burdens, such as Deprivation of Liberty Safeguards and wider pressures on the provider market and the workforce.
- Introducing multi-year financial settlements to allow proper planning for service transformation alongside NHS partners.

If adult social care is put on a sustainable foundation, integration of care and health can become more ambitious. To shift the focus of the system from crisis management to prevention and early intervention, and to support the shift of demand from acute care to primary and community care alongside social care, we propose:

- Allocating £2 billion in each year of the Spending Review period to support service transformation across social care and health.
- Using part of this fund to support investment in a more ambitious prevention strategy, which could generate a net return of 90 per cent over the next five years.
- Strengthening health and wellbeing boards to become the system leaders for local care and health systems.
- Expanding the scale of our ambition for integration through greater pooling and aligning of budgets. This should include an expanded Better Care Fund (BCF) which learns from what has worked well to date and what hasn't, alongside the transformation fund mentioned above to complement local arrangements to maximise outcomes for people's health and wellbeing.

We explore these arguments in more detail in a joint submission on adult social care and health with the Association of Directors of Adult Social Services.

Public service reform

The Troubled Families programme, the BCF, Community Budgets pilots and place-based cooperation between agencies as part of devolution deals have shown what can be achieved through locally-led initiatives which are more sensitive to local conditions. Joining up services and budgets is also a way to avoid one part of the public sector passing costs on to another, which does not contribute to the overall goal to bring national spending down. Devolution deals to places as far apart, in more ways than one as Cornwall and Greater Manchester are laying the foundation for place based budgeting of local services.

This Spending Review is an ideal opportunity to explore a radical next step to this approach. We would like to work with the Government on establishing a genuine single Local Public Services Fund which would see wholesale devolution of funding for all local services provided in an area as part of at least five devolution deals, running during the Spending Review period. It would build on the case made through Total Place and Community Budgets to show the true potential that locally-led decision-making has on reducing spending in a managed way while increasing the standard of services that residents receive and would build a blueprint for extensive devolution in the next decade.

Devolution: local growth and service transformation

One of Government's priorities in this Spending Review is 'promoting growth and productivity, including through radical devolution of powers to local areas in England.' It acknowledges 'this Spending Review is an opportunity to take a further big step forward.'

Devolution is not an end in itself. Over the past year, independent experts have concluded that devolution is key to rebalancing the economy, maintaining the global competitiveness of Britain's economy and making local services more sustainable. For example, the City Growth Commission, chaired by the now-Commercial Secretary to the Treasury Lord O'Neill, projected that almost £80 billion in additional economic growth[3] stood to be generated if major city regions were freed to realise their full potential. Thus, we welcome the Government's recognition in its national productivity plan, 'Fixing the foundations: Creating a more prosperous nation', and in its Spending Review priorities, of the massive contribution that devolution can bring to raising national productivity and rebalancing the economy.

The devolution proposals coming forward from places around the country show that public service transformation is just as important to the success of local areas as thriving economies are. In 2014, we identified costed proposals for £11 billion of savings to the public purse that could be realised over time only through a programme of devolution and service integration.[4] Building on the success of programmes like Troubled Families and One Public Estate and successful local trials such as local Youth Contracts[5] and employment support[6] we encourage Government to go further in bringing together funding for public services, mirroring the Local Growth Fund with a Local Public Services Fund.

A joined-up approach to funding reflects the reality on the ground as places address complex local issues. For example, boosting the visitor economy, which contributes £60 billion to the UK economy a year[7] and supports almost one in 10 UK jobs[8] requires good transport links, an appropriately skilled workforce, affordable housing for workers, effective business support and digital connectivity. Councils and their partners need all the relevant levers at their disposal to maximise the possible benefits.

As the Government agrees increasing numbers of devolution deals, we believe these should operate on the same principles of long-term certainty, with terms and funding agreed for the life of the Parliament. This would give places vital confidence to plan their services for the long-term under a devolved system, and time for radical ways of working to properly bed in.

The following sections set out greater detail on how local and national government can work together to support our shared ambitions on growth, infrastructure, employment, and housing. Overall, our proposals propose devolution of, or greater local influence over, at least £60 billion of central government spending over the Spending Review period.

3 Unleashing Metro Growth, City Growth Commission, October 2014

4 Investing in our nation's future: The first 100 days of the next government, LGA, July 2014

5 Local Government Association Reputation Tracker, LGA, February 2015

6 Local authority schemes supporting people towards work, National Institute of Economic and Social Research, January 2-15

7 Tourism Satellite Account, ONS, June 2015

8 Tourism Employment Summaries ONS, September 2014

The Local Growth Fund and local infrastructure

KEY POINTS

Over the past year, the Cities and Non-Metropolitan Commissions have concluded that local leaders in city regions and non-metropolitan areas across England need more control over the levers of growth in their areas in order to match the economic performance of their key global competitors. In particular, they have argued for more funding decisions about infrastructure and economic development to be made by local leaders who know their economies best. This section sets out our recommendations for public spending on local growth and infrastructure to ensure that we get maximum value from every public pound, including:

- pooling and devolving more funding through the Local Growth Fund (LGF)
- ensuring sufficient revenue funding to sustain the operation of capital schemes
- providing multi-year funding certainty to unlock efficiency savings
- enabling full local discretion over European Strategic and Investment Funds
- giving local areas greater say over centrally-held funds that affect local growth
- extending greater flexibility over local taxation powers to all areas.

The United Kingdom's economy has been growing but there is still much to do to ensure that all parts of the country deliver to their full potential. In 2013, London and the South East together accounted for more of the UK's economic output than the North East, North West, Yorkshire and Humber, South West and East of England combined.[9] Therefore devolution and decentralisation are key to rebalancing the economy.

As the Strategic Economic Plans developed by councils and their partners in Local Enterprise Partnerships (LEPs) have shown, infrastructure gaps are a top priority in every area of the country. But the nature of the gaps, and more importantly, the solutions to address the needs are different in every area, depending on their economic base and growth prospects.

Decades of centralised control over funding for local growth have failed to produce a more balanced economy; we have to spend smarter on infrastructure, using local intelligence, to get maximum value from every public pound.

In the Summer Budget, the Government announced it will undertake a full review of capital spending plans to identify the areas of spending that will achieve the best economic returns while delivering on the commitment to invest £100 billion in infrastructure by the end of the Parliament. We believe that this review should take our proposals and local intelligence into account.

Smarter spending starts with a much more effective and efficient approach to investing in local growth and regeneration.

The LGA's analysis[10] showed that in 2013/14 alone there were more than 100 different pots of funding amounting to over £22 billion across over 20 central government departments and agencies. The creation of a Local Growth Fund in the last Parliament was an important step towards enabling a more efficient approach to investing in local growth. But at £2 billion a year, the LGF amounts to less than 10 per cent of annual central government spending on local growth and regeneration schemes.

9 Regional Gross Value Added (Income Approach), ONS, December 2014

10 Fragmented Funding, LGA and Shared Intelligence, April 2014

With several different processes for allocating funding, it hardly operated as the single pot that it was intended to implement, as recommended by the Heseltine Review.[11] The LGA suggests the LGF is expanded to at least £19 billion over the course of the Parliament, with an ambition to move to the size recommended by Heseltine towards the end of the decade.

As the devolution negotiations accelerate across the country it is vital that the Government uses this Spending Review to put into place a more ambitious funding regime for growth. In order to achieve this, the LGA calls for the following improvements to the current local growth funding system:

- **Pool and devolve more funding through the LGF**. We cannot afford to maintain the heavily centralised yet fragmented and bureaucratic system, generating unnecessary costs and discouraging investors. The Spending Review should flow all funding for local infrastructure and business support through the LGF as a genuine single investment pot, managed locally.
- **Address the revenue / capital mismatch**. Local government core funding has been reduced by over 40 per cent in the five years to 2015/16. As a result, although many councils and LEPs are able to fund capital projects, they are increasingly struggling to resource the operation and maintenance of those new schemes. It is vital that investment in capital and maintenance is joined-up as part of a long-term approach to improving local infrastructure to support growth. This will ensure that the most efficient use is made of public sector investment and the longevity of infrastructure assets. An example of this is flooding: If capital and revenue funding for flood and coastal erosion risk management was devolved into a local place-based 'pot' this would provide increased flexibility to target funding to schemes that prevent flooding or mitigate damage, with the Environment Agency and internal drainage boards working together with councils to ensure effective arrangements for maintenance locally.
- **Unlock efficiency savings through long-term certainty of funding**. We are pleased that the Government has now begun to recognise the benefits of providing long-term funding certainty for the provision of future infrastructure. The Government's command paper, Action for Roads, in reference to the transformation of the Highways Agency, argued that funding certainty enables better planning, with quicker, more efficient delivery, as work will not need to deal with the threat of funding being removed at a critical stage in development. It will also help to make a sensible provision for the development of a programme of future work, ensuring long-term continuity in investment. These efficiencies can lead to savings – the previous Chairman of the Highways Agency estimated the total value of these savings to be between five and 10 per cent. In the Netherlands, moving from a one to two year planning horizon to a five to seven year vision resulted in savings of around 20 per cent on maintenance spending. The Government subsequently provided five year and £15 billion certainty for the strategic roads network. There is no reason why all infrastructure cannot benefit from similar levels of funding certainty and if funding for local roads was treated the same way then local government could achieve similar levels of efficiency savings.
- **Enable full local discretion over EU Strategic and Investment Funds**. Councils and their business partners should have 100 per cent influence over England's 2014-2020 £5.3 billion European Regional Development and Social Funds (ERDF and ESF). This way they can see through their plans to get hundreds of integrated infrastructure, employment and skills projects off the ground to boost local growth and national productivity, which was the original intention. However, Whitehall departments (Department for Work and Pensions (DWP),

11 No Stone Unturned in Pursuit of Growth. Lord Heseltine, October 2012

Department for Communities and Local Government (DCLG), Department for Business, Innovation and Skills (BIS)) and their agencies have struggled to give local areas the control they need to integrate and target the funds locally, with decision making on which projects are funded remaining silo based and national. On a basic level, this results in protracted decision-making, difficulty combining ERDF infrastructure and ESF employability activity, and makes it hard to coordinate EU funds with devolved domestic investment. This is in addition to reduced funds to England, as a result of reallocation to other parts of the UK, through negotiations at which there was no representation from English local areas.

- **Establish a principle of local influence** over all funding streams that promote local growth. To illustrate the problem, the priorities and details attached to over 75 per cent of total central government funding for local growth (£17+ billion) in 2013/14, were agreed with no input by local authorities or LEPs. Nor do places appear to have any say over which projects would be funded to ensure that they support the priorities of local and sub-regional economies. Investment decisions made nationally without taking into account local strategies risk delivering sub-optimal outcomes. For example, if the £15 billion Highways England roads investment programme does not take local roads and circumstances into account there is a real risk that extra motorway capacity will only cause greater congestion on the local roads network.
- **Allow councils to use local taxation more effectively to fund infrastructure that will be beneficial for economic growth**. London was granted one-off powers to levy a Business Rate Supplement to help fund Crossrail, a major infrastructure project which will benefit local businesses in the long-term. We believe that all local areas should have access to similar powers where there is broad agreement from businesses, for example through LEPs and Combined Authorities, without the need for an expensive referendum. Local areas should also be allowed to fund further investment by introducing new local taxes, such as tourist taxes, where this is locally desirable.

Composition of the LGF

We want to work with the Government on the future of the LGF, how allocations are decided, and how more departments can further support local areas to invest in economic growth and improving business productivity. We believe that it should operate as a single investment fund, containing:

- **All local transport funding (roads, cycling and walking, buses)**. The Department for Transport (DfT) predicts that traffic on local roads could increase by more than half again by 2040.[12] The OECD say that the current UK transport system impedes business and constrains productivity in the UK. If left unchecked there will be more congestion and more costs (eg for roads maintenance) and business productivity will suffer. Councils should be able to pool funding and spend flexibly across transport so that traffic and congestion can be better managed as in London. This should include complete devolution of the Bus Services Operator Grant (£291 million in 2014/15), full allocation of maintenance funding (£976 million in 2015/16) without top-slicing for competitive bidding and devolution of any new funding to promote cycling and walking and the Government's Active Travel Strategy. Highways England spending should also be subject to local influence where it affects local road networks.
- **All digital connectivity and broadband funding**. Nearly every council and LEP plan for local growth emphasises the importance of superfast broadband and other digital infrastructure to attracting and retaining businesses of all sizes, helping to create local jobs and improving competitiveness. The Government has acknowledged that faster broadband will create an additional 56,000 jobs by

12 Department for Transport, Road Transport Forecasts 2015

2024. The work involved in the current

rollout alone is expected to provide a £1.5 billion boost to local economies.[13] We are calling for the next phase of the publicly funded rollout to be taken forward quickly, promoting value for money through competition (which was lacking in earlier phases when BT was the sole supplier on the national procurement framework), ensuring 100 per cent coverage and giving councils the flexibility to spend funding on local priorities. Councils have been leading the rollout of the publicly funded rural and urban broadband programmes in places not reached by the market, often exceeding their match-funding requirements. To maximise value for money, all future public funding for superfast broadband and mobile broadband should be devolved to councils.

- **All flood protection infrastructure funding**. The current approach to funding for flood protection infrastructure funding is allocated on a prioritised basis nationally to secure the maximum outcomes as represented by the Partnership Funding Score. Devolving capital and revenue funding into the single pot would allow local areas to support a more diverse set of outcomes. The existing model tends to mean smaller, more rural and dispersed areas are unable to compete for funding. Other places have catchment areas that are characterised by industry, commerce and critical infrastructure yet little residential accommodation. Consequently this means that national funding contributions through Flood Defence Grant in Aid (FDGiA) to such areas are very low.
- **All future regional growth funding**. There was considerable bureaucracy in the management of the fund with funding taking too long to reach beneficiaries meaning that opportunities from timely investment were lost. Local authorities and LEPs, who know their local economies better than central government and who already have effective and efficient accountability arrangements, are much better placed to make funding decisions, ensuring that investment is aligned with local strategies. For example, local transport plans have a benefit-to-cost ratio of 5:1, far above the DfT benchmark of 'high' value for money of 2:1. Cornwall Council showed that it could deliver upgrades to the A30 road for £20 million (25 per cent) less than the Highways England's plans.

13 £250m boost taking Superfast Broadband further and Faster, DCMS, February 2014

Skills and employment

KEY POINTS

Councils want to stimulate thriving local economies, so all residents contribute and benefit from local growth. Working across functional economic areas with businesses and local partners, they are building on their unique and proven capacity to integrate services around vulnerable people and anticipate and respond to local employer needs.

However, funding and powers remain in Whitehall, hampering councils' ability to address local skills issues which would help support local businesses. City and Growth Deals and Community Budgets prove what local areas can do with devolved funds, but they want to do more. With public funding pressures on central and local government, and budget savings already announced, local government can support the Government by managing reduced budgets and EU funds through a more effective strategic local integration of public funds guaranteeing all local areas the steady supply of skills and jobs required to boost national productivity. Calls to end departmental silos and devolve employment and skills funding will be a common feature in devolution deals.

Local areas will help deliver Government priorities if it enables them to commission 16-19 and Adult Skills Budget spending to local economic conditions, help boost apprenticeships by creating local apprenticeship hubs through devolved funds including Apprenticeship Grant for Employers (AGE), reduce unemployment by integrating the Youth Obligation into the LGA's Youth Offer, and working with the LGA to design a devolved, integrated programme for helping adults with multiple disadvantages into work.

Table 1. Main funding streams for skills and employment

Funding stream	Managing agency	Value, £m (2013/14)
16-19 further education	Education Funding Agency (EFA)	4,200
Adult skills	Skills Funding Agency (SFA)	2,400
Apprenticeships (16-18) and traineeships	SFA / BIS / Department for Education (DfE)	826
Work Programme	DWP	620
European Social Fund (ESF)	SFA	171
Advanced Learner Loans	EFA / SFA / National Careers Service	129
National Careers Service	BIS	87
ESF – Complex Families	DWP	62
Employer Ownership Scheme	UK Commission for Employment and Skills	46
Youth Contract	EFA	42

Current funding silos

The national approach to commissioning mainstream and re-engagement employment and skill funding, worth £13 billion (2013/2014) scattered across 28 national schemes means there is a missed opportunity to gear public funds to local economic need. Instead it creates a complex, fragmented and duplicated system which ends up costing the taxpayer more. (See table 1)

Crucially with so many agencies, and little local influence, the focus on the learner gets lost. Eighteen year olds turning 19 fall through the cracks of agencies responsible for young people (EFA) and adults (SFA). Similarly, coordinating provision locally, including for apprenticeships means navigating competing agency priorities, age bands, deadlines and funding.

This is a familiar story with the annual £1.59 billion commissioned nationally on employment support. Take the Youth Contract (YC) to re-engage 16 and 17 year olds. Contracted nationally, it re-engaged 27 per cent. By contrast, devolved YC in three City Deals helped twice as many young people, because it could spot and bridge gaps, offering coherent pathways to skills and jobs.

The DWP three year ESF Complex Families scheme (£182 million), designed, contracted and managed nationally was launched alongside DCLG's locally-led Troubled Families programme. Both could have been designed together with funding and objectives aligned. The ESF scheme was unable to meet clients' complex needs. As a result it underspent by 73 per cent, demonstrating that pure employment provision may not be suitable for those furthest from the labour market.

Local government can support the Government by managing reduced budgets through a more effective strategic local integration of public funds. This will enable local areas to plan, integrate and deliver welfare support, employment, health and skills provision in line with local economic need, maximising opportunities to align with private and voluntary sector contributions, offering greater returns in terms of improved outcomes and boosting productivity.

A devolved skills system to reflect employer need and boost productivity

LGA commissioned analysis[14] shows the skills system has not yet caught up with employers' future needs. It predicts that if we do not increase average qualification levels from five GCSEs to three A Levels (or equivalent), a growing skills gap will emerge by 2022:

- a surplus of 5.5 million low skilled workers (qualification levels 0-1) as 9.2 million people chase 3.7 million low skilled jobs
- a surplus of 2.4 million people with intermediate skills (Levels 2-3) as 12.6 million people chase 10.2 million jobs
- a shortage of 2.9 million high skilled workers (Levels 4 and above) – only 11.9 million high skilled workers for 14.8 million high skilled jobs.

This is bad for our workforce and bad for our economy. Failure to invest in skills will mean employers not getting the skills and capabilities they need. This will impede local growth and England's productivity, which is projected at £1.4 trillion by 2022. Up to 25 per cent of growth – £375 billion – could be lost, with £174 billion in lost tax[15] – enough to fund adult social care for a decade.

14 Realising Talent: employment and skills for the future, Centre for Economic and Social Inclusion, July 2014

15 Realising Talent: employment and skills for the future, Centre for Economic and Social Inclusion, July 2014

With devolved decision making, local areas will gear the skills system – further education, adult skills training, support for the unemployed – towards employers' skills demand. This will better support residents – addressing unemployment and underemployment – and support employers by addressing skill gaps and shortages, demand for higher skills, and incentivising in-work training – all essential for boosting national growth and productivity.

We fully support the recommendations of the Government's Productivity Plan to:

- **Invite local areas to re-shape and re-commission post-16 provision to make it responsive to local economic priorities**. By expanding on existing pilots, this will unlock the knowledge and expertise of partnerships of schools, colleges and councils to collaborate around local employers' skills needs and young people. The Government should transfer the EFA post-16 budget (£4.2 billion in 2013/14) to local areas which show capability to design, commission and be accountable for provision. This will fulfil the original intention of the Apprenticeship, Skills, Children and Learning Act and enable local areas to address (local accountability and financial resilience) challenges raised by Ofsted and the National Audit Office (NAO).[16]
- **Allow local areas and employers to gear the Adult Skills Budget (ASB) to local economic need**. Currently the £2.4 billion ASB delivers qualifications, is insufficiently employer-driven and lacks incentive to secure sustainable employment for learners. Devolving it fully will reverse this trend enabling employers, councils and providers to ensure it is employer driven, securing job outcomes for workless people. Further we should explore how local variations in the Advanced Learning Loans could incentivise in-work training, and how Higher Education funds for access and retention link with inclusion and growth agendas.
- **Increase the number of apprenticeships available to young people**. Devolving funds, including AGE, Trailblazers for higher apprenticeships, Employer e-vouchers, and a proportion of the apprenticeship levy would allow all areas to develop 'local apprenticeship hubs' bringing partners together to match employer needs and young peoples' talents, contributing towards achieving this goal. Councils can and will do more to support the Government's three million new apprenticeships target through their roles as local employers, commissioners and procurers by encouraging supply chains or contracted services, and through their local economic development functions and LEP membership, working with employers of all sizes. The current national system underperforms, with two-thirds of apprentices at Levels 2-3 being existing rather than new employees, with a mismatch between demand and supply. Our proposal creates better alignment of investment in training with the skills and jobs in demand, promote take-up and offer subsidies in priority and shortage areas.

Reconnecting people with jobs

A devolved skills system responsive to local need will give residents opportunities to enter and progress in current and future jobs locally. But there will always be people who require help to enter, get back into, or progress in work. A locally responsive system is critical to achieving that.

Making the national Youth Obligation work locally. Long-term structural youth unemployment, underemployment and disengagement has increased in periods of growth, and has long-term scarring effects on young people and the economy. Work experience increases young people's understanding of, and employability in, the jobs market.

16 Devolving responsibilities to cities in England, National Audit Office, July 2015

With schools no longer required to provide it, employer concerns that young people are not job ready means this is still a significant issue which needs to be adequately addressed. Local government has statutory duties to raise the participation age and reengage those up to the age of 18 not in education, employment and training, but crucially little influence over mainstream and re-engagement provision to make these duties count.

The national Youth Obligation for 18-21 year olds is a major welfare reform. To succeed, it should be integrated in the LGA's Youth Offer,[17] planned and delivered by councils and Jobcentre Plus, using existing budgets. It will provide a single journey to employment for disadvantaged young people.

All 14-21 year olds in education, training or work would be guaranteed access to careers and employment advice and experience, and every young person not learning or earning will have support into training, an apprenticeship or sustained employment.

This would require: councils identifying 17 year olds at risk of claiming benefits, and requiring those already disengaged to participate in re-engagement support; DWP, EFA, SFA and councils coordinating provision to guarantee sufficient provision (work experience, skills training and Apprenticeships) for all jobless 16-21 year olds or those with no work experience; and national and local government agreeing responsibility and provision for vulnerable 18-21 year olds. This will provide a coherent reengagement support for all young people, reducing 'churn', and those not in employment or training.

Employment support for unemployed adults. The Work Programme has helped many, but not all, Job Seekers Allowance (JSA) claimants. For JSA claimants with multiple needs and those on Employment Support Allowance (ESA), it performs less well. Job outcomes vary hugely across the country from 28 per cent below the average to 44 per cent above it.[18] While the average job outcome is 23 per cent, for ESA claimants it is just 10 per cent. This is due to factors including the support needs of claimants, inability of contractors to understand the nature and strength of local economies and national programme design and commissioning.

More can be done locally to support JSA and ESA claimants and help people in work progress.

The current Work Programme, valued at £620 million a year, should be replaced with two locally influenced programmes – one for JSA claimants (co-commissioned as a minimum); and the other fully devolved and designed for up to 2.55 million disadvantaged claimants, requiring integrated and devolved employment, health and skills interventions.

Achieving the Government's aim of halving the disability employment gap, supporting more people with mental health issues into work, and reducing the number of workless adults with multiple disadvantages requires improved integration between local services, health and employment support. Every local area can improve the outcomes of interventions, and work with local employers to encourage the recruitment of people with disabilities.

17 Realising Talent: a new framework for devolved employment and skills, LGA, March 2015

18 Realising Talent for Everyone, Centre for Economic and Social Inclusion, March 2015

The LGA is developing detailed proposals for a devolved and integrated programme for the ESA work related efficiency group and the most disadvantaged JSA claimants, building on councils' expertise arising from the successful Troubled Families case worker programme, as well as others. We will explore financing, payment models, performance management and accountability, and submit proposals to the Government ahead of the Spending Review. We also want to identify concrete ways to improve employment support for JSA claimants through co-commissioning and a more effective council-provider relationship.

A more locally relevant Job Centre Plus (JCP). The reduction in welfare and a greater degree of self-reliance expected of Universal Credit claimants can only be realised if they are given effective, locally integrated and sustainable support to enter and progress in work and manage their lives and their money. Staff and physical resources will need to be used more effectively, simplifying the customer journey, and reducing bureaucracy for all delivery agencies.

We recommend identifying which offices and estate can be shared; continuing co-location of relevant local government and DWP staff, and in some cases other partners; identifying local services funded by either party and moving towards co-commissioning; and a national ambition to ensure that the shared resources leads to integration of services beyond pure co-location.

We believe two further measures can improve the effectiveness and local impact of JCP firstly, we recommend a locally co-commission Flexible Support Fund and Support Contracts (£100 million or successor funds) to develop local job brokerage schemes for the unemployed. Second, by combining £87 million National Careers Service with JCP resource and labour market information from local partners, this could provide residents with access to vacancies and careers, rather than it being delivered by two separate agencies.

Risk and reward. Even if local areas are successful at reducing the number of claimants, only 7p in every £1 saved is retained locally.[19] A direct financial stake will provide a significant stimulus to invest, reform services or improve performance of local partners, but local government also recognises that 'risk' must be shared as well as 'reward'. This could be a powerful incentive for local partners to offer more services to ESA and long-term JSA claimants – rewarding local areas for stimulating jobs and tackling disadvantage. We recommend a new 'risk and reward' financial package is jointly explored by the Government and the LGA .

19 The benefits of tackling worklessness and low pay, CESI report for Joseph Rowntree Foundation, December 2014

Achieving the nation's ambition on housing

KEY POINTS

The Spending Review is an opportunity for Government, councils and housing associations to work together to understand the cumulative impact of different housing policy initiatives on our collective ambition to build more homes, support home ownership, and reduce the welfare bill.

The Government should raise its ambition to sell off public assets from the current target of £5 billion between 2015 and 2020 up to £13 billion – the level that councils are set to achieve. If councils had a 'power to direct' the sale of government-owned public land and the ability to retain 10 per cent of receipts, they could deliver 180,000 new homes across the government-owned land. The sales would generate £11.7 billion capital receipts for the Government, which should be used to fund the extension of Right to Buy (RTB).

Local government must be given the tools to take an active direct role in shaping local housing markets, and the flexibilities to mitigate the impact of measures requiring the sale of high value council homes and the reduction of social rents on affordable housing in local housing markets. In particular, councils must be able to retain 100 per cent of all sales to reinvest in new and existing housing.

Building more homes can help meet aspirations of home ownership and meet housing demand, both of which are reflected in the Government's housing agenda. Local government is ambitious to support building. It must play a central role in expanding the stock of housing where it is most needed and be supported to take an active and innovative role in shaping local housing markets, for instance through local housing companies.

Tackling the housing deficit will require an increase in supply across all tenures, including bringing empty buildings back into use. Every local housing market is different and getting best value from public investment depends upon councils being able to develop a locally responsive mix of housing tenure that can work towards supporting home ownership while reducing welfare spending.

The Government has announced a number of initiatives which will have a significant cumulative impact on local housing markets around the country.

We want to work with the Government to understand potential effects on our collective ambition to provide more homes. In particular, we want to explore the impact of policy initiatives on:

- **The capacity of councils and housing associations to help deliver the levels of house building needed**. The country needs an additional 230,000 homes a year to keep up with the number of new households. The private sector cannot meet this demand alone, rarely building over 150,000 homes a year over the last 25 years.[20] Councils will need the stability, flexibility and levers – set out in this submission – to build the additional homes and associated infrastructure needed by our communities.
- **The number of families needing additional housing support, as falls in affordable and specialist housing stock lead more into the private rented sector**. The proposed extension of Right to Buy to housing associations, the sale of high value council homes, and the emphasis on home ownership – such as through the Starter Homes commitment – risks reducing

20 Live tables on house building, DCLG, August 2015

affordable housing stock by 150,000 over the Spending Review period,[21] which could generate an additional £460 million pressure on an already increasing Housing Benefit bill, as more tenants move into the private rented sector.[22] Furthermore, falls in the availability of specialist accommodation would generate upward pressure on health and social care costs.

- **Home ownership and the reduction of mixed tenure in communities, particularly in areas with high house prices**. Falls in affordable housing could lead more tenants into the more expensive private rented sector, reducing their capacity to pursue home ownership. It also risks creating recruitment challenges for employers in areas of higher house prices, particularly for vacancies on lower wages. This will likely have a knock-on impact on economic performance in a number of urban and rural economies, as employers struggle to fill vacancies that they need to grow.

In developing this understanding we would like to explore specific implications of individual policy initiatives. The Government has announced a set of policies affecting the local housing supply, and the following are sets of our initial recommendations for ensuring that they are implemented in a way that contribute to its housing ambitions.

Sale of high value council homes. Councils are committed to managing their housing stock in a way that benefits local communities. It is important that measures to encourage the sale of high value council homes support this ambition, and do not risk a drop in affordable housing which generates additional costs for the Government.

21 Estimate based on council Right to Buy replacement rate of less than 50 per cent, applied to estimate sale of 221,000 housing association homes through Right to Buy extension, estimated by the National Housing Federation (April 2015), and estimate 78,000 sales of high value council homes, estimated by Savills (June 2015)

22 Based on private sector tenants receiving £110 per week in housing benefit in England compared to £89 per week for those renting from a social rent landlord

As a starting point we believe that:

- the sale of high value council homes and the extension of RTB should be pursued as two separate policies
- councils should locally retain 100 per cent of receipts from selling their assets to reinvest in building more new homes
- homes should be defined as high value relative to the local housing market, rather than relative to council housing stock
- property built after 2008 and likely to have higher levels of debt, housing for vulnerable groups and specialist homes that reduce health costs should be exempt
- the policy should be time limited and subject to review of impact on asset management and housing investment plans.

RTB extension to housing associations. There is a need to ensure homes sold through the extended RTB are replaced locally and that housing associations continue to invest in new affordable homes. At the same time, the policy should be designed to ensure replacement homes are delivered with least additional cost to the public purse. Therefore, arrangements for compensation to housing associations should ensure that:

- housing associations are required to manage and utilise their assets effectively to make a contribution to the costs of the scheme
- the Government compensates housing associations for the cost of replacing homes sold net of capital receipts, not for the discount
- the grant subsidy element of housing association properties is recycled into the replacement property when a home is sold through RTB
- receipts from council RTB properties that have been retained by the Government are used to fund replacements
- the reform takes into account the impact on specialist housing which has adaptations in place to support vulnerable residents.

Better use of public land. There is significant value to be realised through better and more strategic management of public sector land, part of which could be used to fund the extension of the RTB to housing associations. The One Public Estate programme has demonstrated that council management of public land can achieve significant additional capital receipts, providing they have the necessary powers to do so. The Government has recognised this by allocating additional funding as part of the Summer Budget.

The public sector holds more than £300 billion worth of land and buildings. While local government is set to achieve £13.3 billion land and property sales up to 2018[23], the Government had a target of realising just £5 billion by 2020.[24] We therefore recommend that:

- the Government match the scale of ambition and pace of change achieved by local government on management of assets and raise its own target to £13 billion by 2020
- councils are given the 'power to direct'[25] the strategic development and sale of publicly owned sites in order to bring forward the land to develop 180,000 additional homes, and are able to retain at least 10 per cent of receipts from sales of surplus central government land for local investment[26]
- the remainder of the £11.7 billion central government receipts from the sale of surplus land is used to help fund the extension of the RTB, with councils retaining 10 per cent (£1.3 billion) of capital receipts to reinvest in further development.

Social rent reductions. Proposals that Government will seek to reduce rents paid by tenants in social housing in England by 1 per cent a year for four years from 2016 will have a significant financial impact on councils and housing associations, adversely affecting their long-term housing investment plans. This will significantly limit their capacity to build new homes needed to deliver the Government's ambitions. Furthermore, council tenants already pay the lowest rents across all housing providers at an average £82 per week in 2012/13,[27] less than the £96 per week charged on average by private registered social landlords,[28] and the average £137 per week in the private rented sector.[29]

The LGA estimates councils will lose around £2.6 billion in planned revenue over the four years up to 2019/20, equivalent to almost 19,000 new homes, with a gap of £1 billion per year thereafter assuming the lower rent base of CPI+1 per cent is reintroduced in 2020/21.[30] The annual £1 billion gap is equivalent to 60 per cent of the total maintenance budget. We recommend that the Government:

- reduces the duration of the social housing rent reduction policy from four to three years, ending in 2018/19 in line with the Government's timetable to achieve a surplus by 2019/20
- includes exemptions to protect investment in specialist accommodation for the vulnerable, in line with RTB exemptions, and for council tenants that do not claim housing benefit and can afford social rent levels
- delivers wider flexibilities enabling councils to adapt to the impact on their Housing Revenue Account (HRA), in particular allowing councils to retain 100 per cent of all sold assets and additional receipts generated

23 Fiscal Supplementary Tables, Office for Budget Responsibility, March 2013

24 Investing In Britain's Future, HM Treasury, June 2013

25 As recommended by the Elphicke-House Report, DCLG, January 2015

26 The Conservative Party Manifesto 2015, Conservative Party, April 2015

27 Local authority housing statistics: year ending March 2014, DCLG, 2014

28 Private registered provider social housing stock in England, DCLG, January 2015

29 Private rental market statistics, Valuation Office Agency, December 2014

30 Reducing social rents will cost councils £2.6 billion by 2019/20, LGA, July 2015

- gives councils additional powers to set differential discounts on house sales in the same way as the proposed differential rent levels policy
- offers additional stability and flexibility to HRAs by committing to no further changes to the rent policy and lifting the borrowing cap.

Pay to stay. Councils welcome the principal of additional powers to set differential rent levels based on local circumstances. Tenants need to be protected so they can remain in their own home and retain the incentive to work and earn more. The proposal should also be delivered at minimum cost to the taxpayer. We would recommend that:

- information on tenant pay is generated nationally using HMRC data and an additional national tax is applied to bring up rent to the wider local housing market level
- whatever the delivery model, the Government pass the additional rental income to councils and housing associations to invest in new and existing homes
- a taper is introduced so tenants are not discouraged from earning above the threshold, particularly in areas with a large gap between social and market rent.

Planning for infrastructure and growth. The planning system is not holding back house builders from delivering the homes we need. There are measures the Government could take which could support both councils and developers in their shared aim to bring forward housing in a way that brings forward the necessary infrastructure to build strong communities:

- introducing locally-set planning fees to ensure effective, responsive and fully funded council planning services, removing the burden from taxpayers who currently subsidise 30 per cent of total costs
- removing national exemptions to section 106 contributions and Community Infrastructure Levy (CIL), to be replaced by a more robust and transparent local viability assessment process to ensure development and supporting infrastructure meets community need
- ensuring that local areas are able to use the growth fund to support local housing and infrastructure investment strategy
- enabling local communities to have a say over new development on all brownfield land and the conversion of office to residential property, combined with giving councils the power to ensure developers prioritise brownfield sites
- streamlining and simplifying CIL regulations and guidance
- removing the restriction on pooling section 106 contributions for strategic sites identified in local plans.

Skills to build. The construction sector identifies skills shortages as one of the greatest barriers holding back housebuilding, rather than the planning system. The industry's forecasted annual recruitment needs have increased for the last three years consecutively, up from 29,050 a year in 2013, to 44,690 a year from 2015. More than half of skilled trade vacancies in the construction sector were hard-to-fill in 2013, up from 46 per cent in 2011.[31]

At the same time, the number of people in construction-related training has declined across all learning. Since 2012/13, the number of construction-related vocational learning qualifications has dropped by 4 per cent, including apprenticeships which have fallen by 58 per cent, and higher education qualifications in construction and engineering fell by 17 per cent.

31 Skills to Build. Local Government Association, 2015

Our proposals to ensure local labour markets have the right mix of skills to maximise employment opportunities are set out earlier in this paper. Specifically for the housing labour market we also recommend that:

- the Government works with industry, councils and education providers to explore and develop a national Skills to Build strategy
- councils who work with developers through the planning process to identify skills gaps are empowered to ensure publicly funded local skills and training providers train unemployed residents to take jobs created
- councils and local partners gain the levers to shape the local skills and employment services so that they meet the needs of employers as set out in the section above.

Local government financing

KEY POINTS

The 2017 revaluation of rateable values of commercial properties represents an opportunity to introduce a different approach to levying business rates. The Government should consider a move to a information system based on self-assessment to mitigate the impact of speculative appeals before the rating is even finalised. This is a ground-breaking but achievable reform and could be implemented quickly.

Pending action on mitigating the appeals risk, the share of business rates retained directly by local government should gradually increase in line with reductions to the revenue support grant. Top-ups and tariffs which are currently in place to equalise for local need should be adjusted accordingly so that no council is worse off as a result.

At a time of unprecedented reductions in funding and an increasing focus on integration of public services, the government should commit to a long-term local government finance settlement which would cover the Spending Review period. We would like to work with the government on establishing the principles for this to be achieved.

Business rate appeals risk

Business rates retention has been generally welcomed by local government. However, LGA surveys of councils[32] continue to identify appeals as the main source of risk and uncertainty to councils – and one that is particularly difficult to measure.

Almost 300,000 appeals from the 2010 list are still outstanding and councils have to make provision for them. When the business rate retention system was introduced in April 2013, councils made provisions worth £1.75 billion and the same level could be expected in 2017.

The main concerns about appeals are:

- Settled appeals, either at tribunals or by agreement. Some of these have implied large losses. One particular example is Hartlepool Nuclear Power Station, which was in the list at a £33 million rateable value (RV) but following agreement with the Valuation Office Agency (VOA) and the ratepayer this RV has now halved.
- Pending appeals and the associated provision which councils have to put into their accounts. As a result of business rate retention, local government has to bear 50 per cent of any appeals losses – as a result, provisions are being made by councils to insure against this risk. Provisions may not be used, but they mean that councils are forced to hold back money from frontline services and rely on the Government's safety net funding. This is the primary reason why the scheme made a loss in its first year (see the box for more information).

32 Business rate retention: the story continues LGA, March 2015

- Further appeals, however speculative, could cause more volatility.
  - For example, the appeal by Virgin Media to merge around 65 assessments into one could result in a number of authorities which have Virgin Media infrastructure in their area losing business rate income based on that infrastructure because the whole bill will be assigned to a single council. Affected councils are likely to set aside £225 million in provisions which, when looked at from the point of view of total business rate income, are unnecessary.
  - Another example is a recent landmark ruling in Worcestershire which has reduced the rateable value for purpose-built GP surgeries across the county, backdated to 2005, with councils having to issue £3.5 million in repayments and reduce their future revenue by £600,000 a year. This is expected to have national ramifications with a further 1,600 appeals outstanding on similar matters and many more are likely to be launched due to the precedent. In effect, this is a transfer of funding from councils to the NHS with a damaging impact on local government services but no net saving to the public purse.
  - There is a series of ongoing appeals on power stations, for example in Peterborough and Somerset which reveals a significant threat to the financial sustainability of councils who are dependent on large ratepayers for a significant part of their local income.
- £195 million has been top-sliced over the three years from 2013/14 to 2015/16 for the safety net. As the levy, which is levied for business rates growth over a certain threshold, becomes greater than the sum of safety nets this money ought to return to local government.

Future proofing the appeals system

DEALING WITH THE LEGACY OF THE PRE-APRIL 2013 SYSTEM

The Government tried to take account of historic appeals when setting up the system in 2013. However, the adjustments that were included have in practice been made at a national level, meaning that authorities are exposed to risk where it deviates from the national expectation. This in turn affects the way business rates retention works and the effectiveness of the incentive.

When the business rates retention system was set up an appeal assumption was built into the difference between the total yield and the expected business rates aggregate (EBRA). EBRA was then divided among authorities and tiers using combined shares based on 2010/11 and 2011/12 rateable values and set percentages within tiers (for example, 80 per cent district, 18 per cent county, 2 per cent fire authority). As a result, the appeals adjustment was not specific to individual authorities.

The most obvious way to deal with pre-April 2013 appeals would have been for the costs of those appeals to be absorbed by the Government as a final adjustment to the old system. The decision not to do this had a profound impact on the results of business rate retention in its first year as councils had to make provisions for losses as a result of these legacy appeals.

The LGA estimated that in 2013/14, the first year of the scheme, there was an overall deficit of £27 million, with 208 authorities receiving a surplus and 178 suffering a loss. Had it not been for the safety net the overall deficit would have been £200 million more, but that is at the cost of a top-slice for the whole of local government of £195 million over three years. However, had the Government taken responsibility for appeals raised before April 2013, we estimate that the scheme would have shown a surplus of £236 million and the top-slice would not have been needed at all.

With the Spending Review, the review of business rates led by the Treasury and the proposed reform of appeals as well as the revaluation in 2017 this is an ideal time to rethink how the tax is administered.

The current method of how business rates are administered has two specific features which facilitate the level of appeals that have to be dealt with:

- There is a very low barrier of entry when it comes to appeals. Currently, businesses are not required to provide any specific justification when appealing against their bill. While it is right for businesses to make challenges where they have reasonable doubt or evidence about the correctness of their bill, the system encourages speculative appeals. Businesses can also appeal at the last minute of the life of a valuation list and receive a compensation backdated by up to five years as a result.
- To deal with this, the Government increases the business rate multiplier at the point of revaluation to account for a notional loss on appeal for the life of the list. This approach is flawed. Even if the increase is correct at a national level, it does not mitigate the uncertainty that individual councils face because the actual risk is not spread evenly across England (see box). Business rate yield as a whole remains subject to significant volatility and downward risk.

The introduction of a new rating list in 2017 is a chance to improve the system. DCLG has already proposed to rework top-ups and tariffs so that there are no windfall gains or losses from revaluation and we support this approach.

However, significant losses for individual authorities are still possible after appeals, particularly for authorities where a small number of large ratepayers make up a disproportionate element of the list. It is also an opportunity to reconfigure the administration of business rates at the same time.

The Government should work with local government to move to a self-assessment model of administering business rates revaluations. This would still allow for a permissive approach to challenging the tax liability but share the risk of appeals between businesses and the public sector.

We would welcome the opportunity to discuss these proposals with Government in more detail. However, the following summarises how the system could work. The flowcharts in the Appendix compare the current and proposed systems.

- In the run-up to the 2017 valuation, businesses should be encouraged to 'self-assess' their rateable value, using online tools for this purpose. The Valuation Office Agency VOA could then appeal against the self-assessment if it considers it to be incorrect. Pending the outcome of the challenges the self-assessed value would be used for the purposes of the list and to set the multiplier and the rates retention baseline.
- Where a business chooses not to self-assess initially, the (VOA) would assess the rateable value as currently. However, businesses should have three months from the publication of the draft list to make initial appeals. Where an appeal has been received which proposes a lower rateable value and is not settled by the time of publication of the final list, the lower value should be used for the baseline. If the appeal is subsequently lost or settled at a higher value, the relevant billing and precepting authorities would get the benefit of the business rates retention.
- As in 2010, the multiplier should be worked out by taking the rateable value of the new list, with the reduced values, complete with an adjustment for appeals. Subsequent appeals should not be backdated.

This would be the biggest change to the business rate system for 25 years and it would bring the tax in line with other self-assessment taxes, such as VAT and corporation tax. The revaluation process in preparation to implementation in 2017 has started and we believe that this represents an ideal opportunity to put this reform into action. This change has a number of advantages:

- it helps ensure that ratepayers pay what they think is their fair share of the tax
- by reducing volatility, it increases the incentives of business rate retention and reduces the amount of money councils have to hold back from services to guard against losses
- it still allows the revaluations to be fiscally neutral
- it ensures that the expertise of the surveying industry remains in high demand
- it preserves the vital right of appeal where there is reasonable doubt about the validity of the rateable value assessment
- it introduces digital transformation to the business rate mechanism through self-assessment.

Moving to greater financial independence

The revenue support grant has sustained continuous cuts and this year is worth less than the centrally retained share of business rates for the first time (see table below).

At the same time, the Budget in March 2015 included a commitment to allow Greater Manchester and Cheshire and Cambridgeshire and Peterborough to retain more of locally raised business rates.

The continued reductions to revenue support grant provide the government with an opportunity to enhance the sustainability of local government through business rates. **The locally retained share of business rate income should be gradually increased to 100 per cent for all areas to enhance incentives for economic growth, promote the vision of self-sufficiency and fund local services**. This should be accompanied by revised top-ups and tariffs to ensure no area is left behind and with substantive reforms to the appeals mechanism to mitigate the financial risk arising from any degree of rates retention.

The majority of councils froze council tax over the lifetime of the last Parliament and will continue to do so wherever it is possible. However, given the cost pressures outlined above, especially in relation to adult social care, we believe that **the council tax referendum limit should be lifted. In addition, any call from the Treasury contingency that would have been used to fund subsequent council tax freeze grants should instead be used to reduce the topslice currently used to fund the new homes bonus.**

Table 2. Centrally kept business rates and revenue support grant, 2014-2020

	Funding (£m)					
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
RSG	12,063	8,987	6,380	4,088	3,042	3,702
Centrally kept business rate income	9,930	10,195	10,495	10,856	11,230	11,618
Central government ‘surplus’*	(2,133)	1,208	4,115	6,768	8,188	7,916

* Legally, business rates have to be used on funding for local government services but where the ‘surplus’ goes is currently unclear.

Source: LGA Future Funding Outlook analysis

Enabling long-term financial planning

The financial challenges faced by local government are compounded significantly by late and changing settlement allocations which 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. However, local government finance settlements are increasingly short-term, often spanning less than three years, with increasingly late announcement dates. This makes robust financial planning and proper public consultation very difficult.

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 is therefore welcome and we would urge the Government to deliver this as soon as possible.

Stable, long-term settlements will allow councils and other local service providers to plan long-term strategies to drive further efficiencies, make prudent financial management decisions and drive value for money while integrating public services at a local level. **We will work with HM Treasury, DCLG, and other departments to develop the mechanics of how such a system might work in practice**.

We recognise that the 2017 business rate revaluation represents a particular challenge when it comes to announcing a long-term local government finance settlement which would cover the whole Spending Review period. In addition, we believe that a certain degree of flexibility is necessary for both central and local government in order to manage unexpected risks and pressures appropriately.

Nevertheless, we believe that a set of governing principles which would allow this to happen can be designed and agreed. We look forward to working with the Government in establishing these principles over the autumn.

Future cost pressures on local government

KEY POINTS

Even on a 'business as usual' basis, and assuming that the savings achieved so far have fully dealt with pre-2016 challenges, we project councils will have to deal with £3.6 billion of pressures by 2019/20. Other Government policies announced either in the Summer 2015 Budget, or previously, which are due to be implemented over the forthcoming Spending Review period add another £6.3 billion by 2019/20. There are a number of areas where the potential for further costs is clear but difficult to quantify, including housing and asylum seekers.

One way to manage this is through greater transparency of the commercial terms of public sector contracts to show where value is best added. We believe Government should facilitate policy that actively encourages (or even enforces) businesses to be more transparent about the contracts they have with public bodies and the prices they charge. Other savings will have to be achieved through devolution and public service reform.

Given the continued public interest in council reserves, we recommend the establishment of a joint task force to undertake further research and analysis. This should include central and local government with experts such as The Chartered Institute of Public Finance and Accountancy (CIPFA).

In order for the Spending Review decisions to be sustainable to local authorities, it is important that the Government is aware of all the future pressures that the sector faces. We therefore welcome the commitment from the Government to review cost pressures faced by local government as part of the Spending Review. We welcome continued conversations with Government departments in developing a shared understanding of the financial circumstances of local government and look forward to seeing these concerns addressed in the Spending Review. The following is our initial contribution to this process.

Even working in a stable policy environment, there are demand-led and inflation pressures on local government services. Our Future Funding Outlook analysis published before the Summer Budget showed that councils already face a funding shortfall of £9.5 billion by 2019/20, based on anticipated funding reductions and identified cost pressures arising from demographic growth and change and general inflation. Of this, £3.6 billion represents these 'business as usual' cost pressures, slightly mitigated by an assumption of 1 per cent efficiency savings each year over the Spending Review period.

Quantifiable additional pressures

Our analysis does not take into account pressures arising from Summer Budget announcements, other Government policies or other factors beyond councils' control. These add a further £6.3 billion to the councils'

Table 3. Cost pressures facing local government, £m

Year	2016/17	2017/18	2018/19	2019/20
'Business as usual' – Future Funding Outlook	1,083	1,866	2,728	3,576
Other costed policy-specific pressures (detail below)	3,332	6,416	5,481	6,311
Total pressures	**4,415**	**8,282**	**8,209**	**9,887**

funding shortfall by 2019/20 and are set out below.

As recognised by the NAO, the Government needs to improve the way it recognises and funds new burdens for local authorities.

Funding for new burdens should be provided to councils in the year the burden materialises, as any delay just builds up unfunded costs for later years.[33]

Housing. Annual reductions of 1 per cent to social housing rents represent lost income of £2.6 billion over the Spending Review period. This will affect HRA business plans and housing stock and equates to the cost of building almost 19,000 new homes. In addition, less availability of social housing could mean an increase in private rental tenants, who will be affected by the cap on the Local Housing Allowance (LHA).

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, 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.

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.

Due to the ending of contracting out, LGPS funds will need to reconcile all member records with the HMRC. The exercise may result in significant alterations impacting pensions due to discovery of over/under payments. The cost burden related to the initial exercise is estimated at £100 million with further costs of £200 million per annum to cover additional increases.

Pensions. Public Sector Pensions' 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.

33 Local Government New Burdens, National Audit Office, May 2015

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. This pain (at the cost of public services) is probably not needed as a small increase in interest rates or a less cautious set of actuarial assumptions will significantly reduce if not erode entirely the deficit.

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 until the period of austerity is completed, This will provide local government time to reduce the target deficit (i.e. 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.

Universal Credit. The introduction of Universal Credit for previous housing benefit clients will make it difficult for councils to collect existing debts for old overpayments that are currently being collected by attachment of benefit. Housing benefit is a long way down the list of priorities for recovering debt from Universal Credit. If the Government does not take responsibility for this old debt the impact on council balance sheets could be up to £1 billion.

Planning. Exemptions from section 106 and CIL on starter homes and from section 106 on schemes of fewer than 10 units have an impact on councils' ability to provide the essential infrastructure necessary for the new homes, ranging from roads to school places, as well as delivery of affordable housing. If on average s106 payments per new home would be £15,000[34] then the s106 monies foregone on 200,000 new starter homes is £3 billion over the course of the Parliament, while responsibility to meet basic infrastructure remains and intensifies budget pressures.

34 Small-scale developers, DCLG, November 2014

Adult social care provider market pressures. Local authorities are currently able to use their bulk purchasing power to attract better rates for care provision from external providers. However, in some cases that has resulted in a significant difference between the rates charged to local authorities and those charged to self-funders. As a result, there is a significant tension in the provider market as the difference in rates paid is becoming increasingly unbearable for self-funders and providers are increasingly unable to absorb lower fees in their cost base. Research by Laing & Buisson, commissioned by the County Councils' Network (CCN)[35], has estimated this upward pressure on council contract costs to be £630 million just for members of the CCN. On a population basis, the impact on England would be roughly double that.

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.[36]

Environment. A number of councils are reporting instances of trees being at severe risk from tree diseases and pests such as Chalara ash dieback and oak processionary moth. This mainly affects rural councils at present and appears most prevalent in eastern England, although significant cases have been reported elsewhere as well (eg the North West as well as in Scotland) and must be attended to in order to minimise the health and safety risk to passers-by. Costs identified by individual councils affected are significant locally and if repeated nationally could easily exceed £100 million.

35 County Care Markets: Care Market Sustainability & The Care Act. County Councils' Network, July 2015

36 Impact Assessment – Mental Capacity and Detention, Law Commission, August 2015

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 due to business rate retention. For example, the VOA 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. If councils had greater financial certainty arising from a reform business rate system, some of the money held up in these provisions could be released to fund services.

Children's services. The future of the SEN reform grant for 0-25 SEND duties beyond April 2016 has not been confirmed. Should the funding cease, the financial impact due to the withdrawal of the grant is £32 million per annum.

Public health. The Government reduced the 2015/16 funding allocation by £200m in the middle of the year. Should this reduction be made permanent as part of future allocations, it will result in additional unfunded pressures on what might be pre-existing long-term contracts commissioned by local authorities. In these cases it will mean cutting other council services to pay for on-going public health service costs. The NHS is also likely to face further pressures to provide services as a result.

Unquantifiable additional pressures

In addition to the burdens listed above, there are a further number of areas where additional costs are certain to be incurred but are difficult to quantify:

Insurance Premium Tax. Self-insurance arrangements operated by many councils to maximise value for money mean that councils will be partly insulated from the increase in insurance premium tax announced in the Summer Budget. Nevertheless, the increase will still affect councils' costs and will impact on the costs of community groups who work with councils, as well as councils commercial suppliers with an upward pressure on prices.

Changes to support for failed asylum seekers and unaccompanied child asylum seekers. The Government is currently consulting on changes to the support provided to failed asylum seekers and other illegal migrants. These are likely to lead to an increase in the numbers of asylum seekers and migrants without recourse to public funds that councils will need to support and add to the existing unfunded and unquantified cost pressures. If it does, the financial impact should be fully addressed in accordance with the new burdens doctrine and consideration given to changes to legislation or guidance to clarify council responsibilities.

Following the significant increase in the numbers of unaccompanied asylum seeking children, the grant arrangements should be amended to make sure they cover the total cost to councils of providing support, including those incurred by councils after supported young people leave care.

Housing. Proposals in the Housing Bill will require councils to sell their most expensive housing stock. This creates uncertainty around the status of council new build properties and risks to the future stream of rental income. This will potentially raise the financing costs of new council housebuilding schemes, unless councils keep the proceeds of the sales.

Changes to Housing Benefit (HB). Both the freezing of the Local Housing Allowance (LHA) rate and the extension of the Benefit Cap have potential cost implications for local councils, in terms of homelessness, crisis support and rent arrears. The Benefit Cap is particularly likely to have an impact on families, with inevitable consequences on the support needs of children in those households. Evidence from the previous reduction in the LHA rate showed that in high rental areas the reduction in the LHA rate did not result in reduced rents: the IFS estimates that 90 per cent of the cost of reductions in LHA was borne by tenants.

The impact of these reforms will be further exacerbated by the continued lack of supply across all tenure types and the accelerating growth in the proportion of HB claimants in the private rented sector, where rents are generally higher. In some high rental areas the real terms LHA rate could be as low as 23 per cent by 2020, seriously impacting upon the availability of affordable housing and pushing households into crisis, arrears, debt and homelessness with significant costs for councils.

While the retention of Discretionary Housing Payment and some Targeted Affordability Fund is welcome this funding is not intended to – nor can it – address the significant, long-term and deepening unaffordability of many high rental areas for households on modest incomes, many of whom are in work.

Highways. Traffic on local roads is due to increase by between 28 per cent and 51 per cent by 2040.[37] This will place extra pressures on council highways services (for example, roads maintenance, parking) and result in other indirect costs (for example, air pollution).

Closure of the Independent Living Fund and transfer to councils. At the time of writing, the Government has not yet published the allocations for councils to fund the additional caseload that was transferred from 30 June 2015. In 2014/15, the Government spent £271 million on the Independent Living Fund. Any underfunding of the costs in relation to this caseload this year and in future years will be an additional pressure to local government.

Unmet adult social care need. A December 2013 London School of Economics (LSE) report[38] commissioned by the Care and Support Alliance showed that 500,000 older and disabled people who were not receiving social care in 2012 would have done so five years earlier as a result of tightening eligibility criteria during this period. Research by Age UK in July 2015[39] revealed that more than one million older people have unmet social care needs, which includes support with basic

37 Road traffic forecasts 2015, DfT, March 2015

38 Half a million older and disabled people lose care since start of recession, LSE, December 2013

39 Over a million older people struggling to cope at home with zero care, Age UK, July 2015

tasks such as getting out of bed, washing and dressing.

Children's services. Councils have faced sharply increased demand for children's social care since the Peter Connolly case in November 2008, resulting in a 22 per cent rise in referrals, a 65 per cent rise in children subject to a child protection plan and a 16 per cent increase in the number of children in care.

Demand pressures are likely to increase. Some areas have already seen increased demand for referrals as a result of high profile child sexual exploitation cases including findings from the Jay Report. In addition, the number of pupils with special educational needs related to learning disability is expected to rise by 26 per cent from 2014 to 2023, with growth accelerating towards the end of the decade.

We are aware that the DfE has commissioned research, due to report in October, to look at costs in a representative sample of 15 councils. We look forward to seeing the results and on working with the department to increase the shared evidence base on this.

Additional duties in community safety and public protection. Smaller services such as community safety are experiencing growing cost pressures as the Government continues to place additional duties on top of existing ones. While individually, these new duties – some driven nationally, others by Europe – may not have a significant financial impact, collectively they add up. For example, there is increasing recognition across government of the role that councils have to play in a number of policing and community safety issues.

A range of recent policies, strategies and legislation identify councils as key partners in tackling child sexual exploitation and organised crime, and councils have new statutory responsibilities to prevent people becoming involved in terrorism. Councils will be getting £10,000 each to implement this new duty, but this will not fully fund all the costs – such as training staff.

Elsewhere in public protection, there is a steady flow of new enforcement responsibilities for trading standards and other regulatory services.

To address this, we need a more realistic approach nationally to the extent to which new responsibilities can be placed upon already stretched local services. We need to ensure that Government is not inadvertently gold-plating European Directives beyond what is required, and perhaps to consider the flow of regulation as part of the ongoing negotiations about Britain's role in Europe. Above all, where new duties are created, Government must be clear that new burdens funding properly reflects all of the costs associated with them.

Apprenticeship levy. In the Summer Budget, the Government announced an apprenticeship levy which will be applicable to large employers and will pay for the government's own initiatives to provide more apprenticeships. Councils are considered to be within the scope of this. We propose councils be excluded from the levy as it is an additional cost at a time of significant financial constraint, especially given that local government is leading the charge in providing apprenticeships both as place shaper and local employer.

Waste collection. Currently English local authorities spend £3.8bn a year on waste collection and recycling with a recycling rate of 43 per cent. The long term target that councils are expected to meet by 2020 is 50 per cent. Doing so will require councils to increase their spending on waste collection and recycling services.

Leisure centres. Sport England has estimated that according to data they have collected, around 75 per cent of all leisure centres in England will require significant refurbishment over the next four years.

Saving money through procurement and digital transformation

Councils continue to work with their suppliers to ensure that public money delivers maximum value. Councils have adopted shared services, worked with buying organisations, consortia and in partnership with commissioners in other parts of the public sector and have negotiated better prices for existing goods and services. Suppliers and contractors have responded positively but opportunities to negotiate lower prices for the same services are running out.

We are now entering a new phase in which further savings will be achieved by transforming the way services are delivered. We need innovative service improvement and cost saving ideas which private and voluntary sector providers can bring. We need to work with and incentivise bidders for public tenders to find new, better ways of delivering outcomes.

One way we can do this is through greater transparency of the commercial terms of public sector contracts to show where value is best added. We believe Government should facilitate policy that actively encourages (or even enforces) businesses to be more transparent about the contracts they have with public bodies and the prices they charge.

As part of this drive towards transparency we propose to undertake a national purchase spending analysis that identifies categories of spend mapped to local government's procurement classification system. Providing the funding for this, estimated at £1 million, would be one way the Government could support councils to unlock significant further savings.

Public sector commissioners and contract managers need more support of the kind offered by the joint LGA/Cabinet Office Commissioning Academy. We would like the Government to increase its support for the Commissioning Academy by contributing £2 million a year to help extend the number of local government officers and members who can benefit from learning new skills. Government can also help by providing resources to ensure that all councils can adopt a standard e-invoicing system to enable bills always to be paid accurately and on time.

Managing assets effectively is an increasingly important area where local government looks to find savings and additional income. We believe that through collaboration local authorities and central government can continue to unlock financial benefits as they manage assets more proactively.

The One Public Estate Programme is a step in the right direction and we set out our proposals on asset management earlier in this paper.

The LGA has consulted extensively with local government to help shape the DCLG's Spending Review submission on digital transformations that it reflects the needs of the sector. In response to clear feedback, we highlighted the opportunities to drive efficiency, improve the user experience and benefit the wider public sector by supporting councils to make more services available online (including through developing and reusing common digital assets) and identifying and accelerating the roll out of digital 'exemplars', such as those developed as part of key national transformation programmes (for example, Universal Credit, Troubled Families, and health and social care integration). We have asked the Government to invest in this area by providing councils with the financial support or additional capacity to help them take forward digital work and develop the leadership capacity that will embed digital transformation across councils and the wider public sector.

Local authority reserves

There continues to be widespread public interest in how councils plan for the future, in particular in connection to the levels of reserves that councils have accommodated.

Our previous research has indicated that prevailing reasons for increasing and holding reserves are:

- to buy time while implementing efficiency savings
- to guard against various risks, such as business rate appeals
- to invest in projects intended to save or earn money.[40]

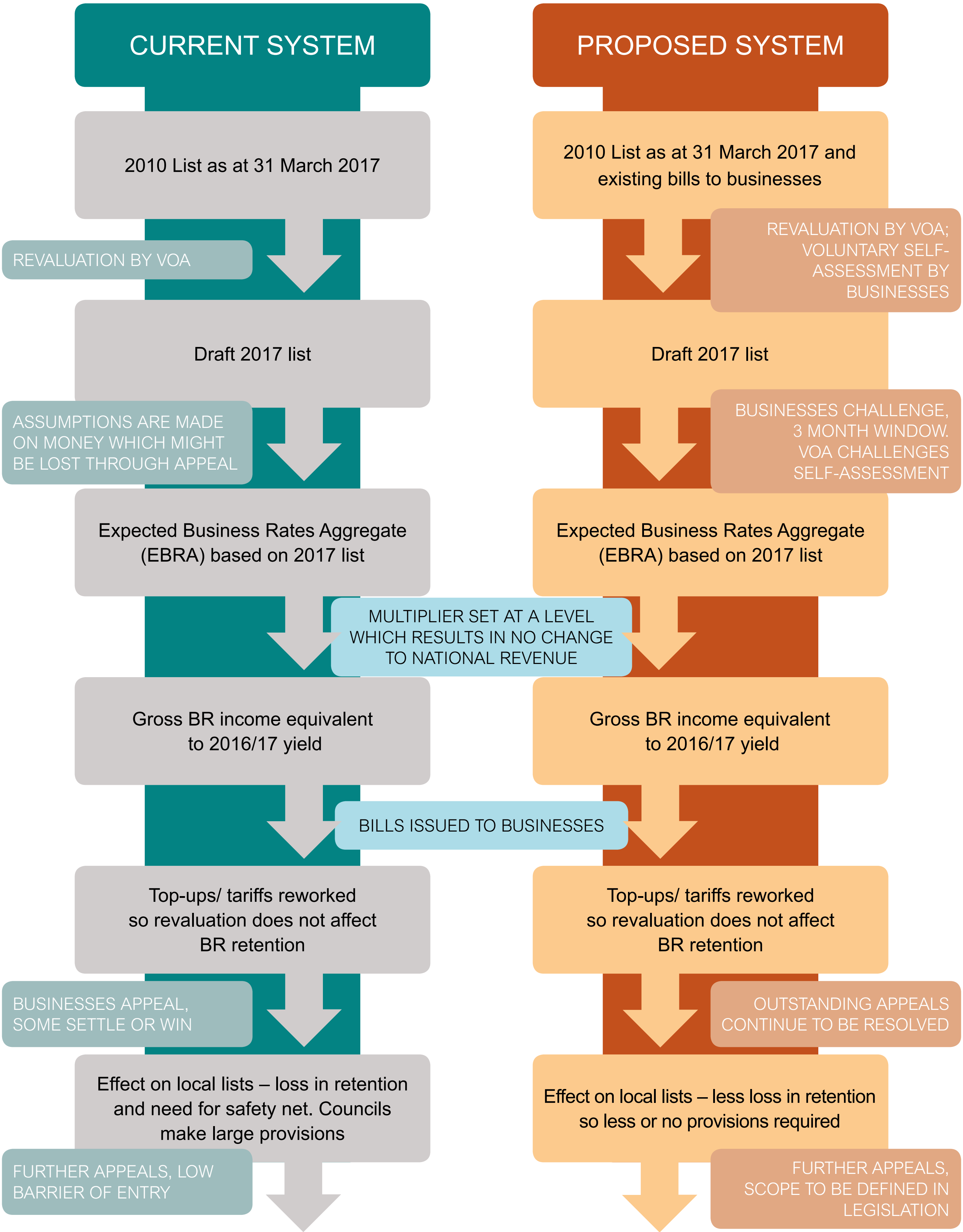
Longer-term settlements and more certainty over income achieved through proposals in this submission would allow councils to release some of their risk-based reserves to fund services, while those reserves meant for investment will be drawn down over time.

Latest analysis by CIPFA shows that, as at 31 March 2014, of the £3.7 billion held by councils in general reserves and balances, 94 per cent of councils were committed to specific plans.

Given the continued public interest in council reserves, we recommend the establishment of a joint task force to undertake further research and analysis. This should include central and local government with experts such as CIPFA.

40 Under pressure, LGA, April 2014

Appendix
Proposed changes to administering business rates revaluations and appeals



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