

Local Government Association (LGA) briefing for the debate on the motion relating to the police grant and local government finance reports

12 February 2014



KEY MESSAGES

- **Financial sustainability is the greatest challenge facing local public services with 2015/16 a crunch year for some councils.** In the period of the current Parliament, local government's core funding will fall by 40 per cent and local government will have to have made £20 billion worth of savings. The finance settlement confirmed that the central government grant to run local services will fall by 8.5 per cent over the next two years, when including NHS support for social care. However, without including NHS support for social care which is not available for shire district councils, the reduction is 15.9 per cent.
- The financial settlement confirmed that local authorities planning to increase their council tax by 2 per cent or more will have to hold a referendum. The Government did not announce council tax referendum limits in the provisional settlement despite a commitment to do so. This was a late decision following a late settlement announcement following a late Autumn Statement the accumulated effect of which is to make it hard for Councils to plan than needs be. The uncertainty has made it harder for authorities to consult residents and set their budgets. In addition, the cycle of local elections allows people to pass judgement on their councils. **No other tax increase is subject to the extra cost of a referendum, as all other taxes are rightly seen to be within the mandate of the elected government. The same should apply for council tax.**
- Levying bodies such as Internal Drainage Boards, Integrated Transport Authorities and Pension Authorities will now be included within the referendum provisions. **Councils that have frozen their council tax could still face having to organise referendums, whether or not the increase in total council tax was a direct result of their financial decisions.** A good example of an unintended consequence is highlighted by Sedgemoor District Council where the internal drainage board is going to need to increase its levy significantly thereby forcing the council to either cut funding to services elsewhere or hold a referendum.
- **In other areas of policy central government has started to listen to the LGA and local authorities.** Government made some important concessions such as returning some of the money held back as part of the New Homes Bonus, promising to fund the proposed business rates freeze and avoiding an additional reduction to local government funding in 2014-2015. Without this support local services would have suffered more. Alongside the introduction of the Better Care Fund, these are positive developments which will aid financial planning in local government.
- The settlement confirms that council tax support (CTS) funding will not be separately identified in the central grant for 2014-15 or 2015-16. Detailed calculations demonstrate that, in contrast to the council tax freeze grant which is specifically protected, **funding for CTS schemes will fall in line with the settlement, meaning a reduction of around £1 billion over three years.**

Briefing

- The figures for 2015/16 published with the settlement are said to be 'illustrative'. Education authorities will receive less than these figures indicate because the impact of a £200 million cut in Education Services Grant announced in the Spending Round in June 2013 that has not yet been consulted upon by the Department for Education and is not reflected in the figures. **The Government has indicated it is open to the idea of longer term settlements for local authorities but so far has not been able to deliver this in practice.**
- The current model for financing and running local government is broken. Government, both central and local, can only secure the future of public services by fundamentally rewiring the way the system works. Councils could do so much more if central government would only offer them the necessary tools and flexibilities to do so. **The LGA's campaign, *Rewiring Public Services*,¹ is advocating a radical new approach to securing the financial stability and sustainability of local government.**

BACKGROUND INFORMATION

Council tax referendums

The extension of council tax referendums to include levying bodies risks perverse outcomes that will put growth generating investment at risk.

Levying bodies are, by statute or local agreement, able to recover some or all of their costs by charging local authorities a fee for infrastructures or services. Local government in England is subject to a variety of different levying arrangements, covering significant regionally important issues such as transport and drainage, as well as a wide range of more local issues such as maintenance of commons. The LGA is aware of a number of examples where the extension of council tax referendums is likely to cause instability and uncertainty. These are:

- **Internal Drainage Boards and Flood Defence:** In some cases, internal drainage board levies represent 20-50 per cent of total district council tax. In these cases, a levy increase prompted by the need to take emergency action to manage flood risk would itself be sufficient to breach the referendum limit for the district concerned and so might not go ahead due to a negative vote in a referendum. These boards may also be unable support wider central government objectives because the changes could limit their ability to levy funding to invest in flood defences.
- **Integrated Transport:** Effectively capping investment by city-wide transport authorities through council tax referendum limits could undermine the economic benefits of City Deals. The West Yorkshire Integrated Transport Board is currently negotiating with its constituent authorities to increase its levy to fund transport infrastructure investment across Yorkshire. Local authorities in the area may either have to reduce their spending at a time when services are under pressure or trigger a referendum. Should a referendum be lost it would put at risk £750 million worth of investment and 20,000 new jobs.
- **Pension authorities:** Pension authorities in some Metropolitan Counties and London operate the legacy pension schemes of the Greater London Council and former Metropolitan Counties. As with the rest of the Local Government Pension Scheme, there is little control over the costs of these which are increasing with each successive valuation. In addition, there may be further levying bodies created in the future as a consequence of the pension governance reforms the DCLG are considering.

Business Rates

The LGA notes the Government's decision to cap the increase in business rates for 2014-15 to two per cent. The local government finance settlement confirmed

that the cost of the decision to cap business rates for 2015-2016 by two per cent will be borne by central government.

The current consultation on the reform of the business rates appeals system is important as it should remove the financial risks being borne by local government. The Government should fund the risk of safety nets exceeding projected levels and not top-slice additional amounts from the local government settlement. It should also allow appeals from before April 2013 and not yet decided to be set off against the old central business rates pool.

Council tax support

The settlement confirms that council tax support funding will not be separately identified in 2014-15 or 2015-16, since there is not a separate element within the Settlement Funding Assessment. The Government claim that the top-line transfer has not been reduced. However, this is not reflected in authorities' figures and the detailed calculation model for 2014/15 available shows that the council tax support (CTS) funding element in 2013/14 has been split between elements relating to upper and lower tier services and fire and then reduced by the same amount as these elements. If authorities choose to reduce funding for their CTS schemes in line with this, it means that the funding for CTS schemes will fall by around £1 billion over three years. This treatment contrasts sharply with the treatment of council tax freeze funding where the element has been specifically protected within authority settlement funding assessments.

New Homes Bonus

The Government's decision to reduce the top-slice for New Homes Bonus by £100m in 2014/15 is a positive development and demonstrates that the concerns of local government on this issue were listened to.

However, the sector is concerned that £70 million will still be top-sliced from London boroughs and the City to go to the Greater London Authority (GLA) in 2015/16. Given the fact that most New Homes Bonus is top-sliced off the main settlement, this is reducing resources originally destined for the London boroughs. The Government has not fully explained why London is being treated differently in this respect and London members of the LGA have made strong representations about this.

Better Care Fund

The LGA's *Rewiring Public Services* campaign has called for further integration of social care and health services. Integrated services are more likely to improve outcomes in ways which treat people with dignity and respect and it makes sense to get rid of duplication and waste. **The Better Care Fund (BCF) fits well with our aspirations for integrated health and care and is an opportunity to improve joint working between health and social care for the benefit of the individual and the public purse.** Health and Wellbeing Boards will need to be at the centre of this work.

However, the BCF does not of itself address the financial challenges facing councils and clinical commissioning groups and is included within NHS Departmental Expenditure Limits, so it could be regarded as double counting. We need sustainable funding for adult social care both for now and in the longer-term in order to make the most of the BCF.

Rewiring local government finance

The LGA's *Rewiring Public Service*² campaign, supported on a cross party basis by local government, advocates a radical new approach to fix the broken system of local government finance. To achieve this LGA is calling for:

- **Five year funding settlements** across the public sector that provide more certainty and allow local partners to commit to joint investment and commissioning. Progress towards this goal was made in the Autumn Statement which announced that local public services will get the same long-term indicative statements as central government in order to give more certainty to councils.
- **The sharing of money fairly around England** by taking financial distribution out of the hands of Ministers and replacing it with an agreement across English local government. The current arrangements for funding local government are opaque and subject to change with each new national government.
- **Wider revenue raising powers** including the ability to levy local tourist taxes so as to reduce the dependence on council tax and business rates.
- **The development of a market in municipal bonds** that gives local government access to alternative forms of finance at more competitive rates than the Public Works Loans Board. The LGA is already looking at the feasibility of this proposal.

The benefits of this new approach would be:

- A more resilient economy overall by making each area stronger, instead of accepting that some will always be dependent on others. This would Incentivise local economic growth and join up whole place decision-making to deliver more effective, better value services. It could bring together decision making on health, housing, education and emergency services and include closer working with business and the voluntary sector.
- Reform our broken system of local government finance by allowing local areas to raise funds in ways that make sense in that area, not relying on Council Tax and Business Rates. People would benefit from greater control over the services they care about as decisions on local taxation and how public money is spent would be taken by councils, not central government.

¹ Local Government Association, *Rewiring Public Services*, available at: <http://www.local.gov.uk/campaigns/>

² Further information on *Rewiring Public Services* available at: <http://www.local.gov.uk/campaigns>