

Local Government Association Briefing

Local government finance and arrangements beyond 2020

House of Lords

Thursday 13 July 2017



Key Messages

- Councils are at the heart of their local areas, improving residents' lives on a daily basis. For local government to maximise its potential and to protect local services from further cuts, it must be made financially sustainable and truly independent.
- We are calling for the Government to address the overall funding gap of £5.8 billion facing local government by the end of the decade, and to provide an additional £1.3 billion required to stabilise the adult social care provider market.
- Full retention of the £26 billion of business rates collected locally each year by councils could be an important step towards greater fiscal independence away from uncertainty and reliance on favourable decisions by the Government to fund local services. This can only be achieved if the extra revenue is used to ensure that existing council services are properly funded. Councils should be free to use income from this tax to protect and improve local services.
- Local authorities' funding allocations beyond 2020 are not clear, due to the pause in reforms to business rate retention and the fair funding review. Many local authorities will be in a position of not only not receiving Revenue Support Grant, but having to pay back funding to the Government. This is not sustainable and does not allow councils to plan how they will deliver services. The Government should offer a multi-year settlement to cover funding up to the point when local government finance reform is introduced.
- Further information on how local government stands ready to meet the challenges of a changing world are outlined in our recent *Growing Places* report.¹ This champions how councils can – with fairer funding and freedom from central government – build desperately-needed affordable homes, create jobs and school places, provide the dignified care for our elderly and disabled, and boost economic growth.

Background information

Councils are at the heart of their local areas, improving residents' lives on a daily basis. As the most trusted part of the public sector,² at its best local government provides the strong and ambitious leadership that ensures the country has safe and thriving communities. For local government to maximise its potential and to

¹ LGA report, [Growing Places: building local public services for the future](#), July 2017

² [Polling on resident satisfaction with councils](#), LGA, 2017

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protect local services from further cuts, it must be made financially sustainable and truly independent.

By 2020 local government will have lost 75 pence out of every £1 of core central government funding that it had to spend in 2015.³ We estimate that local government faces an overall funding gap of £5.8 billion by the end of the decade, with an additional £1.3 billion required to stabilise the adult social care provider market. As outlined in the table below, the cost pressures associated children’s and adult social care, and homelessness and temporary accommodation, are particularly acute.

Service area	Funding gap by 2019/20
Children’s services	£2 billion
Adult social care (inclusive of the pre-existing pressure to stabilise the provider market)	£2.3 billion
Homelessness and temporary accommodation	£200 million
Other services funding from council core spending power	£2.4 billion
Apprenticeship levy	£200 million
Total	£7.1 billion (£5.8 billion funding gap + £1.3 billion to stabilise the adult social care provider market)

Further government funding cuts will result in local authorities having to make significant reductions to the local services communities rely on. The need for financial stability is urgent if local government services are to operate on a sustainable footing.

As a result of the pause in reforms to business rate retention and the fair funding review, local authorities’ funding allocations beyond 2020 are not clear. Many local authorities will be in a position of not only not receiving revenue support grant, but having to pay back funding to the Government. This is not sustainable and does not allow councils to plan how they will deliver services. The Government should offer a multi-year settlement to cover funding up to the point when local government finance reform is introduced.

The UK is one of the most centralised economies in the western world, and as a consequence has poor levels of public sector productivity.⁴ Working in partnership with local government, the new Government should ensure that further fiscal freedoms are given to local areas. This will give them the best possible chance of unlocking sustainable economic growth and wider public service reform, by:

- Addressing the £5.8 billion funding gap faced by local government by 2020
- Providing £1.3 billion to stabilise the adult social care provider market
- Reviewing local authority relative needs and resources and refreshing the methodology used to distribute funding between individual local

³ LGA media release, [‘75p in every £1 of core government funding to councils cut by 2020’](#), July 2017

⁴ [Revenue and Statistics Comparative Tables](#), OECD, 2017

- authorities
- Allowing local government to keep all of the £26 billion in business rates it collects each year.
- Abolishing council tax referendum limits.

Further information on how local government stands ready to meet the challenges of a changing world are outlined in our recent *Growing Places* report.⁵ This champions how councils can – with fairer funding and freedom from central government – build desperately-needed affordable homes, create jobs and school places, provide the dignified care for our elderly and disabled, and boost economic growth.

Business rates

In the last Parliament joint work between local and central government was undertaken as we sought to develop a new system by which local government, as a whole, would retain 100 per cent of its business rates income by 2019/20. The Queen’s Speech omitted any mention of the Local Government Finance Bill, which was the vehicle to deliver this reform and fell in the last Parliament due to lack of time when the General Election was called. The Bill had set out a framework to allow local government in England to keep all of the £26 billion in business rates it raises locally each year.

Full retention of business rates by local government could be an important step towards greater fiscal independence away from uncertainty and reliance on favourable decisions by the Government to fund local services. This can only be achieved if the extra revenue is used to ensure that existing council services are properly funded. This is a local tax, for spending on local services. Councils should be free to use income from this tax to protect and improve local services.

We are calling for continued joint working with the Government to introduce further business rates retention in a way that gives councils the maximum fiscal independence but recognises that further retention of local taxes will also bring increased risk that the sector will have to deal with. This joint work must continue at pace and ensure that:

- The system balances funding needs with the incentive and capacity to grow local economies.
- Risks are properly dealt with, including funding business rates appeals at a national level, as well as a safety net system of protecting local authorities from significant unforeseen losses (such as those due to closures).
- Councils are incentivised, but not compelled, to work together to share risks and rewards.
- All areas have the flexibility to vary the business rates multiplier up or down for both the area as a whole, part of it and for groups of ratepayers.

Council tax

⁵ LGA report, [Growing Places: building local public services for the future](#), July 2017

Council tax is subject to significant control from central government, and the current system does not allow for local freedoms or accountability of politicians. No other sector faces such constraints on its capacity to increase income as demand rises. Council tax has increased by 15.8 per cent over the past ten years, much less than bills for gas (58.7 per cent), electricity (50.5 per cent) or water (34.2 per cent).

The current system can also be seen as resulting in unfair bills for taxpayers with a differential impact on different parts of the country. Whilst the social care precept has signalled a welcome change, more needs to be done to give local government freedom on its own taxation.

To allow councils to spread the burden of taxation fairly, Government should work in partnership with local government to:

- Abolish council tax referendum limits to bring council tax in line with other taxes in the UK which are not subject to referenda.
- Remove restrictions around eligibility for council tax support to rectify the challenges around intergenerational fairness and sustainability of support packages.
- Allow councils to vary council tax discounts to make sure it is fair to everyone according to local circumstances and helps achieve shared goals and priorities.

Fees and charges

While income from fees and charges is clearly not a sufficient source of income to meet the funding gap for all councils, it is nevertheless an important part of the financial landscape which can help fund services. The Government should allow councils to set fees and charges locally where appropriate on a cost recovery basis, and introduce further improvement and flexibility to planning and licensing fees. In particular, the Government should follow through with the commitment to increase planning fees by 20 per cent made in the Housing White Paper.