

# 2017/18 Local Government Finance Settlement: Technical Consultation

28 October 2016



The Local Government Association (LGA) welcomes the opportunity to respond to the technical consultation on the 2017/18 local government finance settlement.

The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.

This consultation response has been approved by lead members of the LGA's Resources Board.

## Key points

- The LGA welcomes the Government's proposals to extend the multi-year offer to include more grants. It should be widened to include all major funding streams allocated to local government.
- Funding available through the improved Better Care Fund in 2017/18 will not be sufficient to address the huge pressures councils face in adult social care services. Authorities should have maximum flexibility over the spending of the funding and reporting requirements should be kept to a minimum; the same also applies to the council tax adult social care precept.
- The LGA does not support council tax referendums; democratically-elected local authorities should be able to set council tax at appropriate levels without the cost and bureaucracy of a referendum process. The Secretary of State should exercise his power not to determine principles for any type of authority for 2017/18.
- It is important that authorities are protected from changes in business rates income which are solely the consequence of the revaluation process. The suggested approach appears to provide a way of cancelling out the impact; it will be important to keep this mechanism under review over the next three years, to ensure it is operating as intended. It is also important that local authorities continue to be fully compensated for any centrally determined changes to reliefs such as small business rate relief.
- Lastly, the LGA supports greater flexibility to support pilots and new devolution arrangements. We agree that authorities not involved in these arrangements should be protected from their impact. Devolution is transferring functions from the centre to local. Funding in devolved areas should come from the centre.

## Responses

Our detailed responses to the questions in the consultation paper are set

# Submission

out below.

**Question 1: What other, additional grants, beyond those set out in para 2.2.2, could the Government consider including in the multi-year offer?**

The LGA welcomed the principle of the four year settlement offer made in December 2015. We have long called for local government to have the same planning horizon as central government. Financial certainty for local authorities in the run-up to the implementation of increased business rates retention is vital.

As such, the LGA supports the proposal to extend the multi-year offer. We believe the offer should include all the other main grants allocated to local authorities. In addition to the grants already included in the multi-year offer, it should be extended to include the following funding streams:

- Public Health Grant
- Improved Better Care Fund (the Government should also continue to ensure that existing Better Care Fund continues to support social care)
- Housing Benefit and Council Tax Administration Subsidy
- Education Services Grant
- Extended Rights for Home to School Travel Grant
- New Homes Bonus (indicative allocations)
- Highways Maintenance Capital Grant (already announced up to 2020/21, but should be included in offer to improve transparency)

We welcome the extension of the offer. However, the timeframe for this consultation means the deadline for local authorities to accept the four-year offer closed before any decision by the Government on including additional grants. If the decision is taken to increase the range of grants, authorities should be given another opportunity to accept the multi-year offer.

It is disappointing that the Government has yet to publish the response to the New Homes Bonus consultation, which closed more than six months ago. For many authorities, especially district councils, the New Homes Bonus forms a significant proportion of their income. Local government urgently needs clarity over future allocations of this funding stream.

**Question 2: Do you agree with the proposed methodology for allocating funding for the improved Better Care Fund as outlined in paragraph 2.3.4?**

We note that the Government's proposed methodology would lead to some councils with social care responsibility receiving no improved Better Care Fund (iBCF) money. The LGA does not comment on distributional issues, however, by building into the methodology an assumption that councils will increase the social care council tax precept by the maximum possible amount, the independence of all social care authorities is constrained.

Councils will face a completely different mix of council tax social care precept and iBCF income to support adult social care. As a result, any conditions attached to the use of additional funding through the iBCF should be kept to an absolute minimum; the same also applies to the social care precept.

It is important to note that the additional money for social care in the iBCF only amounts to £105 million in 2017/2018. This, together with the incremental nature of the adult social care precept, means a further year of significant pressures on a system that is already under very severe stress.

For many councils the extra income raised from the adult social care precept does not cover the additional costs associated with the year-on-year increases in the National Living Wage. The government should bring forward the additional funding for the iBCF in 2017-18 and give councils greater flexibility on council tax increases, as set out below.

**Question 3: Do you agree with the council tax referendum principles for 2017-18 proposed in paragraphs 3.2.1 to 3.2.2 for principal local authorities?**

The LGA has consistently argued against the principle of council tax referendums. Referendums on council tax are an unnecessary and costly burden that will put growth-generating investment at risk. Council tax should be a local decision and councils should be held accountable through the normal mechanism of the ballot box.

Under the Localism Act 2011, the Secretary of State has the power *not* to determine a set of principles for a financial year. The LGA believes the Secretary of State should exercise this power and give local authorities the freedom to set council tax levels at the right level to address pressures. Councils can be trusted to make sensible decisions about council tax increases, taking into account the wishes of local residents.

If the Secretary of State still goes ahead with his proposed principles, the LGA notes that some councils, particularly district councils, are calling for levies, particularly for drainage boards, not to be taken into account when calculating the relevant basic amount of council tax for referendum purposes. They point out that some districts have very large drainage board levies and that if these increase the authority may not be able to increase council tax for other services. Some other councils consider that if there are to be referendums the relevant basic amount of council tax should include levies, as this enables the authority to have increased flexibility if levies increase by an amount lower than the referendum limit.

**Question 4: Do you agree that referendum principles should be extended to larger, higher-spending town and parish councils in 2017/18 as set out in paragraphs 3.3.3 to 3.3.4?**

The LGA does not support council tax referendums, as outlined above. Notwithstanding these points, if the Government continues to impose referendum principles, the approach suggested seems fair.

**Question 5: Do you agree with the proposed approach to take account of the transfer of responsibilities to town and parish councils as outlined in paragraph 3.3.5?**

The Department should refer to responses from town and parish councils, as well as billing authorities in those areas with town and parish councils. The LGA notes that this would increase the complexity of the budget-setting process.

In many non-metropolitan areas there are hundreds of town and parish councils. If this process was extended, as the question below suggests, each could potentially be required separately to agree with the relevant billing (and precepting) authority, the cost of transfer of services and calculate its impact on the precept.

**Question 6: Do you have any comments on the suggestion that referendum principles may be extended to all local precepting authorities as set out in paragraph 3.3.6? If so what level of principle should be set?**

The LGA does not believe referendum principles should be set for any authority, as outlined in response to Question 3.

**Question 7: Do you have views on the practical implications of a possible extension of referendum principles to all local precepting authorities as set out in paragraph 3.3.7?**

An extension of referendum principles to 8,800 additional bodies would undoubtedly generate a significant administrative burden.

**Question 8: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.4.1 to 3.4.8?**

The suggested methodology does provide a way of altering top-ups and tariffs so that no authority gains or loses as a result of the revaluation. This will be done in the finance settlements for 2017-18, 2018-19 and finally reconciled in 2019-20. We note that the adjustment will be made without the allowance for appeals in the 2017-18 multiplier. This will mean, according to DCLG, that authorities will retain that adjustment to set towards the cost of future appeals. The LGA can see the technical logic of this, whilst recognising that the readjustment of top-ups and tariffs is a distribution issue. We would expect top-ups and tariffs to continue to balance to zero.

**Question 9: Do you agree that the methodology, as outlined in paragraphs 3.5.5 to 3.5.13, for calculating changes to the local share of business rates and tariff and top up payments is correct and does not adversely affect non-pilot areas?**

The LGA welcomes the offer of two options for pilot areas and the proposed methodology appears to be suitable. However, we would refer DCLG to responses from authorities involved in pilots for detailed comments.

Current pooling arrangements for 2016/17 in London, Manchester and Liverpool differ from the footprint of the combined authority structures in those areas. More clarity on how the proposals will affect these pooling arrangements is needed.

The LGA supports the commitment that any cost to the system from elements of the pilots will not impact on non-pilot authorities. We would add that at the point of implementation for the pilots, no authority should be

worse off as a result of the changes.

**Question 10: Are you contemplating a voluntary transfer of funding between the Combined Authority and constituent authorities?**

The LGA supports an approach which gives councils in combined authorities greater flexibility to transfer funding between constituent bodies. However, it is important, as the consultation states, that this does not adversely affect other local authorities. We would refer DCLG to responses from councils in combined authorities on the detailed arrangements.

We believe consideration should be given to extending this flexibility to all other authorities, not only those in formal combined authority arrangements. Many councils have strong relationships with neighbouring authorities without being in combined authority structures and this could provide an option for funding transfers. It will of course be up to individual local authorities and combined authorities to determine whether they wish to make use of this flexibility.

**Question 11: Do you have any comments on the impact of the proposals for the 2017-18 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.**

The LGA refers DCLG to responses from individual authorities.