

# Local Government Association (LGA) briefing: *Provisional Local Government Finance Settlement 2016-2017 and an offer to councils for future years* 17 December 2015



## LGA KEY MESSAGES

- Giving councils the option of longer-term funding settlements is significant. This is an important step towards the financial certainty councils need to run high quality services.
- The Government has responded to our calls for greater flexibility for local authorities in setting council tax levels. The option to raise council tax by an additional 2 per cent, if taken up in full, would raise additional resources of £393 million in 2016-2017 and would help to tackle local social care funding pressures and offset some of the extra cost pressures they face next year.
- Further recognition of the pressures on adult social care is demonstrated in the promised targeted increase of £1.5 billion in the Better Care Fund by 2019-2020. While recognising this as positive, councils are concerned that the extra investment will not be fully in place until the end of this decade. 2016-2017 looks set to be the toughest year of this four year Spending Review period for local services.
- We support the variation to the referendum principle which will allow shire district authorities to raise their council tax by £5 if this is greater than what a two per cent increase will deliver.
- Taking into account the full range of ways councils can raise money the 2015 Spending Review announced a 'flat cash' settlement for councils over the next four years.
- However, there are still significant challenges ahead for councils who will have to make savings, despite receiving a flat-cash settlement over the next four years, sufficient enough to compensate for any additional cost pressures they face.
- These include those arising from general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, pressure on homelessness budgets and increases in core costs such as national insurance, the National Living Wage and pension contributions.
- The Settlement proposes distributional changes, including an equal percentage reduction in settlement core funding for different authorities of the same type. Different councils will have different views about this. We will work with the Government to ensure it listens carefully to arguments put forward by councils during the consultation.

# Briefing

- We will continue to work with Government to help shape the details of today's announcements ensuring that the views of councils are heard and understood, and will continue to respond to all related consultations.

## **THE SETTLEMENT IN DETAIL**

- The Department for Communities and Local Government (DCLG) has announced the provisional [Local Government Finance Settlement for 2016-2017](#). It has also issued indicative figures up to 2019-2020.
- This is a four-year settlement. However the figures for 2017-2018 and beyond are part of an offer to any council that wishes to take it up. This will be conditional on councils publishing an efficiency plan.
- The closing date for responses to DCLG is 15 January 2016. The final settlement will be published in February 2015.

## **Core settlement funding**

- **The Government has defined Core Spending Power** as Revenue Support Grant, retained business rates, income from the New Homes Bonus, the local government element of the Improved Better Care Fund, and the Rural Services Delivery Grant as well as income from council tax assuming that the tax base grows, councils increase council tax by CPI and where appropriate by 2 per cent to support social care. The Government calculates that Core Spending Power in accordance with this definition will fall by an average **0.5 per cent** over the four year period.
- The Government will reduce revenue support grant to individual local authorities in a way that ensures that councils delivering the same set of services receive the same percentage change in settlement core funding for these services. Taking council tax into account when calculating this adjustment is a significant change in central government policy.
- As a result of the calculations above, some individual local authorities in later years will be required to contribute funding from other elements of their settlement core funding if their revenue support grant amount is reduced to a level below zero. The Government proposes that this adjustment could be made through the top-up and tariff method.
- Efficiency Support Grant paid up to 2015-16 is incorporated into the Settlement Funding Assessment.

## **New Homes Bonus**

- The provisional amount of £1,461 million for the New Homes Bonus (NHB) in 2016-2017 has been announced by DCLG. This will continue to be

funded through £210 million in specific grant with the rest in top-sliced funding, expected to be £1,275 million.

- As announced in the November 2015 Spending Review, the Government is also consulting [on delivering savings to the New Homes Bonus](#).

### **LGA View**

- The NHB represents a considerable addition to funding for some authorities. However for many other authorities the effect of the NHB being mainly funded through top-sliced funding is a net reduction in resources. The LGA will be responding to the NHB consultation.

### **Business rates**

- There are no changes to the current business rates retention scheme for 2016-2017. DCLG is consulting on 29 proposals for pools in 2016-2017, compared with 28 in 2015-2016. The Department did not issue a formal pooling prospectus this year.
- The Settlement contains some further information on the introduction of 100 per cent business rates retention, which the Government has promised by the end of the Parliament. The Government will be consulting on giving more responsibility to councils to support older people with care needs, including people who, under the current system, would be supported through Attendance Allowance. There will be protection for existing claimants and new responsibilities will be matched by the transfer of equivalent spending power. The Government will consult in the New Year on the proposals, including what it describes as the right model of devolution and level of flexibility.
- The Government has announced £50 million top-slice for the business rates safety net in 2016-2017. This is the same level as 2015-2016.
- The Government has confirmed that it will pay in full for the extension of small business relief announced in the Spending Review and Autumn Statement 2015 through a section 31 grant. The doubling of Small Business Rate Relief will continue for a further year but the retail discount will end on 31 March 2016.
- The multiplier will therefore be 49.7 pence, with the small business multiplier being 48.4 pence. Top-ups and tariffs will be uprated by 0.8 per cent; in line with the increase in the September 2015 Retail Price Index.

### **LGA view**

- Allowing local government to retain 100 per cent of its business rates income has long been called for by local government and has the potential to provide a vital boost for local communities, businesses and our high

streets. The Government's intention is for this change to be fiscally neutral and the Settlement sets out some options for services that may be transferred to be funded by these additional retained resources.

- While we will engage in discussions with the Government about the proposals to give more responsibility to councils to support older people with care needs, we believe that councils and businesses paying rates would like some of this extra local income to be invested in services that support local economies and drive local growth. Handing over responsibility for skills and transport services would allow local areas to close skills gaps, improve public transport and boost.
- With the move to 100 per cent business rates retention we are keen to work with Government to find a better way to deal with business rates appeals.
- We welcome that councils will continue to be fully compensated for the loss of income from the small business rate measures. However, this reduces the buoyancy of the taxbase. This is one of the issues to discuss with the Government as we move to 100 per cent business rates retention. It is essential that the system of top-ups and tariffs which redistributes revenues between local authorities will be retained.
- The LGA and local government need to be fully engaged in all relevant discussions on the move to 100 per cent business rate retention.

### **Council tax**

- The referendum principle for 2016/2017 is proposed to be 2 per cent, with the exception of Police and Crime Commissioners and shire district authorities which are in the lowest quartile by council tax level, for which a higher limit of either 2 per cent or £5 (on a Band D bill) applies.
- In addition, social care authorities will be able to increase their council tax by 2 per cent over the existing referendum threshold, with the proviso that the additional 2 per cent 'social care precept' is spent on adult social care services. This will have to be separately itemised on council tax bills.
- In summary, section 151 officers of local authorities will be expected to notify the Secretary of State of the amount intended to be raised through the additional social care precept and what impact it has on previous plans for social care budgets. This will then be verified through various existing financial statutory returns. The full set of arrangements can be found [in this letter](#).

### **LGA view**

- We have long raised concerns about the underfunding of adult social care and the impact this inevitably has on the quality and quantity of commissioned care. We therefore welcome the increased flexibility that allows social care authorities to put up council tax by an additional 2 per

cent. This will go some way to addressing the funding gap facing social care.

- The Government should ensure the administrative burden of assurance on councils regarding the social care flexibility is kept to a minimum.
- A referendum on council tax increases is an unnecessary burden and real local accountability should be through the ballot box.

### **Care Act implementation funding**

- The Government has announced that the funding earmarked for preparation for implementation of Care Act 2014 will be included in the baseline for calculating Revenue Support Grant. The element is worth £307.7 million in 2016/2017, growing to £513.9 million in 2019/2020.

### **LGA view**

- The continuation of adult social care funding for the Care Act reforms is welcome and adds much needed resources to take forward this important legislation, including moving towards the cap on care by 2020.
- The LGA has consistently called for the £6 billion earmarked funding for phase two of the Care Act to be reinvested into the social care system; this was central to our call for a delay to phase two of the legislation in the first place. This announcement, along with the increases to the Better Care Fund, goes some way to meeting our proposal.
- We are continuing discussions with the Department of Health as to the exact scope of the services to be covered by the funding and expect to receive more information in the New Year.

### **The Better Care Fund**

- The Settlement confirms the continuation of the Better Care Fund (BCF) and additional funding for adult social care through the BCF worth £1.5 billion by 2019/2020. In the interim years, the additional funding through the BCF will be worth £105 million in 2017/2018 and £825 million in 2018/2019. This funding will be allocated as a specific grant.
- The Government will consult on how the additional funding is distributed. However, as a default option it has proposed that the BCF grant should act as a method of equalising the relative needs for social care services and the maximum possible impact of the social care council tax precept. This would lead to some social care councils receiving no additional BCF money.

## **LGA view**

- The introduction of the BCF has marked an important change in how care and health interact within a place. The fact that the nationally mandated £3.8 billion BCF in 2015/2016 was increased by an additional £1.5 billion from local care and health budgets demonstrates that local areas are ambitious about integration. We welcome the continuation of the BCF and the additional money within it for adult social care.
- The Settlement confirms that there is no additional BCF funding for social care in 2016/2017 and only £105 million in 2017/2018. This, together with the incremental nature of the council tax precept policy, means a further two years of significant pressures on a system that is already under strain.
- As with any conditions attached to the council tax precept, any conditions attached to the use of additional funding through the BCF should be kept to an absolute minimum. Councils will face a completely different mix of council tax and BCF income within the overall support package. Those with a higher proportion of BCF funding should not face tighter constraints.
- We would encourage individual councils to respond to the Government's consultation on the distribution of the additional money for social care through the BCF.

## **Flexible use of capital receipts**

- Draft statutory guidance on the flexible use of capital receipts [was published](#) alongside the Settlement consultation.
- Under this guidance, councils will be able to use new capital receipts from April 2016 to March 2019 to pay for the revenue set up costs of projects that are designed to make revenue savings. It will be for individual local authorities to decide if a project qualifies (paragraph 4.1). In order to qualify, councils will be required to prepare an annual efficiency strategy listing all qualifying projects and this strategy, and any variations to it, will need to be approved by full council.

## **LGA view**

- We welcome the flexibility to use new capital receipts and the discretion given to councils in identifying qualifying projects. The new requirement to produce an annual efficiency strategy is likely to be complementary to current financial planning carried out in councils. The requirement for any amendments to it, including amendments to individual projects, to be approved by full council rather than by the council's executive, will be an administrative burden.

## **Schools and Children's Services Funding**

Schools funding is through ring-fenced resources (Dedicated Schools Grant and the Pupil Premium). Most Children's Services Funding is included within

the SFA.

- Provisional figures for Dedicated Schools Grant (DSG) for 2016-2017 were published on 17 December 2015. The addition previously announced for the 69 councils which the Government considers to be the least well-funded has been added to the baseline.
- The Education Services Grant retained duties rate will remain at £15 per pupil and the general funding rate for 2016 to 2017 will reduce from £87 per pupil to £77 per pupil, with continued protections for academies affected by the reduction. The Government will consult in the New Year on further reductions in order to reach the £600 million reduction announced in the 2015 Spending Review.
- An additional £92.5 million has been allocated to the DSG high needs block; pupil premium per pupil amounts for 2016 to 2017 will be protected at the current rates; and the minimum funding guarantee for schools will remain at 1.5 per cent.
- Full details can be found on the [Department for Education website](#).

### **LGA View**

- Councils have worked hard to protect children's social care budgets in recent years, and between 2008 and 2015 councils have seen a 60 per cent increase in children on child protection plans and are supporting an additional 20,000 children.
- However funding cannot keep pace with demand and 19 of the 74 councils inspected for children's services by Ofsted since February 2014 have been judged inadequate. These councils now risk losing control of children's services to third party organisations or high performing local authorities from other parts of the country.

Continuing reductions to education grants outside the DSG and to early intervention funding risk under-resourcing local authorities in their delivery of early support to children, young people and families. Reducing core funding is counter-productive and will lead to significant cost pressures in the longer term, due to increased demand for more costly longer-term/lifelong interventions. We want to understand how the Government expects to find the £600 million in Education Services Grant reductions and whether it intends to reduce statutory duties for councils.

- Recent research from the LGA estimated the cost of recovering from an inadequate judgement at between £3 million and £10 million, on top of the existing budgetary pressures caused by rapidly increasing demand. It is vital the new arrangements proposed by the Government are supported with the capacity and resources required to transform a hugely complex child protection system.

## **Rural Services Funding**

Government funding through the Rural Services Delivery Grant will continue. The Government will top slice £20 million from Revenue Support Grant in 2016/2017 to pay as a non-ringfenced Section 31 grant to the upper quartile of authorities based on the super-sparsity indicator. This funding will increase to £65 million over the four year period of the Settlement.

### **LGA view**

- LGA members in rural areas will welcome this increased funding.

## **Homelessness**

To tackle homelessness the Government is:

- Maintaining and protecting homelessness prevention funding for local authorities, through the provisional Local Government Finance Settlement totalling £315 million by 2019 to 2020.
- Increasing central government funding for homelessness programmes to £139 million over the [Spending Review](#) period.
- Committing to work with homelessness organisations and across departments to consider options, including legislation, to prevent more people from becoming homeless.
- Providing £40 million from the Department of Health to refurbish hostels and provide low-cost shared accommodation for young people at risk of homelessness.
- Providing £30 million extra to councils to give them more control and flexibility over homelessness budgets by devolving the funding for managing temporary accommodation from 2017 to 2018.
- Providing a £5 million fund to the 25 local authorities facing the greatest pressures in moving people out of temporary accommodation and into a settled home.

### **LGA view**

- This package of measures is needed to address an increasingly challenging issue. We look forward to working with Government on developing options to prevent more people from becoming homeless. It is in everyone's interest to prevent homelessness and avoid the disruption to people's lives.
- Councils are doing a good job tackling homelessness under increasingly difficult circumstances, including an ever widening gap between household incomes and housing costs, and a chronic shortage of affordable housing. A partnership between central and local government is essential in tackling the issue of housing costs, and councils should have the tools and flexibility to



build new affordable homes.

### **Local welfare provision funding**

- The Government added the £129.6 million of funding which was identified in the 2015-2016 provisional Local Government Settlement to the baseline for 2016-2017. However it has not baselined the additional £74 million which was added in the 2015-2016 final Settlement.

### **LGA view**

- Councils continue to be at the front line of supporting and enabling households to adjust to a significant and ongoing programme of welfare reform. Councils run a number of highly efficient and effective local schemes to prevent households from falling into crisis and to build capacity. It is of concern that the additional £74 million included in the final 2015/2016 Settlement has not been added to the baseline.

### **Funding for lead local flood authorities**

- Existing funding for lead local flood authorities will be incorporated into the Settlement. This amounts to £32.5 million in total. In addition there will be a new section 31 grant to ensure that these elements of funding for lead local flood authorities increase in real terms in each year of the Settlement. It is consulting on whether this grant should be ring-fenced.

### **LGA view**

- Lead local flood authorities will welcome this increased funding.

### **Fire Funding**

- The Settlement announced a decrease in settlement core funding available for fire services in 2016-2017.
- The Settlement also indicated that provision would be made so Dorset and Wiltshire Fire Authorities can set the same level of fire precept across both counties when they merge in April 2016.

### **LGA view**

- The further reductions in funding for the fire service in 2016-2017, and for the majority of services over the Spending Review period, will continue to put pressure on the delivery of fire services.
- As the recent National Audit Office report on the financial stability of the fire service highlighted, there are early signs of financial stress in some fire and rescue services. The reductions will have an impact on national and local resilience as well as operational capacity, and the ability of fire and rescue

services to respond to events such as the recent severe flooding in Cumbria, Lancashire and Northumberland.

### **Police funding**

- The police funding settlement was also announced today. The Minister of State for Policing, Crime and Criminal Justice stated that government funding for the police in England and Wales (excluding counter-terrorism funding) in 2016/2017 will be £8.3 billion. The Home Office also announced reallocation of funding to continue to invest in the Emergency Services Network and police innovation fund. There will also be a further £38 million of new transformation funding.
- In addition the Home Office confirmed the referendum threshold for Police and Crime Commissioners (PCCs). This will be 2 per cent. However as announced in the Spending Review 10 PCCs (Northumbria, West Midlands, West Yorkshire, Sussex, Essex, Kent, Hertfordshire, South Yorkshire, Greater Manchester and Cheshire) with the lowest precepts will be given additional flexibility to raise their precept by up to £5 per year per band D household.

### **Further Information**

The LGA will continue analysing Settlement figures in order to develop a deeper understanding of the effect on councils before replying to the consultation. We would welcome sight of responses from individual member councils and groupings. Please send to [lgfinance@local.gov.uk](mailto:lgfinance@local.gov.uk).

There will be a session on the Local Government Finance Settlement at the [LGA's finance conference](#) on 6 January 2016 which will provide in-depth analysis of the figures announced today. You can find out more about the event and book your place by following this link.

For further information on this briefing paper please contact Mike Heiser, Senior Adviser (Finance) ([mike.heiser@local.gov.uk](mailto:mike.heiser@local.gov.uk)/ 020 7664 3265); or Aeneas Tole ([aeneas.tole@local.gov.uk](mailto:aeneas.tole@local.gov.uk)) .



## Annex A: Tables showing key numbers

	2015-16 adjusted, £m	2016-17, £m	2017-18, £m	2018-19, £m	2019-20, £m
<b>Settlement funding Assessment</b>	21,249.9	18,601.5	16,621.6	15,536.0	14,499.7
<b>Council Tax of which:</b>	22,035.9	23,148.3	24,435.5	25,821.3	27,314.2
<i>Council Tax requirement excluding parish precepts (including base growth and levels by CPI)base growth and levels by CPI</i>	22,035.9	22,748.5	23,601.8	24,513.0	25,486.1
<i>Additional revenue from 2% referendum principle for social care</i>		392.8	820.9	1,289.8	1,804.0
<i>Additional revenue from £5 referendum principle for lower quartile districts Band D Council Tax Level</i>		6.99	12.80	18.51	24.13
<b>Improved Better Care Fund</b>			105.0	825.0	1,500.0
<b>New Homes Bonus and returned Funding</b>	1,200.0	1,485.0	1,493.0	938.0	900.0
<b>Rural Services Delivery Grant</b>	15.5	20.0	35.0	50.0	65.0
<b>Core Spending Power</b>	<b>44,501.3</b>	<b>43,254.8</b>	<b>42,690.1</b>	<b>43,170.3</b>	<b>44,278.9</b>
<b>Change (£m)</b>					- 222.4
<b>Change (%)</b>					-0.5%

## **Annex B – Glossary of Local Government Finance Technical Terms**

<b>Aggregate External Finance</b>	Government grant (including specific grants) and business rates when taken together.
<b>Better Care Fund</b>	A single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and local authorities
<b>Central Share</b>	The percentage share of locally collected business rates that will be paid to central government by billing authorities. This will be set at 50 per cent. The central share will be re-distributed to local government through grants including the Revenue Support Grant.
<b>Core Spending Power</b>	Core Funding plus increase from council tax up to referendum limits, and grants including new homes bonus and (from 2017-18) the improved Better Care Fund money within the Local Government total.
<b>Dedicated Schools Grant</b>	The Dedicated Schools Grant was introduced in 2006-07, and is the principal source of funding for schools and related activities in England. The grant was introduced in place of funding previously allocated via the Formula Grant and a number of smaller specific grants.
<b>Education Services Grant</b>	This replaced the LA block of LACSEG (local authority central support equivalent grant) and the corresponding element of local government revenue funding from 2013-2014. The ESG is allocated on a simple per-pupil basis to local authorities and academies according to the number of pupils for whom they are responsible. It was cut by £200 million in 2015-2016. The government have announced that it will be cut again by £600 million by 2019-2020.
<b>Efficiency Support Grant</b>	A revenue grant which will help those authorities most affected by reductions in spending power to support long term changes to bring costs down whilst continuing to deliver the services that their citizens expect.
<b>Local Council Tax Support</b>	In April 2013 the national system of Council Tax Benefit was replaced by local support schemes in each billing authority. Authorities receive a fixed amount of funding and are free to design schemes as they wish, as long as pensioners' entitlement is protected.
<b>Local share</b>	The percentage share of locally collected business rates retained by local government. This is currently set at 50 per cent. At the outset, the local share of the estimated business rates aggregate will be divided between billing authorities on the basis of their proportionate shares (This is the percentage of the national business rates yield which a billing authority has collected - on the basis of the average rates collected by authorities over the two years 2010-2011 and 2011-2012). The government have announced that the local share will rise to 100 per cent by 2020, but it has remained unchanged this year at 50 per cent.

<b>New Burdens Doctrine</b>	The Cabinet agreed that all new burdens on local authorities must be properly assessed and fully funded by the relevant department.
<b>New Homes Bonus</b>	A grant paid to local councils for increasing the number of homes and their use, paid each year for six years. It's based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.
<b>Pupil Premium</b>	The pupil premium was introduced in April 2011 and is allocated to schools to work with pupils who have been registered for free school meals at any point in the last six years ('Ever 6 FSM'). Schools also receive funding for children who have been looked after continuously for more than six months, and children of service personnel.
<b>Safety Net</b>	A mechanism to protect any authority which sees its business rates income drop, in any year, by more than 7.5 per cent below their baseline funding level.
<b>Section 31 Grant</b>	A grant paid to local councils under Section 31 of the Local Government Finance Act 2003, under such conditions as the minister may determine.
<b>Settlement Core Funding</b>	Settlement Funding Assessment (Revenue Support Grant plus baseline funding) plus council tax at 2015-2016 levels
<b>Settlement Funding Assessment (SFA)</b>	This is a local authority's share of the local government spending control total which will comprise its Revenue Support Grant for the year in question and its baseline funding level.
<b>Small Business Rate Relief</b>	Until 31 March 2017 businesses receive 100 per cent relief (doubled from the usual rate of 50 per cent) for properties with a rateable value of £6,000 or less. This means business rates are not payable on properties with a rateable value of £6,000 or less. The rate of relief gradually decreases from 100 per cent to 0 per cent for properties with a rateable value between £6,001 and £12,000.
<b>The (business rates) multiplier</b>	The business rates multiplier when multiplied by the rateable value of a property determines a ratepayer's business rate bill. There are two multipliers – one for small businesses and one for larger businesses. These are set nationally. The small business multiplier is uprated annually by the retail prices index (although exceptionally a lesser increase may be imposed) and the other multiplier adjusted accordingly.

<b>Top-ups and Tariffs</b>	The difference between an authority's business rates baseline (the amount expected to be collected through the local share of business rates) and its baseline funding level (the amount of SFA provided through the local share). Tariff authorities make a payment and top-up authorities receive a payment. Tariffs and top-ups are self funding at the outset of the scheme and updated by inflation each year.
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