

Local Government Finance Settlement 2015/16 Consultation

15 January 2015



1. The Local Government Association (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.
2. This response has been agreed by lead members of the LGA's Resources Board.

Key points

3. The settlement confirms the reductions in local government funding announced in the 2013 Spending Review. Councils will continue to face public sector spending cuts up to at least 2016. The total reduction in core funding from government to councils in the period of this Parliament is 40 per cent. Councils have so far largely restricted the impact of the cuts on their residents. They have worked hard to save those services that people most value and have protected spending on social care for children and the elderly, but even these areas are now facing reductions. Continuing reductions of the same order to the end of the decade, as set out by the Office of Budget Responsibility in their Economic and Financial Outlook in December 2014 and by the Institute for Fiscal Studies, are unsustainable and will threaten the local authority front line services that local people most value.
4. At the same time not all councils are in the same place. Many of the most affected will point out that they have a higher reduction in revenue spending power. There needs to be an awareness of the different financial positions of individual councils. Cutting across London Borough, County, Metropolitan, Unitary and District councils there are councils with low and minimum levels of reserves, in different places on the cycle of cuts to date and dealing with different levels of pressure. Using a single measure of spending power is misleading.
5. The overall reduction in spending power of 1.8% masks a larger fall in external income. Central government grant to run local services will fall by 3.7 per cent next year, when the Better Care Fund (BCF) is included in full. Without including that element of BCF which will not be spent on social care or commissioned by local authorities, the reduction is 8.8 per cent. Revenue Spending Power ought to be a reflection of resources at councils' disposal it should not include resources which are going to front line health care.
6. Local government needs a finance system where incentive is not outweighed by risk and one where councils have maximum flexibility. Whilst we understand government priorities, local councils need more

Submission

freedom to decide their own priorities in their areas. Unfortunately the 2015-16 Local Government Settlement, largely confirming the illustrative settlement published last year has not taken the opportunity to reduce some of the risks for local government, for example that of business rates appeals.

7. We welcome the statement that the business rates changes in the Autumn Statement will be fully paid for through s.31 grant. But the key concern for councils on business rates is the continuing high level of appeals from before 2013. The government moved to limit the time that an appeal can be backdated in the Autumn Statement; we call on them to go further and to set off all appeal losses from before April 2013 against the old national business rates pool.
8. We note that council tax support funding has been included in the Settlement Funding Assessment which has been reduced by an average 13.9 per cent for 2015-16. We call for council tax support funding to be made more transparent at individual authority level.
9. At a time when local authorities are contending with the biggest cuts in living memory, the introduction of the Better Care Fund and the government's decision to reverse potentially costly changes to the New Homes Bonus will help the efforts of many local authorities in protecting vital services.
10. It is positive that the Government has reduced the top-slice for the New Homes Bonus from £1 billion to £950 million, as the LGA urged in its response to the technical consultation. But we are concerned that the Government will still be going ahead with the £70 million top-slice from London boroughs for the New Homes Bonus in 2015-16 and that this is not reflected in the revenue spending power figures of London boroughs.
11. We welcome the Government's commitment to continue to help authorities worst affected by the settlement through an Efficiency Support Grant and note that 19 authorities are eligible in 2015-16.
12. We note the Secretary of State has announced the level of Council Tax he will regard as excessive in 2015-16. Referendums on council tax are an unnecessary and a costly burden that will put growth generating investment at risk. The level of council tax should be a matter for local decision.
13. We are concerned at the ending of the specific grant for local welfare support from 2015-16. Although it has technically been incorporated into the Settlement Funding Assessment no money at all has been provided. In our response to the consultation on local welfare support we called on the government to restore local welfare support funding to its 2014-15 level by providing additional funding within the settlement; we repeat this call.
14. We look forward to the Chancellor delivering on his commitment to provide a longer-term funding settlement for authorities and for there to be fewer in year announcements.

Detail

The overall settlement

15. The Local Government Finance Settlement for 2015-16 confirms that councils will continue to face significant reductions. Although the Government highlight reductions in Revenue Spending Power of 1.8% in 2015-16, if the contribution from council tax and the element of the

BCF which will not be spent on social care or commissioned by local authorities is removed, the reduction is 8.8%. Revenue Spending Power ought to be a reflection of resources at councils' disposal it should not include resources which are going to front line health care.

16. We do however welcome the reduction in the holdback for the New Homes Bonus of £50 million. We are pleased that some of the concerns of the LGA and the sector have been listened to.
17. However there are other measures which our response to the Summer technical consultation proposed which have not been adopted. In particular the £200 million cut in Education Services Grant (ESG) is not within revenue spending power, meaning that this pressure is not recognised. We would urge the government to include the provisional sums for education services grant in the ESG baseline for authorities.
18. Even with the lower New Homes Bonus (NHB) holdback the reduction in the Settlement Funding Assessment is 13.9%% in 2015-16. Because of the Government's policy of reducing Revenue Support Grant it means that Revenue Support Grant will fall by 40% in the three years from April 2013 to March 2016. Continuing reductions of the same order to the end of the decade, as set out by the Office of Budget Responsibility in their Economic and Financial Outlook in December 2014 and by the Institute for Fiscal Studies, are unsustainable and will threaten the local authority front line services that local people most value.

Business Rates

19. The LGA notes the Government's decision to cap the increase in business rates for 2015-16 to 2%. The Settlement confirms that the measures in the 2014 Autumn Statement will once again be compensated for by a s.31 grant. We hope that this will be paid quickly to authorities.
20. The settlement confirms that the safety net will be £50 million in 2015-16, in recognition of the fact that the call on the safety net is likely to be larger than initially forecast, at least, partly to the greater provision for appeals against business rates valuations.
21. Councils are expressing concern about the possible effects of some business rates appeal decisions pending, for example those on gas fired power stations.
22. As we said in our response to summer technical consultations in 2013 and 2014, because business rates appeals are taking longer to resolve than first thought, amounts which could have been set against the 2012-13 national non-domestic rates pool are instead having an effect on the local share of business rates. We welcome the efforts of the Valuation Office Agency to provide more information but ultimately this is not a matter within the control of local authorities. We repeat our call for the Government to revisit its previous decision about appeals and instead decide that the net effect of any appeals for 2012-13 and before be set against the 'old' national pool.
23. We look forward to playing a full part in the review of the structure of business rates announced in the Autumn Statement. We also look forward to further work on the business rates administration review and on business rates avoidance. We will be responding to the further consultations in due course.

Council tax support

24. The settlement confirms that council tax support (CTS) funding will not be separately identified in 2015-16, since there is no separate element within the Settlement Funding Assessment. This means that the funding for CTS schemes has fallen by around £1 billion since schemes were localised. LGA research on council tax support suggests that this has led to increases in household bills for some of the poorest households, and further increases are likely in future years as councils strive to protect frontline services.
25. This treatment contrasts sharply with the treatment of council tax freeze funding where the element has been specifically protected within authority amounts.
26. We repeat our call in the summer technical consultation for the amount of central support for local council tax support schemes to be separately identified and protected, allowing councils to make decisions about their local schemes in full possession of the facts, and increasing democratic accountability.

New Homes Bonus

27. We welcome the fact that the top-slice for New Homes Bonus has been reduced by £50 million as we proposed in our reply to the 2014 summer consultation. This means that the total top-slice for 2015-16 is £950 million.
28. We are concerned that £70 million will still be top-sliced from London authorities to go to the GLA. Given the fact that most New Homes Bonus is top-sliced from the main settlement, this is reducing resources originally destined for the Boroughs to give to the GLA. 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. We also call on the Government to set out exactly how any contractual commitments of NHB revenues will be accounted for in London.
29. 2015-16 will be the fifth year of the New Homes Bonus scheme and the future of the scheme is not clear after year 6. Some councils, particularly districts, would say that they have come to rely on the income stream, particularly as it is currently the only way that some form of population growth is reflected within government grant figures. Others would point out that they are losing more in the holdback from Revenue Support than they are gaining in NHB.

NHS Funding and the Better Care Fund

30. The Better Care Fund is showing early signs of success, with a net financial benefit to local government of up to £440 million in comparison to 2014-15 at this early stage of the integration journey. The benefits are non-financial too - increased cooperation and new ways of working will potentially improve service quality as well as result in financial gains. The Government must focus its efforts on allowing local areas to shape the next iteration of a bigger BCF over a longer period of time and with an accompanying transformation fund of new money. This must be free from Whitehall interference so that real transformation can be achieved on the basis of investing to save, rather than saving to invest.
31. However, we call on the Government to be honest about its impact in the settlement. In its revenue spending power calculation, the Government included a BCF value of £3.46 billion. This is misleading

as not all BCF spending is on social care services or commissioned by local authorities. We understand the priority, but the way in which this has been done means that there is little flexibility and the way in which this is being funded is masking the significant reductions elsewhere.

32. We estimate the value of the BCF attributable to social care or local authority commissioning to be £1.97 billion at most before councils' own contribution, in addition to the original specification of the Fund, is taken into account. Adjusting the revenue spending power calculation accordingly means that the actual reduction in full revenue spending power for England is 4.8 per cent, or 8.8 per cent after stripping out council tax.

Care Act Implementation

33. Councils are already working to an extremely challenging timetable on the Care Act so receiving confirmed funding allocations for the 2015-16 duties just four months before implementation – and less than three months before councils have to plan and set their budgets – only compounds this pressure.
34. The pressure has already been exacerbated by the fact that some councils have had very little certainty on what level of funding to expect for the 2015-16 reforms. The difference between the 2014 exemplified allocations in the funding formulae consultation and the indicative allocations in the 2015-16 settlement ranged from growth of up to 51 per cent to reductions of up to 60 per cent.
35. We welcome the recognition by the Department of Health that Care Act reforms on carer services constitute a constant and increasing burden, reaching almost £300 million by 2019-20, and look forward to seeing this burden addressed as part of the next Spending Review.
36. Overall, adult social care is facing a funding gap of £1.6 billion in 2015-16, rising to £4.3 billion by 2019-20, and in order to keep adult social care spending under control over the last four years departmental budget savings of 26 per cent have been made (equivalent to £3.53 billion) as well as £900 million 'cross-subsidy' savings from other council services. In this context – and given that some councils may have less funding for implementation than they were expecting – affordability of the Care Act in 2015-16 remains a principle concern for the LGA and councils. It is therefore essential that the Department of Health works with the LGA and others to monitor the cost of the Act next year. More importantly, where that monitoring shows that councils are incurring costs over and above their allocation, funding must be made available to compensate for the shortfall.
37. It is extremely disappointing that the Autumn Statement and local government settlement have failed to recognise the additional cost pressure councils are facing as a result of the March 2014 Supreme Court judgment on deprivation of liberty safeguards. The LGA estimates that the cost to councils of this ruling will be £96.8 million in 2014-15. The Government must commit to funding this new burden; without this the sector can have little confidence that the Government will honour its commitment to fully fund the Care Act.

Local Welfare Support

38. Last year's illustrative settlement announced that the Welfare Support Grant of £172m would come to an end. The provisional settlement does not reinstate this cut of £172m; Instead the Government has separately identified £129.6 million in the SFA in 2015-16. This is at the expense of other elements in the SFA.

39. This announcement is extremely disappointing as the LGA and charities had called for the Government to provide funding to support local welfare assistance. Separately identifying funding for local welfare from within the existing SFA (and reducing it by £42.5 million) effectively represents a complete cut of all funding for local welfare assistance which will put additional pressure on existing council services.
40. As a result many councils will be unable to continue to run their local welfare schemes. LGA research shows that without additional funding as many as three quarters of local welfare schemes will be scaled back or scrapped. The LGA urges the Government to reconsider its decision ahead of the settlement being finalised in February. In our response to the consultation on local welfare support we called on the government to restore local welfare support funding to its 2014-15 level by providing additional funding within the settlement; we repeat this call.

Council tax referendum limits

41. Councils work hard to keep council tax down and many have chosen to take the Government freeze grants. Referendums on council tax are an unnecessary and a costly burden that will put growth generating investment at risk. Council tax should be a local decision.
42. Having said that we welcome the fact that the centrally imposed referendum threshold is not lower than it was last year; any lower limit would have caused severe pressure to some councils.

Local Government Association
January 2015

Annex

The detailed responses to the DCLG questions in the consultation are:

Question 1: Do you agree with the Government's proposal that local welfare provision funding of £129.6m should be identified within the settlement by creating a new element distributed in line with local welfare provision funding in 2014-15 ?

Please see paragraphs 38-40 above.

Question 2: Do you agree with the Government's proposal that the funding for the Improvement and Development Agency for Local Government for services to local government should be £23.4 million in 2015-16 ?

Yes

It is important that funding is set aside at the national level to support improvement in the sector. It enables councils to do things that they would not be able to do on their own or things that it would be costly for individual councils to undertake.

The funding also attracts additional resources from the sector in the form of respected and highly experienced member and officer peers who are used to provide direct support to councils and who also make up the peer challenge teams.

The independent evaluation of sector led improvement has demonstrated that it has been a huge success. 93% of councils have said that the support they have received has had a positive impact on their authority.

The amount proposed for 15/16 will mean that the funding has been reduced by over 50% in real terms since 2010/2011 which is in excess of the reductions to council's budgets. Nevertheless the IDeA is confident that the proposed grant of £23.4m will allow them to deliver their ambitious programme for councils including:

- a) delivering at least 100 peer challenges
- b) training and developing over 500 councillors
- c) helping councils save at least a further £150m through the productivity programme
- d) recruiting and developing over 100 graduates as part of the national graduate and development programme
- e) developing LG inform the sectors benchmarking service which has now also been made available to the public
- f) delivering national negotiations on pay and supporting councils to transform their workforces.

Question 3: Do you agree with the Government's proposal to reduce the New Homes Bonus holdback from £1bn to £950m ?

Yes, as indicated above, this is in line with the LGA's response to the summer technical consultation.

Question 4 Do you agree with the Government's proposal to increase the rural funding element from £11.5m, as previously proposed, to £15.5m ?

Those members of the LGA which receive this funding will welcome this additional money. However as no more money has been provided for the overall settlement there is bound to be suspicion that this has been top-sliced from all authorities' settlement funding.

Question 5: Do you agree with the Government's proposal to reduce the fire funding element of Revenue Support Grant for each fire and rescue authority, by an amount equal to 0.24% of the total pensionable pay for that authority ?

We understand that this is in line with the changes in fire pensions. We would expect fire and rescue authorities not to lose any resources because of this change.

Question 6: Do you agree with the Government's proposal to compensate local authorities for the cap on the multiplier in 2015-16, calculated on the same basis as in 2014-15 ?

Yes, we agree that any cap in the multiplier should be fully funded so that councils do not lose out from the Government decision to cap business rates.

Question 7: Do you have any comments on the impact of the 2015-16 settlement on persons who share a protected characteristic, and on the draft Equality Statement?

As we said in our response to the last year's settlement, we note the widespread concern in the sector that the settlement has a disproportionate effect on the most deprived authorities and on protected groups. The Government's Equality Assessment notes the measures that have been taken to build in protection in 2013-14 settlement but also notes that the reductions are likely to have had a disproportionate effect on the most deprived authorities and that there is correlation with protected groups. The LGA is aware that these authorities would urge the Government to scale RSG back in a way that has less of a disproportionate effect and to protect spending on council tax support and resource equalisation in a similar way to the council tax freeze grant. Other authorities would sympathise with this in principle but would be concerned if they were to lose more RSG as a consequence.