The provisional 2017/18 local government finance settlement: confirming the offer to councils

12th January 2017

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 the LGA's group leaders and resources portfolio holders.

Key points

3. No new money from central government has been included in the settlement. Councils, the NHS, charities and care providers have been clear about the need for an urgent injection of genuinely new additional Government funding to protect care services for elderly and disabled people. Given this unified call for action, it is hugely disappointing that the Government has failed to find any new money to tackle the growing crisis in social care.

4. By bringing forward council tax raising powers, the Government has recognised the LGA's call for the urgent need to help councils tackle some of the immediate social care pressures they face. The additional flexibility in the social care precept has created more flexibility, however, as the total allowable precept increase over the remaining years of the Spending Review remains the same, this flexibility does not address the £2.6 billion funding gap facing social care by the end of the decade.

5. Increasing the precept raises different amounts of money for social care in different parts of the country unrelated to need and will add an extra financial burden on already struggling households.

6. Social care should be treated as a national priority. There needs to be an urgent and fundamental review of social care before the Budget on 8th March 2017. Local government leaders must be part of that review. This is imperative to get a long-term, sustainable solution to the social care crisis that the most vulnerable people in our society deserve. Continuing cuts to social care will have an effect on the NHS, including on accident and emergency.

7. Savings of £241 million from the reform of the New Homes Bonus have been allocated to social care authorities through a new Adult Social

Submission

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Care Support Grant. Whilst this will provide some assistance to the majority of councils with social care responsibilities in 2017/18, it is not new money but a redistribution of funding already promised to councils. This cannot be presented as a solution, given the scale of the funding crisis. This move will see money designed to incentivise new homes taken away from councils at a time when the Government has made boosting housebuilding a clear priority. This, as well as the introduction of a 0.4 per cent threshold, will be a source of concern to many authorities, particularly shire districts and those with lower housing growth. We strongly believe that the reductions in the New Homes Bonus for 2017/18 should be reversed. This should be financed by new money in the settlement and not from any cut to the Adult Social Care Grant. This would ensure that there was at least some short term support to all social care authorities through the grant in 2017/18, avoid councils having to identify significant last minute savings due to unexpected loss of new homes bonus, and be much better aligned with a 4 year settlement which 97% of councils signed.

8. The LGA notes that in two tier areas the transfer of New Homes Bonus to Adult Social Care represents a transfer from district housing authorities to county adult social care authorities. Districts may see this as discriminatory as it is based on tier rather than function. The materiality of the transfer as a proportion of total income for many districts so close to their acceptance of the four year deal goes against the certainty the latter was intended to achieve. Many single tier authorities are also affected. We consider that the suggestion of transition to the hardest hit housing authorities, who have delivered the greatest housing growth, should be further explored.

9. Councils still face challenging funding pressures of £5.8 billion by 2019/20. Further government funding cuts will result in local authorities up and down the country having to make significant reductions to the local services communities rely on.

10. We are concerned that confirmation of the decision to cut the public health budget by £84 million could undermine the objectives we share to prevent illness, improve the public’s health and to keep the pressure off adult social care and the NHS. The decision to transfer public health responsibilities to local government in 2013 was welcomed but many will now feel that they have been handed the responsibility without the appropriate resources.

11. Almost all councils signed up to the offer of a four-year settlement. This does provide more stability of funding and we welcome this. However, authorities have expressed concern about the ‘negative Revenue Support Grant adjustment’ in 2019/20. Some councils will also be concerned that core spending power figures for 2017/18 are lower than the figures included in the 2016/17 local government finance settlement due to changes in the New Homes Bonus. The late announcement of the settlement has not helped councils deal with this change.

12. Business rates pilots in five areas will enable aspects of the further business rates retention system to be tested. At the same time discussions will continue between Government officials, the LGA and councils including reforming the way appeals are dealt with. We will

continue to engage as the enabling legislation progresses through Parliament in 2017.

Adult Social Care

13. Councils, the NHS, charities and care providers are united about the need for an urgent injection of genuinely new additional government funding to protect services caring for elderly and disabled people. Therefore, it is hugely disappointing that the provisional local government finance settlement for 2017/18 does not include any new money from central government for services for the most vulnerable.

14. In 2016/17, despite additional resources in the final settlement, core spending power was reduced by almost £1 billion. Based on the Government's assumptions about council tax, core spending power falls by a further £500 million in 2017/18. This is only partially alleviated in 2017/18 by the extra £208 million if all eligible councils choose to take advantage of the flexibility to increase the social care precept by 3 per cent instead of 2 per cent. However this flexibility does not produce any more money at the end of the decade, as the total allowable precept increase remains the same. Local authorities will actually be worse off in terms of income in the final year of the settlement if they choose to use the additional flexibility than if they increase the adult social care precept by 2 per cent a year. It also puts the burden of funding gaps in social care on council tax payers.

15. In addition the effect of increases in council tax are not the same across the country due to differences in tax base. The ability to raise income from council tax is often lower in more deprived areas so the ability to raise income through this source is not positively related to need. More deprived areas also have a greater proportion of social care recipients funded by local authorities, and therefore some councils are doubly hit - through lower ability to raise money and greater demand for support.

16. Councils should be free to use the social care precept without conditions imposed by the Government. If any assurance is required the Government should ensure the administrative burden of assurance on councils regarding the social care flexibility is kept to a minimum.

17. The new Adult Social Care Grant of £241 million in 2017/18, funding for social care from the New Homes Bonus, will provide some assistance to the majority of councils with social care responsibilities in 2017/18. However it is not new money and is instead a redistribution of funding already promised to councils and, mostly, top-sliced from Revenue Support Grant. Early analysis suggests 57 social care authorities might be worse off because they will lose more in New Homes Bonus payments than they gain in Adult Social Care Grant , when comparing the indicative 17/18 figure for the NHB published in the 16/17 settlement. This is counter intuitive.

18. Therefore despite the extra money in 2017/18 and the additional adult social care precept flexibility there will still be a gap of £2.6 billion in social care funding by the end of the decade. This is why, following the unified call for action from councils, the NHS, charities and care

providers, the LGA is calling for an urgent and fundamental review of social care and health before the Budget on 8th March. Local government leaders, who are responsible for social care in their local community, must be part of the review. This is imperative to get a long-term, sustainable solution to the social care crisis that the most vulnerable people in our society deserve.

New Homes Bonus

19. There have been a number of changes to the New Homes Bonus announced at the time of the 2017/18 settlement. It has taken around a year to announce the results of the consultation on the New Homes Bonus. As the NHB makes up a considerable part of funding for some authorities, particularly shire district authorities, this reduction in funding combined with the late announcement will be challenging. We believe that the Government should consider transitional measures and that these should be funded through additional resources.

20. The introduction of a baseline could remove any incentive to grow in relatively low growth areas and penalises areas with limited opportunity to grow. In addition the threshold of 0.4 per cent of taxbase is higher than the 0.25 per cent on which the government consulted. It is also of concern that this threshold could rise in future years in the event of a significant increase in housing growth, potentially removing the Bonus from more authorities.

21. We will respond to any consultation on further changes to the NHB but in many cases delays in adopting a local plan are beyond the control of the council so it is unfair to penalise authorities for failure to submit a local plan. We are further concerned that the proposal to remove payments from developments allowed on appeal will unfairly prejudice the planning process.

22. Councils and the house building industry are united in their call for adequately resourced planning departments. Currently, year-on-year, taxpayers are subsidising approximately 30 per cent of the estimated cost of processing all planning applications in England because nationally set planning fees do not cover the full costs. Locally set planning fees would enable local authorities to deliver responsive council planning services that are crucial to growth and building the homes we need. In addition, licensing fees should also be set locally in order to recover full costs rather than being set by Central Government.

23. We call on the Government to commit to no further increase in the threshold for NHB payments and to fully engage councils in the shaping of the Housing White Paper, which we hope to be published in January. We strongly believe that the reductions in the New Homes Bonus for 2017/18 should be reversed. This should be financed by new money in the settlement and not from any cut to the Adult Social Care Grant. This would ensure that there was at least some short term support to all social care authorities through the grant in 2017/18, avoid councils having to identify significant last minute savings due to unexpected loss of new homes bonus, and be much better aligned with a 4 year settlement which 97% of councils signed.

Council Tax and the Social Care Precept

24. We note that councils have been given more flexibility on the social care precept; an increase of up to 3 per cent in 2017/18 and 2018/19 on condition that the total increase in the precept to 2019/20 does not exceed 6 per cent. This does give councils more flexibility but does not increase the amount of additional council tax available by the end of the period. In fact local authorities will be worse off at the end of the decade.

25. More flexibility in the social care precept will go some way to providing more funding for social care authorities in 2017/18 and 2018/19 but it raises variable amounts of income in different areas due to differences in the tax base and adds an extra financial burden on already struggling households.

26. Councils should be free to use the social care precept without conditions imposed by the Government. If any assurance is required the Government should ensure the administrative burden of assurance on councils regarding the social care flexibility is kept to a minimum.

27. Overall, the LGA continues to firmly believe that a referendum on council tax increases is an unnecessary burden and real local accountability should be through the ballot box. We are pleased that the Government does not intend to propose referendum principles for parish and town councils.

Council tax base

28. The Government assumption is that the council tax base will continue to grow at the same rate as it did from 13/14 to 16/17. This means that for England as a whole the rise in the council tax base assumes that the council taxbase rises by an average of 2.1 per cent annually to 2019/20. As we said in our response to the 2016/17 settlement (when the comparable figure was 1.9 per cent), these figures seem very optimistic. They may incorporate rises in taxbase due to decisions on council tax support or discounts which would not be expected to be repeated over the period. If they fall short in practice, councils will not receive their full core spending power even if they take full advantage of the flexibilities offered by the government. We repeat our suggestion that the government should consider longer term trends in the taxbase, whilst adjusting for the effect of council tax benefit / council tax support.

Overall pressures

29. There remain significant challenges ahead for councils who will have to make savings sufficient enough to compensate for any additional cost pressures they face, given the flat-cash settlement over the spending review period. Despite savings of up to £20 billion over the course of the last parliament, we estimate that the funding gap to be £5.8 billion by the end of the decade.

30. Pressures arise from:
    a. general inflation
    b. cost pressures in the care sector

c. increases in the number of adults and children needing support and rising levels of need
d. increases in demand for everyday services as the population grows
e. pressure on homelessness budgets; and
f. increases in core costs such as national insurance, the National Living Wage and pension contributions.

31. As we said in our submission to the Autumn Statement and our reply to the consultation on business rates retention, the funding of these pressures should be the first call on the additional business rates available from full retention.

Business Rates

32. The LGA and the sector have been engaging extensively in discussions with the Government on the implementation of further business rates retention. We look forward to the publication of the Local Growth and Jobs Bill and to the forthcoming consultation on the technical aspects of further business rates retention.

33. Testing certain aspects of further retention through the early adoption of further business rates retention in some areas is welcome and we look forward to seeing the detail of this in the final settlement. At the same time it is important that this does not negatively impact on other authorities now or when full business rates retention is implemented.

34. The Government has recalculated top-ups and tariffs for 2017/18 to ensure, as far as practicable, that there are no windfall gains or losses due to the 2017 revaluation. We welcome the fact that the Government will revisit the methodology in 2018/19 in the light of final figures. This will allow any concerns authorities have to be dealt with then.

35. With the move to further business rates retention we are working with Government to find a better way to deal with the impact of business rates appeals on local authorities. In the meantime, we call on the Government to provide resources to the Valuation Office Agency to ensure that all outstanding appeals from the 2010 rating list are dealt with by April 2018.

36. We welcome that councils will continue to be fully compensated for the loss of income from the centrally imposed reliefs, such as rural rate relief and small business rate relief. However, this reduces the buoyancy of the tax base by impacting upon the amount of business rates income and the growth in business rates. This is one of the issues to be resolved as we move to firm up the details of further business rates retention.

Public Health

37. The Public Health grant will be worth £3.3 billion in 2017/18, a reduction of £84 million compared to 2016/17. This follows a £77 million reduction in 2016/17 and a £200 million in-year cut in 2015/16.

38. We are concerned that continuing cuts to public health funding could undermine the objectives we share to prevent illness, improve the public's health and to keep the pressure off adult social care and the NHS. To take vital money away from the services which can be used to prevent illness, reduce the need for treatment later down the line, and would ease pressure on the NHS, is extremely counterproductive.

39. The decision to transfer public health responsibilities to local government in 2013 was welcomed but many will now feel that they have been handed the responsibility without the appropriate resources.

40. It is crucial that councils are given a free hand in how best to find the savings in public health budgets and we seek the Government's reassurance on this point. Anything less will make the task of finding the reductions more difficult. Councils are best placed to decide how reduced resources should be used to meet our public health ambitions locally.

The four-year settlement

41. In our response to the 2016/17 settlement we welcomed the offer of a four-year settlement as giving more stability of funding. We note that 97 per cent of councils signed up for the offer. However councils are concerned that some figures in the 2017/18 provisional settlement, notably the figures for New Homes Bonus, are not in line with the indicative amounts included in the core spending power figures with the 2016/17 settlement. Although the NHB was not part of the four-year offer, the changes, along with the late announcement of them, undermine the certainty provided by the four-year settlement. In addition some councils are concerned about the 'negative RSG' adjustment to top-ups and tariffs in 2019/20.

Funding for Fire and Rescue Services

42. The settlement announced a £103 million decrease in RSG funding available for fire and rescue services in 2017/18 with year on year reductions over the settlement period. The fire and rescue service has a track record of improving safety while making the service more efficient and effective through increasing collaboration within the service and with other parts of the public sector.

43. Further reductions in funding for fire and rescue services in 2017/18 and beyond will continue to put pressure on the delivery of fire and rescue services, and their ability to respond to the full range of risks it faces and is expected to address. The reductions will have an impact on national and local resilience as well as operational capacity, and the ability of fire and rescue to respond to unpredictable events such as flooding. We need to ensure this important public service is adequately funded.

Local Government Association
January 2017

Annex

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

Question 1: Do you agree with the methodology of Revenue Support Grant in 2017/18?

We note that the methodology of Revenue Support Grant in 2017/18 is unchanged from 2016/17. In our reply to the 2016/17 settlement consultation we said that this is a new methodology which takes into account council tax at 2015/16 levels so that councils delivering the same set of services have the same or similar percentage change in 'settlement core funding'. The LGA did not take a formal view on this pointing to arguments on both sides.

There will still be adjustments to top-ups and tariffs (so called 'negative RSG') due to the new methodology of distributing RSG in 2019/20; this is of concern to authorities which have such adjustments.

Question 2: Do you think the Government should consider transitional measures to limit the impact of reforms to the New Homes Bonus?

Please see the section on the New Homes Bonus in the main response. We agree that the government should reverse the cuts to New Homes Bonus and that this should be funded from additional resources.

Question 3: Do you agree with the Government's proposal to fund the New Homes Bonus in 2017-18 with £1.16 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.5.8?

The LGA has always considered that New Homes Bonus should be funded from outside the settlement. We recognise that the methodology used is unchanged from last year although the amount top-sliced is different.

Question 4: Do you agree with the proposal to provide £240 million in 2017-18 from additional savings resulting from New Homes Bonus reforms to authorities with adult social care responsibilities allocated using the Relative Needs Formula?

As stated above, the NHB makes up a considerable part of funding for some authorities particularly shire district authorities. This move will see money designed to incentivise new homes taken away from councils at a time when the Government has made boosting housebuilding a clear priority. This, as well as the introduction of a 0.4 per cent threshold, will be a source of concern to many authorities, particularly shire districts and those with lower housing growth. We consider that the threshold should not be raised further and that the cut should be reversed.

Additional resources for Adult Social Care are welcome but the new Adult Social Care Grant does not anywhere near address the pressures facing adult social care which amount to £2.6 billion by the end of the decade. In addition, £165 million of the £241 million savings in New Homes Bonus have been taken from councils with social care responsibilities. The net funding increase for these councils is therefore only £75 million.

Question 5: Do you agree with the Government's proposal to hold back £25 million to fund the business rates safety net in 2017-18, on the basis of the methodology described in paragraph 2.8.2?

The LGA agrees with the principle of the safety net but considers that it should be funded from outside the system. With the £25m top-slice for 2017/18; the total amount top-sliced since 2013-14 is £230m. The LGA considers that the government should return this money to the local government finance system.

The main reason for the safety net is business rates appeals; the LGA looks forward to progress on reducing the number of speculative appeals through the new Check Challenge Appeal system and calls for the Valuation Office Agency to be given resources in order for all outstanding appeals from the 2010 list to be resolved by April 2018.

Question 6: Do you agree with the methodology for allocating Transition Grant payments in 2017-18?

We note that transition grant has been announced for 2017/18 only. The grant was included in the final 2016/17 settlement in response to calls for more funding for those authorities which lose from the new method of distributing revenue support, which now takes council tax at 2015/16 levels into account. This is welcome to some LGA member authorities. Others would point out that they did not get any of the transition grant and, despite the changed method of allocating revenue support grant, they still experience larger grant reductions. We also note that the grant will not be paid in 2018/19.

Question 7: Do you agree with the Government's proposed approach in paragraph 2.10.1of paying £65 million in 2017-18 to the upper quartile of local authorities based on the super-sparsity indicator?

We note that this is an unchanged methodology from last year and that the consultation states that it is funded by a top-slice from RSG. Authorities which are in receipt of this funding will welcome it. Others which potentially lose through the top-slice would rather see the funding distributed through RSG.

Question 8: Do you have any comments on the impact of the 2017-18 local government finance settlement on those who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide supporting evidence.

The Government's Equality Assessment notes the measures that have been taken to build in protection in the settlement but also noted that the reductions are likely to have had a disproportionate effect on the most deprived authorities and that there could be correlation with protected groups. The methodology adopted this year reduces settlement core funding by the same or a similar percentage for authorities delivering the same services. The LGA is aware that some authorities would urge the Government to take future council tax increases into account 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.