

POLICY DEVELOPMENT WORK IN PROGRESS: NOT A STATEMENT OF
GOVERNMENT POLICY or LGA POLICY

Grants and Services Paper – recommendations for Steering group

1. The Government has announced that the business rates reforms must be fiscally neutral. To ensure this the main local government grants will be phased out and additional responsibilities will be devolved to local authorities in order to match any additional funding from business rates.
2. A number of grants and responsibilities have been mentioned in announcements and this paper does not include detailed discussion of those grants that Government has already determined will in future be funded from business rates. Revenue Support Grant is unring-fenced funding that can be used to finance revenue expenditure on any service. Government announcements on 100 per cent rates retention have stated that at the point of implementation, that existing grant will be phased out. The working assumption therefore is that Revenue Support Grant and Rural Services Delivery Grant will cease to exist at implementation and will instead be funded from business rates income. The Government has also announced that Transport for London (TfL) Investment Grant will cease from 2017 and will in future be funded from business rates income. It is assumed that these items will form part of any package for devolution of responsibilities. The rest of this paper is divided into two sections. The first section is a consideration of areas where local government currently has responsibilities that are funded by central government grant and consideration of whether in future that grant should cease and the responsibility be funded by the funds transferred through business rates retention. The second section is a consideration of new responsibilities that could be devolved to local government as part of the funding package of business rates retention.
3. This paper is a draft for discussion at the Responsibilities working group meeting on 3 June 2016 and reflects the discussions of the group on 26 May 2016. Once the group has come to a view, this will form the basis of a paper of recommendations to the Steering group meeting on 13 June 2016.
4. Although the group is part of the joint working between the sector and DCLG, this paper primarily reflects the views of the representatives of the sector rather than including central government considerations. In addition, this is an area that will be considered by the LGA's member task and finish group. It is recognised that any proposals by the local government sector would need to be considered by Government.

5. Broadly speaking, the group felt that responsibilities being considered by the group should be considered as being suitable for devolution across England, but that would not preclude additional devolution in individual areas if that made particular local sense. In that case, such additional devolution might not necessarily be funded by business rates.
6. In these discussions the group took note of devolution of services through deals made as part of setting up new devolution arrangements. In many cases these have been part of packages and have been conditional on specific governance requirements – for example introducing elected mayors for combined authority areas. This raises wider issues – such as whether there should or could be devolution of different responsibilities in different areas, or whether devolution would have to be accompanied by the same sort of governance requirements across the board. The different governance arrangements in London with the GLA also raise the possibility of specific devolution to the GLA that could not be replicated elsewhere (for example with the TfL capital grant).
7. The group also highlighted the clear link to the work of the needs group in assessing how the funds would be distributed. But this was seen as being a later stage of the considerations. At this stage, the assumption would have to be that it would be possible to transfer the funds in a fair and transparent way linked to the responsibilities.

Grants

8. The grants considered in this paper are those appearing on the list of ideas circulated at the first working group meeting on 3 May 2016, and have been considered in further detail by the working group on 26 May.
9. For each grant, this paper provides some background information on the activity, the expected funding in 2019/20, and any information on costs and demand pressures where known.
10. In discussing these grants, the working group identified a number of conditions which should underpin any transfer to funding from business rates. These apply to each of the current grants considered.
 - a. The group expressed a concern that grants would be subject to further reductions (beyond the allocations determined in the Spending Review 2015) in the run up to the transfer of funding to business rates.
 - b. The funding should be transferred on the basis of local government being able to decide the best use of the money. Councils should have a responsibility to achieve outcomes for their localities, but the funding should not be transferred with conditions that would mean the funding initially transferred is inadequate. If new conditions were to be imposed after transfer then the new burdens doctrine would have to apply.

- c. That the transfer of core funding to be from business rates does not preclude further central government grant funding to be made to support specific needs or react to specific circumstances. For example, in recent years the Government has made available extra funding for potholes in addition to the main highways maintenance grant, and there has been other one off funding in response to prolonged periods of exceptionally poor weather.
- d. Funding must not be ring-fenced to specific purposes; councils must be able to have local discretion to deliver the best services for their areas.
- e. If subsequently duties or responsibilities were re-centralised, there should be no central levy or top slice on locally raised funds to adjust resources downwards.

11. The grants areas considered, together with the group's views are as follows:

12. Highways maintenance (£725 million) and Integrated Transport Block (£250 million). Highways maintenance funding currently comes from a Department for Transport grant paid directly to upper tier and unitary authorities. Local authorities have a duty to maintain their road networks. Funding is not currently ring-fenced, is paid by capital grant and is for planned maintenance; the integrated transport block is also non ring-fenced and is paid according to a formula. Currently a additional funding (£151 million 2019/20) is made available to local authorities dependent on achievement of specified efficiency criteria. By 2019/20 authorities in the lowest efficiency band will only receive 10 per cent of the allocation potentially available to them and authorities in the middle band, 50 per cent. If the funding is to be transferred, the element of funding awarded on an efficiency basis should also be transferred and no longer subject to the criteria. By then councils will have had at least three years to improve their efficiency and so these conditions should no longer be necessary. The inclusion of the TfL capital grant in the early announcements sets a precedent that capital funding can be considered. There is a major concern over the current condition of the roads and whether this would mean there would never be any central funding to bring them up to standard. Apart from periodic "shocks" (such as extreme bad weather) this is an area of stable expenditure that links well to business. Overall this seems a good fit.

13. Housing benefit admin subsidy and council tax support admin subsidy.

Unitary councils and district councils in two tier areas have responsibility for administration of Housing Benefit and Local Council Tax support, for which funding is provided through the above grants. Current levels of funding total around £0.3 billion (£270million and £77million respectively). This is non-ring-fenced funding to support administration costs. It goes to the same defined set of authorities each year and is allocated by formula. Funding has reduced in previous years and 2020 figures are expected to be in the region of £150 million. This is an area where the grant funding is insufficient to meet the costs of the

service (and has been for many years) so it is already partly paid for by local funding sources. It is a good fit to be rolled in.

- 14. Public Health Grant.** This is a ring-fenced grant providing funding for the discharge of public health functions defined in Section 73(B)(2) of the National Health Service Act 2006. Local authorities with public health functions funded by the grant are unitary councils and county councils in two tier areas. Current public health allocations to individual authorities are based on historic NHS spend. The Spending Review confirmed that the ring-fence would be maintained in 2016/17 and 2017/18. Further to Spending Review 2015 decisions, expected funding in 2019/20 is £3.1bn. This is an area that has recently been subjected to in year cuts and there is a concern that further cuts could be imposed before 2019/20; it is also an area where there is a concern that councils could be subject to a number of centrally imposed mandates; there is also a concern that the current allocation of the national grant to Public Health England needs to be reviewed to ensure responsibilities are located at the right level of government. Nevertheless, the overall view of the group is that this is an area of good fit to be rolled in, providing these caveats (and those made earlier in the paper) can be satisfied.
- 15. Improved Better Care Fund.** The Spending Review 2015 announced additional social care funding for councils. Expected funding levels in 2020 for the new element will be £1.5 billion and will flow through councils with responsibility for adult social care. This funding was set up to address adult social care funding shortfalls and as such it is money earmarked for local government and is a good fit funding from business rates, provided it is not ring fenced.
- 16. Existing Better Care Fund.** This is for working in partnership with the health sector. The Better Care fund is a local, single pooled budget that supports the NHS and local government to work together in the planning and implementation of joined up health and social care services in England. This is currently mostly NHS money, and despite concerns from group members that the current arrangements are not always satisfactory, it was felt that funding pooled into the existing fund would not be appropriate as a transfer – for example it might mean business rates funds being used to commission acute NHS services.
- 17. Independent Living Fund.** From 1 July 2015, responsibilities for supporting Independent Living Fund users in England passed to local authorities. A grant is now paid based on the estimated number of former Independent Living Fund clients to councils. The grant is expected to be £160 million in 2019/20 and is unring-fenced. As an unring-fenced grant this was seen as being suitable for inclusion.
- 18. Dedicated Schools Grant early years block.** This comprises funding for the 15-hour entitlement for 3 and 4 year-olds; participation funding for 2 year-olds from the most disadvantaged backgrounds; and the early years pupil premium. It is a

ring-fenced grant paid to unitary councils and county councils in two tier areas. Current funding is £2.7 billion and is expected to increase with the spending review announcement to double the free entitlement from 15 hours to 30 hours a week for working families with three and four year olds from September 2017. The group considered arguments that the existing connection of this funding with schools funding does not make sense and that if the ring fence could be removed and if councils could be given significantly more local discretion to deliver services, this would be a possible area for transfer to business rate funding. However, it is an area where the level of service is prescribed and changed nationally and it is an area where fluctuations in demand could lead to significant financial commitments. Overall this was therefore seen as a possibility if changes could be made but currently it was felt there are other areas that are a better fit.

New Service Responsibilities

19. The steering group asked the working group to consider new responsibilities in terms of outcomes for residents and clients, rather than looking at existing funding streams or programmes in isolation. The discussion of the working group therefore centred more on service areas where local government could take a bigger lead in having an impact for local residents and clients. The proposal here is more for local government to take on these as new responsibilities and to design services that best fit their areas rather than to transfer existing programmes wholesale. These proposals are then informed by analysis of current spending in these areas to ensure the criterion of fiscal neutrality is met, but further work will be required on exact funding requirements. Figures in this section are less concrete than for grants; nevertheless, unless otherwise stated figures are estimates for 2019/20.
20. **Skills.** This is a big area including a wide range of funding streams such as adult education, and careers guidance (currently covered by a wide variety of sources), and also further education. There are a lot of connected programmes and responsibilities and some of these are already being devolved to local government – either nationwide or as part of local devolution deals. Skills is an area where there is a clear link to boosting economic growth so there is a natural affinity with business rates. Local government could take a much stronger role here with the right funding, covering areas such as access to information and advice, access to the right training, routes to employment, and helping those furthest from the labour market to gain employment. This can also link more generally to other support and infrastructure for helping people to work - such as improving transport links. This is an area where further specialist work needs to be done, that would identify the details of what would be devolved but this is an area that would easily exceed £2 billion based on easily identifiable current

programme funding (though the proposal would not necessarily be to replicate those programmes) and could be significantly more.

21. **Welfare.** Councils could have a role to play in helping welfare claimants with help additional to core welfare benefits, with activities like helping people claim and helping people back into work (a clear link to skills, boosting prosperity and the economy). The group were very clear that it would be inappropriate to take on responsibility for nationally set benefits. However, there may be opportunities for discretionary activities to be better arranged locally and greater value added locally, possibly linking to continuing administration of housing benefit and council tax support.
22. **Older people and disabled people.** Local government has a role for those who have particular barriers to achieving those life outcomes or need additional help and support in any of those areas at all stages of life, particularly those who will be social care clients, those with learning disabilities, physical disabilities, mental health needs etc. Local government already has a role to play in supporting these people, and there are areas where greater clarity could be achieved by devolving responsibility and funding more fully to local government – particularly where that responsibility and funding is currently shared with health. There may be some scope for identifying additional responsibilities that should be devolved here, and this may include discussions about the funding that is currently being used to pay for Attendance Allowance (but not the existing national benefit). This is an area where the link to jobs / growth is less clear and there are concerns over the financial sustainability of what might be devolved given demand pressures. This is an area where the way ahead is further and better integration with health. This is therefore not an area that the working group felt should be included as being funded from with business rates.
23. **Improving communities.** Local government has a role to play in creating prosperous communities, both in terms of physical environment and in terms of cultural wellbeing. This often runs alongside and in tandem with central government funded initiatives and there may be opportunities to devolve these more clearly to local government – for example through localising funding of sports programmes. *Amounts – at least £100m?*
24. The working also discussed a number of individual areas that have been suggested. These were
 - a. **Youth Justice Boards.** An area where more widespread devolution is likely following devolution of wider justice responsibilities in Greater Manchester; also links to areas like Troubled Families where local government can clearly add value. The group were concerned that the link with growth and economy is not as clear as in other areas, but otherwise

felt it was suitable area. The budget could be in the region of £230 million (minimum for Youth Justice alone).

- b. **Housing**, in particular affordable housing. An area where London might be different from the rest of the country with the existing role of the GLA in administering a London wide fund. Generally, however, the with the exception of the funding managed by the GLA the working group recognised that this is an area unlikely to be devolved to local government.
- c. **Bus Services Operators Grant**. Currently £250 million of funding, already paid to some councils as well as to bus operators directly, but dependent on specific conditions. A clear link to growth and the economy and an area that the working group thought could be devolved.
- d. **Valuation Services** (transferring the role of the VOA). The group recognised wide unhappiness across the sector with the delivery of this service and the impact that it has in business rates collection and so on local government. Concerns were expressed as to whether there would be conflict of interest if the service were transferred locally. The group expressed further concerns that the service may currently be underfunded and that transfer could mean local government having to fund a shortfall.

25. A summary of the proposed grants and responsibilities to be recommended to steering group is shown in the table overleaf. This is followed by a short reconciliation with the most up to date calculation of the Quantum of business rates funding to be transferred.

Summary. Table 1: **Summary of Grants and responsibilities identified as possible by working group.**

Para Ref	Narrative		Total for Transfer (est) 2019/20 £ million
Grants already announced			
2	Revenue Support Grant		2,284
2	Transport for London Capital Grant		993
2	Rural Service Delivery Grant		65
Total			3,342
Grants assessed by working group as possible to transfer			
12	Highways Maintenance grant		725
12	Integrated Transport Block		250
12	Highways Maintenance efficiency element		151
13	Housing Benefit Admin Subsidy		150
13	Council Tax Support Admin Subsidy		77
14	Public Health Grant		3,134
15	Improved Better Care Fund		1,500
17	Independent Living Fund		160
Total			6,147
Grants assessed by working group as possible but difficult to transfer			
18	Dedicated Schools Grant, Early Years Block		2,700
Total			2,700
New responsibilities outcome areas assessed by working group as possible to transfer			
	In this section amounts are ballpark minimum figures, not specific programmes.		
20	Skills		2,000 (min)
21	Welfare		60 (min)
22	Older people and disabled people		Nil
23	Improving communities		100 (min)
Total (ballpark)			2,200
New responsibilities for other individual areas assessed by working group as possible to transfer			
24a	Youth Justice (and other justice areas, and also troubled families). Figure is Youth Justice alone		230 (min)
24b	Affordable Housing – GLA / London only		?
24c	Bus services Operators Grant		250
24d	Valuation Services		?
Total			480
OVERALL TOTAL, including DSG Early Years			14,850

Table 2 – Reconciliation with the Quantum

	Central Forecast 2019/20		Higher error margin	Lower Error margin
	£ billion		£ billion	£ billion
OBR Forecast for Business rates 2019/20	14.0		16.2	11.8
Less central List	1.5		1.5	1.5
Starting point for transfers	12.5		14.7	10.3
Transfers identified:				
Grants already announced	3.3		3.3	3.3
Working group recommended grants to transfer	6.1		6.1	6.1
Working group further possible grants (ie Early Years)	2.7		2.7	2.7
Working group new responsibilities outcome areas recommendations (minimum)	2.2		2.2	2.2
Working group individual service recommendations	0.5		0.5	0.5
Balance remaining	-2.3		-0.1	-4.1