Finance Panel

Agenda

Friday, 31 January 2014
11.30 am

Milbank Room
8th Floor
Local Government House
Smith Square
London
SW1P 3HZ

To: Members of the Finance Panel
cc: Named officers for briefing purposes

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31 January 2014

There will be a meeting of the Finance Panel at:

11.30 am on Friday, 31 January 2014 in Milbank Room, 8th Floor, Local Government House, Smith Square, London, SW1P 3HZ

A sandwich lunch will be available at 1:30pm.

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Apologies
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Labour:	Aicha Less: 020 7664 3263 email: aicha.less@local.gov.uk
Conservative:	Luke Taylor: 020 7664 3264 email: luke.taylor@local.gov.uk
Liberal Democrat:	Group Office: 020 7664 3235 email: libdem@local.gov.uk
Independent:	Group Office: 020 7664 3224 email: independent.group@local.gov.uk

Location
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LGA Contact
Frances Marshall: 0207 664 3220 / frances.marshall@local.gov.uk

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Local Government Association

Finance Panel Membership 2013/2014

Councillor	**Authority**
Conservative (4)	
Melvyn Caplan **[Vice Chair]**	Westminster City
Nigel Ashton	North Somerset Council
John Fuller	South Norfolk DC
David Finch	Essex CC
Substitutes	
Martin Hill	Lincolnshire CC
Simon Hoare	West Oxfordshire DC
Alan Jarrett	Medway Council
Labour (3)	
Sharon Taylor OBE **[Chair]**	Stevenage BC
Catherine West	Islington LB
Sir Steve Houghton CBE	Barnsley MBC
Substitute	
Norman Keats	Knowsley MBC
Liberal Democrat (1)	
Barbara Janke **[Deputy-Chair]**	Bristol City Council
Substitute	
Paul Tilsley MBE	Birmingham City Council
Independent (1)	
Councilman Matthew Richardson **[Deputy-Chair]**	City of London Corporation
Substitute	
Marianne Overton MBE	Lincolnshire County Council
Adrian Naylor	Bradford DC
Robert Bucke	Tendring DC

LGA Finance Panel: Attendance 2013-2014

Councillors	27.09.13	29.11.13
Conservative Group		
Melvyn Caplan	Yes	Yes
Nigel Ashton	Yes	Yes
John Fuller	Yes	Yes
David Finch	Yes	Yes
Labour Group		
Sharon Taylor OBE	Yes	No
Catherine West	Yes	No
Sir Stephen Houghton CBE	No	No
Lib Dem Group		
Barbara Janke	Yes	Yes
Independent		
Matthew Richardson	No	Yes
Substitutes		
Marianne Overton MBE	Yes	
Norman Keates	Yes	Yes
Alan Jarrett	Yes	

Agenda

Finance Panel

Friday 31 January 2014

11.30 am

Milbank Room, 8th Floor, Local Government House, Smith Square, London, SW1P 3HZ

	Item	FOR DISCUSSION	Page	Time
1.	**Rewiring Public Services: Finance Proposals** Verbal Update			11.30 am
2.	**Municipal Bonds Agency**		1 - 4	
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Date and Time of Next Meeting

11.30am on 28 March 2014 at Local Government House, Smith Square, London SW1P 3HZ.

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Municipal Bonds Agency

Purpose

For discussion.

Summary

Since the Executive approved a move to phase two of the project, a lead adviser has been engaged to undertake the revalidation/revision of the outline business case published in January 2012. Subject to a satisfactory outcome, it is anticipated that this work will enable supporting councils to commit to being founder members of the Agency. It is currently intended to make a recommendation to the Executive on continued LGA support for the project and for a move into phase three, the actual establishment of the Agency, in March 2014.

Recommendation

For the Panel to note progress with the project and to encourage both their own and associated councils to actively consider investing in the establishment of the Agency.

Action

Officers to be cognisant of Members' comments.

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Municipal Bonds Agency

Background

1. On 21 November 2013, the Executive approved a move to phase two of the project to establish a Municipal Bonds Agency. Phase two will revalidate/revise the outline business case published in January 2012. Provided this work justifies continued support for establishing the Agency, this phase will also seek financial commitment from councils that have expressed an interest in being founder members of the Agency and start the planning for establishing the Agency. This will include the development of a revised budget and outline project plan for establishing the Agency and issuing the first bond. Phase two is scheduled to complete on 20 March, when the Executive will be asked to consider a recommendation on continued LGA participation in the project and a move to phase three, the establishment of the Agency.

Progress since November 2013

2. **Work programme**. We have recruited an experienced lead adviser, Aidan Brady, to undertake phase two. He is a chartered accountant by profession, who has been working in financial services for over 20 years including holding senior positions in Deutsche Bank. We have also identified sources of specialist legal and financial advice, which can be called upon as the phase progresses, and two strategic advisers, Lars Anderson, the founder of the Kommuninvest Agency in Sweden and an adviser on the establishment of the recently launched French agency and Professor Francis Breedon, Professor of Economics and Finance at Queen Mary College, University of London, whose research is focused on foreign exchange and bond markets. In addition, the Royal Borough of Kensington and Chelsea has seconded an officer to the project for three days a week to provide analytical support to the Lead Adviser, support him at meetings with councils and provide general advice and background on the needs, working arrangements, process and culture of treasurers in local government.

3. The lead advisers work programme includes re-examining:

   3.1. The strategic rationale;

   3.2. Council demand;

   3.3. Investor community demand and likely pricing;

   3.4. The views of the ratings agencies and likely rating;

   3.5. Regulatory treatment;

   3.6. The Operating model; and

   3.7. Governance and capital structure.

4. Key deliverables will be: an evidence based review of the existing outline business case; a revised business case; and an investment case to be delivered with the support of the strategic advisers in time to inform a decision at the March Executive.

5. **Council support and commitment**. We continue to promote the Agency to member authorities and actively seek councils prepared to commit to being founder investors. We currently have 20 councils willing to be publicly associated with the establishment of the Agency and are working with further 21 authorities, which have varying levels of interest in and commitment to the project. This figure is steadily increasing and we are optimistic that enough authorities will be prepared to be founder investors should the revalidated business case continue to justify the establishment of the Agency.

6. **Governance arrangements**. While the LGA is the sole funder of the project, formal decision making resides within the LGA's decision making framework, with interested councils remaining actively engaged in an advisory capacity mainly through the senior finance officers' (SFO) group. Three meetings of the SFO group and one for the leaders or their representatives of interested councils have been planned for phase two. The SFO group will act as a quasi-project board, but without the decision making powers usually associated with such a body. They will be a sounding board for the Lead Advisor and feed into the final report on behalf of their authorities. Revised governance and decision making arrangements to cover the time when there is wider investment in the project will be discussed and developed within the SFO forum, based on recommendations from the lead adviser.

Next steps

7. Members are asked to:

    7.1. Comment on project progress and consider how to widen the network of committed councils.

    7.2. Encourage their own and neighbouring councils to commit to the establishment of the agency subject to the findings of the updated outline business case.

Financial Implications

8. The LGA has undertaken to fund phase two of the project from within the Finance and Policy Directorate programme budget. No decision has yet been made on further LGA financial commitment.

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Welfare Reform Update

Purpose of report

For discussion.

Summary

This report updates Members on the latest welfare reform developments, on issues including: local welfare assistance; housing; Universal Credit; local impacts intelligence; and out of area placement.

Recommendation

That the Finance Panel note progress and offer any further steer on the issues covered.

Action

Officers to take forward in line with Members' direction.

Contact officer:	Paul Raynes
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Welfare Reform Update

Local welfare assistance

1. The LGA is seeking urgent clarification from the Government following the apparent ending of the £347 million Local Welfare Assistance Grant for 2015-16 in the local government finance settlement. There is considerable concern that ending this grant in 2015-16 will put further pressure on councils already stretched budgets and could significantly impact upon their ability to support the most vulnerable people in need of emergency financial assistance. The Government had promised to review the grant before coming to future decisions.

Housing

Discretionary Housing Payments (DHP)

2. The Chancellor announced in the Autumn Statement that the Government will increase Discretionary Housing Payments (DHP) by £40 million in both 2014-15 and 2015-16. Additional funding for DHP over 2014-16 is helpful and shows that the Government has listened to the LGA's arguments that the current DHP allocation is not sufficient and does not reflect changing geographical need.

3. Our arguments on distribution and prioritisation have been further strengthened by the results from an LGA survey, which show that 9 out of 10 responding councils said that DHP applications had increased greatly between April 2013 and November 2013. The vast majority of responding councils (88%) are prioritising DHP to prevent homelessness. The survey also showed that the main driver of demand for DHP is the social sector size criteria. This feeds into the LGA's arguments for the total lifting of the housing borrowing cap, so that there are affordable and appropriately sized homes for people affected by the reforms to move to.

4. Recent media reports about councils under-spending DHP are misleading because they fail to take into account the phased implementation of the reforms and the time lag between a person being impacted by welfare reform and turning to the council for help. Councils have sensibly planned DHP allocations to manage demand throughout the year.

5. The real issue is that the allocation formula does not reflect the totality of housing impacts. This leads to some areas facing larger impacts than others. As a result there is wide variation in how far DHPs will meet the 'residual' losses in local areas, after mitigations are taken into account. We urgently need Government to review DHPs to ensure that the funding is sufficient and is allocated fairly so that it better mirrors local need.

Social Sector Size Criteria

6. It has come to light that due to housing regulations dating back to 1996, a number of working age tenants were incorrectly assessed as being affected by the social size criteria, and therefore have mistakenly had their Housing Benefit reduced due to under occupancy. The people affected have been in receipt of Housing Benefit for the same home since 1 January 1996 with no longer than a 4 week break.

7. The Department for Work and Pensions (DWP) estimates that 5,000 people are affected and has asked councils to identify them so that Housing Benefit can be refunded and people reassessed once the legislation has been amended. This is challenging because 1996 pre-dates electronic record keeping systems in most places and it is likely to take some considerable time to investigate and settle cases. We are pressing DWP to share the methodology they used to estimate the number of people affected as early indications from councils suggest the actual number may be higher.

8. The LGA has highlighted the importance of ensuring that councils are not left out of pocket as a result of Government error. Some of the people affected will have claimed DHP from their council. Councils are also spending a considerable amount of time identifying and tracking down people affected. We are arguing that this should trigger the New Burdens process so that councils are compensated for the costs incurred.

9. Lord Freud has said that the regulations will be amended by the end of March 2014.

Universal Credit (UC) Update

UC programme progress

10. On the 5 December 2013, the Secretary of State for Work and Pensions announced the next phase of UC. The pathfinder programme is to be further expanded so that this summer claims will progressively be taken from couples and in the autumn from families. Once safely tested in the 10 live UC areas, the roll out will be expanded to cover more of the Northwest of England. The DWP have asked to work with the LGA to ensure effective communication with the councils in the Northwest of England. The DWP hope that this next phase of the programme will further enable them to learn from the live running of UC at scale and for more claimant types, including the more vulnerable and complex.

Local Support Services Update and Trialling Plan

11. The Local Support Services Update and Trialling Plan were launched on the 6 December 2013. The DWP are currently working on the detail behind how the plan will be implemented. Local authorities will be invited to take part in trialling the key areas outlined within the plan. The LGA will be working closely with the DWP to determine which/how councils will be involved in trialling. In order to maintain momentum around LSSF Lord Freud will be hosting a webinar on 28 January for all councils. This will be followed up with a series of road shows starting with one in London on 10 February where further detail about trialling and testing will be available. The next road show will be in Manchester on 6 March.

<u>Pilots</u>

12. The LA Face to Face pilots are now set to come to an end. On the 13 January all pilots made final presentations to Lord Freud around their key areas of learning. The LGA will continue to support the pilots by running a learning network for them. Some of the pilots have been supported by the LGA to make further bids for European Social Fund monies. It is likely that the remaining pilots will put themselves forward for different elements of the trialling work.

Local Impacts Intelligence

13. The LGA is commissioning a piece of work which builds on the research we commissioned from the Centre for Economic and Social Inclusion (CESI) on the local impact of welfare reform, with the first phase due for completed by the end of March 2014. This piece of research will be able to draw on the work that councils and their partners have already done to implement and pilot some of the reforms, as well as work that they are doing to prepare for future implementation, in particular UC.

14. Key areas for this work to focus around are:

    14.1. Housing. How councils and housing partners have supported those impacted by the key housing benefit reforms; how they may address the under-supply of affordable housing and appropriately sized stock in the future; and how they are supporting claimants with their housing costs.

    14.2. Employment. Key role councils and their partners can – and could - play in getting people back in to work.

    14.3. Stability/resilience. Work readiness and support for low income working families.

    14.4. Supporting people with additional needs. The breadth of the LSSF and the partnership needed to deliver it.

15. We propose that the research project has three key strands:

    15.1. Further development of the CESI modelling tool on local impacts to refresh / review the available data it draws on and to integrate it with LGInform.

    15.2. Development of a tool (again ideally hosted on LGInform) that enables councils to record, share and benchmark progress on implementing change and mitigating some of the key impacts.

    15.3. Development of a range of narrative case studies that share learning on effective and innovative local practice.

16. This piece of work can draw on the learning which has now been amassed by the below as well as national implementation of the benefit cap, local welfare schemes and the under-occupancy penalty:

    16.1. Face to face pilots.

    16.2. Pathfinder sites.

    16.3. Direct payment projects.

Out of area placement

17. London Councils have produced a guide (attached at **Appendix A**) for London boroughs on the placement of homeless households outside London. The principal aim of the note is to encourage co-operation, transparency and effective working between officers in different authorities with the objective of assisting households that may need to move away from their home borough, and also to share information with the local authority area a household might be moving into.

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APPENDIX A

Advice Note on the placement of homeless households outside of London

This advice note is for London borough officers considering the issue of the placement of households outside of London. It sets out an approach that, collectively, housing directors and chief executives are keen to encourage amongst all boroughs. It represents an aspiration that, as far as is reasonably practicable, there is open and transparent information sharing between officers in different authorities when homeless households are placed out of London.

It is specifically concerned with the placement of households, who may be homeless or potentially homeless and placed in temporary accommodation or discharged into permanent accommodation outside of London. This advice note only relates to households who move from one area into another with the knowledge of the local authority from which they are leaving. Households who migrate from London on a voluntary basis or as part of a referral from a voluntary agency are not the subject of this note.

The principal aim of this advice note is to encourage co-operation, transparency and effective working between officers in different authorities with the objective of assisting households that may need to move away from their home borough, but also to share information with the local authority responsible for the area where a household might be moving into.

Officers will generally seek to place households requiring accommodation into properties that are as close as possible to their own borough, although this will be dependent on the cost, timeliness and overall availability of suitable accommodation.

The matters officers are required to take into account when placing households outside of London are set out in the Homelessness (Suitability of Accommodation) (England) Order 2012, attached at appendix A.

When a placement cannot be made within a reasonable proximity to the home borough and a household includes either vulnerable children, or vulnerable adults, guidance should be sought from the London Child Protection Procedures[1] and the Guidance for Out-of-area Safeguarding Adults arrangements[2] (see below for links to these documents). These are pan London procedures which promote, as far as is practicable, a common approach across London. It is the spirit of this pan London approach that has informed this note.

This advice will be relevant to all London borough homeless placements made outside of London, with the objective as far as is reasonably practicable of:

(a) achieving a more consistent approach to the manner in which households are placed in accommodation outside of London

[1] http://www.londoncp.co.uk/
[2] http://www.adass.org.uk/images/stories/Policy%20Networks/Safeguarding_Adults/Key_Documents/ADASS_GuidanceInterAuthoritySafeguardingArrangementsDec12.pdf

(b) encouraging and enabling local authorities to enter into collective procurement agreements in a planned and transparent way

(c) demonstrating that local authorities are being proactive in their approach to this issue and taking positive steps to ensure that where it is necessary to place families outside of London, this is done in a planned and co-ordinated way

(d) ensuring that the accommodation procured outside of London is affordable, suitable and of a good standard, and is procured in a way that does not inflate rents.

This advice may be updated in the future. It should be viewed as representing practical help of what officers should aspire to in terms of this issue. It will always be dependent on the circumstances of individual households and the availability of appropriate, affordable housing in a locality.

Advice on the placement of homeless households outside of London

Introduction

1. London borough officers will seek to place homeless households in accommodation as near as possible to a household's home borough where reasonably practicable. However, when a London borough is unable to secure suitable accommodation within the borough or in London, the local authority will offer accommodation outside of the home borough.

2. A decision to place a homeless household outside of London will only be taken following careful consideration by the host London borough, which will be informed by the individual circumstances of the household as well as an assessment of the availability of appropriate affordable accommodation within the vicinity. The placement decision will be informed by the Homelessness (Suitability of Accommodation) (England) Order 2012 (attached at Appendix A) which provides guidance on some of the factors which must be taken into account with respect to the placement of households in temporary accommodation.

3. This advice note focusses on three key aspects concerning the placement of homeless households outside of London:

   (a) **notification arrangements** - the placing authority should, as far as is reasonably possible, advise the receiving authority of all accommodation placements

   (b) **paying a fair rent –** the placing borough should, as far as is practical, ensure that the rent paid on accommodation takes reasonable account of what the receiving authority could pay and is not at a level that is likely to encourage unduly the inflation of local rent levels

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(c) **treatment of vulnerable families** – the placing borough will, as far as practically possible, avoid placing families containing vulnerable children outside of London.

Notification arrangements

4. London boroughs will aim to ensure that information concerning details of placements in temporary accommodation and private rented accommodation outside London is shared as far as possible in a fair and timely manner with the relevant councils in areas where families are moving to.

5. The receiving authority will notify the placing authority of any notices they have served on the property identified for temporary accommodation or private rented accommodation. The receiving authority would also notify the placing authority of action they may have taken against a landlord.

6. The borough placing the household will aim to contact the relevant out of London receiving authorities before the placement is made and, depending on availability of data and the circumstances of the individual household, share with them the following types of information:

(a) date of the placement
(b) name of the household
(c) number of people in the household (including the names and dates of birth of all children in the household)
(d) property address (including postcode)
(e) number of bedrooms in the property
(f) name of the landlord or housing supplier
(g) nightly / weekly rent payable
(h) details of any financial incentive paid to the landlord or supplier
(i) tenure of the accommodation – either temporary accommodation or Assured Shorthold Tenancy (AST).

Paying a fair rent

7. London boroughs seeking to place households outside of London should familiarise themselves with local markets and the rents paid for particular types of properties within the areas in which they wish to procure.

8. In order to try and avoid the possibility of contributing to rent inflation, London boroughs will, as far as is practicable, take into account local market rents and seek to agree rent levels with landlords that do not exceed the rent levels the receiving authority would ideally be prepared to pay for similar accommodation.

Treatment of vulnerable households

9. London boroughs will avoid, where reasonably possible, placing the most vulnerable households in accommodation outside of London. Boroughs will ensure the safety and protection of vulnerable adults and children will be given careful consideration, taking into account the existing protocols and procedures that govern the management of these issues.

Supporting vulnerable children

10. When households containing vulnerable children move from one London borough to another, guidance is sought from the London Child Protection Procedures (5th edition 2013). This should inform the movement of any households containing vulnerable children to authorities outside of London.

11. The London Child Protection Procedures (2013) provides guidance with respect to information sharing and is included in paragraph 6 of the Procedures (Children and Families moving across Local Authority boundaries), where it advises that agencies should maintain contact with children and families who move frequently. The procedures cover a number of areas including the following:

    (a) identifying children at risk of harm
    (b) information sharing
    (c) case responsibility
    (d) retention of child protection responsibilities by the originating authority
    (e) children and families moving during S47 enquiries
    (f) inter-borough arrangements for child protection enquiries.

Supporting vulnerable adults

12. With respect to the treatment of vulnerable adults moving from one London borough to another, the national Out-of-area Safeguarding Adults Programme agreed by the Directors of Adult Social Services (ADASS) in December 2012 should be the reference point. As this is a national protocol, it should inform the handling of issues around vulnerable adults place within homeless families being placed outside of London. The protocol is featured on the ADASS website.

ADVICE NOTE, APPENDIX

When London boroughs place homeless households outside of London, due regard will be paid to the location of the accommodation contained in Regulation 2 of the Homelessness (Suitability of Accommodation) (England) Order 2012. The relevant extract is below[i]. It should be noted that Regulation 3 sets out circumstances relating to condition and safety in which accommodation is to be regarded as not being suitable.

Extract from the Homelessness (Suitability of Accommodation) England Order 2012 - Regulation 2

Matters to be taken into account in determining whether accommodation outside of an applicant's home borough is suitable for a household.

2. In determining whether accommodation is suitable for a person, the local housing authority must take into account the location of the accommodation, including:

    (a) where the accommodation is situated outside of the district of the local housing authority, the distance of the accommodation from the district of the authority

(b) the significance of any disruption which may be caused by the location of the accommodation to the employment, caring responsibilities or education of the person or members of the person's household; the proximity

(c) the proximity and accessibility of the accommodation to medical facilities and other support which:

   (i) are currently used by or provided to the person or members of the Persons' household

   (ii) are essential in the well-being of the person or members of the Person's household

   (iii) the proximity and accessibility of the accommodation to local Services, amenities and transport.

end

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[i] The full version is found in http://www.legislation.gov.uk/uksi/2012/2601/pdfs/uksi_20122601_en.pdf

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Single Fraud Investigation Service

Purpose

For direction.

Summary

This report provides an update on developments relating to the Single Fraud Investigation Service and invites Members' comments in the light of recent Government announcements on benefit fraud.

Recommendation

Members are invited to give officers a steer in the light of recent Government announcements on benefit fraud.

Action

Officers to take forward in line with Members' steer.

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Single Fraud Investigation Service

Background

1. The Chancellor confirmed in the Autumn Statement that the Government intends to set up a new national fraud organisation - the Single Fraud Investigation Service (SFIS) - to tackle and prevent benefit fraud in the new benefits system. The Government intends SFIS to be mainly staffed by local fraud investigators currently working in councils.

2. This was despite the LGA robustly challenging the evidence upon which the decision to proceed was reached, and highlighting the potentially negative impact of a national organisation on councils' capacity to catch multiple fraud underpinned by local intelligence.

3. The Department for Work and Pensions (DWP) has announced a phased implementation between March 2014 and October 2016. This means that SFIS will be operational before the majority of Universal Credit claimants have migrated in 2016/17. The DWP has not taken a decision on whether TUPE will apply to council benefit fraud investigations. The DWP has also said that there will be a small number of pilots in early 2014 to test SFIS implementation, although we do not have any further details about this yet.

4. A related policy development is that the Communities for Local Government (CLG) has announced a £16.6 million fund over 2 years from 2014/15 for councils to tackle non-welfare fraud. The intention is that this fund will enable District Councils in particular to replace some of the investigation capacity lost by SFIS by enabling a much bigger push on corporate fraud. No decision has been taken yet on how to distribute the fund, and the LGA Chairman has a meeting with Baroness Stowell on 27 January to discuss next steps.

5. On Thursday 9 January the LGA bought together around 20 senior council officers (including at the corporate director and chief executive levels) to help us capture the more technical issues arising from recent announcements, and to feed into Member discussions on next steps.

Key Issues for Councils

6. There are a number of key issues for councils arising from recent announcements on fraud.

   6.1. **Managing the transition to SFIS and the impact on councils' ability to tackle fraud effectively at the local level.**

      6.1.1. The key issue we need quick clarity on is whether or not TUPE will apply to affected council staff and when. Without this information it is impossible for councils to plan to manage the transition. There are also a clutch of implementation issues that need to be addressed in order to avoid costly duplication in the new system. This includes data sharing, joint prosecutions between SFIS and councils, and protocols. We also think it highly likely that new legislation will be needed to ensure that councils still have sufficient powers to tackle fraud effectively at the local level.

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6.1.2. The DWP has set up a Joint Working Group to consider how best to address the implementation issues. The Group's first meeting is 28 January, and the LGA has highlighted the importance of strong local government representation across different types of councils.

6.2. **CLG wider push on fraud**.

6.2.1. The view of the professional bodies is that whatever mechanism is used to distribute the £16.6 million, it is not enough to replace capacity lost, and should be directed at fostering hubs or clusters for tackling fraud that will be sustainable over the longer term after this two-year fund has finished. The capacity of district councils in particular will be hit by the transfer of benefit fraud staff into SFIS. We are pressing CLG for urgent clarification on the methodology that underpinned arriving at the £16.6 million figure.

6.2.2. Finance Panel Office Holders are currently considering an LGA response to the CLG fund and we will update the Panel on the latest situation at the meeting.

6.3. **How do we tie the conversations together?**

6.3.1. At the moment there are separate political and officer governance arrangements at risk of emerging for SFIS implementation and the CLG funding. We suggest that we need a joint liaison between SFIS implementation and CLG work on fraud. A way of achieving this might be a tri-lateral arrangement between DWP, CLG and local government (with COSLA and WLGA). Governance arrangements would mirror this arrangement.

Next steps

7. Subject to Members' steer, we suggest that Sir Merrick Cockell (LGA Chairman) writes to Lord Freud and Baroness Stowell to set out the LGA's view on next steps regarding SFIS, and the importance of joining this up with CLG's wider push on fraud.

Financial Implications

8. There are no financial issues arising from this report.

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Finance Panel
31 January 2014

Local Government Finance Settlement

Purpose of report

For discussion and direction.

Summary

This report summarises LGA activity on the Local Government Finance Settlement and the LGA response.

Recommendation

That the Panel endorse the response to the Local Government Finance Settlement, which was agreed by Finance Panel Office Holders, and note that lobbying will continue on key issues in the run-up to the Settlement being approved by Parliament in the second week of February.

Action

Officers to issue briefing for Final Settlement debate.

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Local Government Association

Finance Panel
31 January 2014

Local Government Finance Settlement

Background

1. The local government finance settlement for 2014-15 and illustrative settlement for 2015-16 was announced on 18 December 2013. The LGA issued a full on the day briefing which is attached to the report at **Appendix A**.

2. This LGA's response – attached at **Appendix B** - was considered and agreed by Finance Panel office-holders in time for submission by the closing date of 15 January 2014. Some of the key points were raised by the Chairman in his meeting with Brandon Lewis MP on 13 January.

Key lobbying points in the LGA's response to the settlement

3. The following are the key points in the LGA response:

   3.1. The provisional Local Government Finance Settlement for 2014-15 and 2015-16 confirms that councils will continue to face public sector spending cuts up to 2016, with the next two years being the toughest yet for most authorities. The Government has however started to listen to local authorities and made some important concessions without which local services would have suffered more.

   3.2. We note that the Government has been unable to substantiate the figure in the 2013 Spending Round that there would be a real terms reduction in overall Local Government spending in 2015-16 of 2.3%. The figure of 1.8% announced as this part of the settlement is in cash not real terms and the average reduction in spending power announced by the Government is 3.3% in real terms rather than 2.3%. We call on the Government to substantiate the figure of 2.3% or withdraw it.

   3.3. Central government grant to run local services will fall by 8.5 % over the next two years, even when the additional funding through the Better Care Fund is taken into account. Without ring-fenced and health funding the fall is 15.9% in cash terms. Not all councils get the Better Care Fund so the overall figure masks higher cuts to these councils.

   3.4. As a result of the Autumn Statement there will not be an additional reduction in 2014-2015 this time over and above that announced in June. This is a positive development as it will aid financial planning in local government.

   3.5. We welcome the statement that the business rates changes in the Autumn Statement will be fully paid for. But local government has yet to see the detailed mechanism to be used.

   3.6. We call for council tax support funding to be made more transparent at individual authority level.

Local Government Association

Finance Panel
31 January 2014

3.7. At a time when local authorities are contending with the biggest cuts in living memory, the introduction of the Better Care Fund and 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.

3.8. The reduction of the money held back from councils for initiatives such as the New Homes Bonus reverses the position announced in the summer technical consultation on local government finance. It demonstrates that the concerns of the LGA and councils were listened to. But we are concerned that the Government will be still be going ahead with the £120 million top-slice for the safety net in 2014-15 and that the top-slice removal from London Boroughs for New Homes Bonus in 2015-16 will also be going ahead, especially since the Government has not fully explained the reasons for treating London differently. We call for the safety net to be funded by the Government from outside the settlement.

3.9. We welcome the Government's commitment to continue to help authorities worst affected by the settlement through an Efficiency Support Grant.

3.10. We note the Secretary of State has yet to announce the level of Council Tax he will regard as excessive in 2014/15 and note that this makes forward planning difficult for many authorities. The next two years will be the toughest yet for local public services. By the end of this Parliament, local government will have to have made £20 billion worth of savings. 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. 2015/16 will be a crunch year for councils and local public services.

3.11. We are concerned at the ending of the specific grant for local welfare support from 2015-16. There is concern that ending this grant in 2015-16 – contrary to Government promises to review the grant before coming to future decisions - will add to pressures for councils.

3.12. It is unacceptable that for a second consecutive year, councils have had to wait until late December to find out their funding for the next year. Moreover, we note that specific grant allocations from the Department for Work and Pensions (DWP) are currently missing from the draft settlement. This hampers local authorities in properly consulting with residents and deprives local areas of the long-term certainty needed to run important local services to a high standard. No business would be run in this way. 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.

Conclusion and next steps

4. The final settlement for 2014-15 is expected to be announced in late January and to be approved by Parliament in the second week of February. The LGA will issue a briefing for this debate.

Financial Implications

5. This is core work for the LGA and will be contained within existing budgets.

Local Government Association (LGA) briefing: *Provisional Local Government Finance Settlement 2014-15 and 2015-16*

18th December 2013

Briefing

LGA KEY MESSAGES

- Today's Provisional Local Government Finance Settlement confirms that councils will continue to face significant spending reductions up to 2016. The Government has however started to listen to local authorities and made some important concessions without which local services would have suffered more.

- Central government grant to run local services will fall by 8.5 per cent over the next two years, when including NHS support for social care. However, without including NHS support for social care which is not available for shire district councils, the reduction is 15.9 per cent.

- As a result of the Autumn Statement there will not be an additional reduction in 2014-2015. This is a positive development as it will aid financial planning in local government.

- At a time when local authorities are contending with the biggest cuts in living memory, the introduction of the Better Care Fund and Government's decision to reverse potentially costly changes to the New Homes Bonus will help the efforts of some local authorities in protecting vital everyday services.

- The reduction of the money held back from councils for initiatives such as the New Homes Bonus reverses the position announced in the summer technical consultation on local government finance. It demonstrates that the concerns of the LGA and councils were listened to.

- The next two years will be the toughest yet for local public services. By the end of this Parliament, local government will have to have made £20 billion worth of savings. 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. 2015/16 will be a crunch year for councils and local public services.

- It is unacceptable that for a second consecutive year, councils have had to wait until a week before Christmas to find out their funding for the next year. This prevents local authorities from being able to properly consult with residents and deprives local areas of the long-term certainty needed to run important local services to a high standard. No business would be run in this way. We look forward to the Chancellor delivering on his commitment to provide a longer-term funding settlement for local authorities.

KEY FACTS

- The Department for Communities and Local Government (DCLG) has announced the provisional local government finance settlement for 2014-15. The Department has also announced an illustrative settlement for 2015-16.

- The closing date for responses to DCLG is 15 January 2014.

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- There is a reduction in net Aggregate External Finance of 9.4 per cent in 2014-15 and 13.2 per cent in 2015-16. Compared with the summer consultation, there is £123 million more in the Settlement Funding Assessment (SFA) for 2014-15 and £131 million more for 2015-16 which has been found by reducing holdbacks for New Homes Bonus (£100m in each year) and capitalisation (£50million). The balance is explained by the resources for Efficiency Support Grant and sparse authorities.

- There is an overall reduction of revenue spending power of 2.9 per cent in 2014-15 and 1.8 per cent in 2015-16 (these figures exclude the Greater London Authority). This includes new resources for social care through the Better Care Fund. Excluding council tax income this is a reduction of 5.3 per cent in 2014-15 and 3.5 per cent in 2015-16, or 8.5 per cent over the two years.

- Confirmation that the Government will pay in full for the business rates changes announced in the Autumn Statement. The Government is doing this by increasing revenue support to compensate for the lower increase in the local share by a section 31 grant.

- Referendum limits have not been announced. The Government will make a further announcement in the New Year.

- The Government has announced an additional £2.35 billion of basic needs funding for councils to plan and create new school places that will be needed by 2017.

THE SETTLEMENT IN DETAIL

This is a two year settlement consisting of a provisional settlement for 2014-15 and illustrative figures for 2015-16. The Government have announced the following:

- Settlement Funding Assessment (SFA) figures for 2014-15 and 2015-16. This is a cut of 9.4 per cent in 2014-15 and 13.2 per cent in 2015-16.

- Compared with the summer technical consultation the holdbacks for New Homes Bonus and capitalisation have been reduced; putting a net £123 million back into SFA in 2014-15 and £131 million in 2015-16.

- Revenue spending power (RSP) figures for 2014-15 and 2015-16 for each council. These show an overall reduction in revenue spending power of 2.9 per cent in 2014-15 and 1.8 per cent in 2015-16 (excluding the Greater London Authority). These figures include council tax income. If you leave council tax out, this is a cut of 5.3 per cent in 2014-15 and 3.5 per cent in 2015-16, or 8.5 per cent over the two years.

- The main difference between the two figures is explained by:

    - Top slice for New Homes Bonus. The Revenue Spending Power figures include the New Homes Bonus grant for both years.

    - NHS money to support social care of £1.1 billion in 2014-15 and £3.46 billion in 2015-16 as well as set-up costs of £285 million revenue and £50 million capital for set-up costs for deferred costs for social care. This money will go to social care authorities.

  - The effects of changes to business rates announced in the Autumn Statement, including the two per cent cap. These have been adjusted for in the SFA figures, but not in the Revenue Spending Power figures.

- The Government has confirmed that it will pay Efficiency Support Grant to councils which would otherwise have a revenue spending power reduction of more than 6.9 per cent. Nine councils are eligible in 2014-15 and 14 councils are eligible in 2015-16. They £40.5 million in each of 2014-15 and 2015-16 has been set aside to pay for this.

- They will also continue to pay a grant to the most sparsely populated authorities; this is estimated at £9.5 million in 2013-14. It will be incorporated into the Settlement Funding Assessment from 2014-15.

New Homes Bonus

The provisional amounts for the New Homes Bonus (NHB) for 2014-15 and 2015-16 have been announced by DCLG. This includes a total of £916 million in 2014-15 and £1150 million in 2015-16. This will continue to be funded through £250 million in specific grant with the rest in top-sliced funding. These figures are £100 million less for both 2014-15 and 2015-16 than the amount included in the summer technical consultation. This funding will be used to increase Settlement Funding Assessment (SFA) in each of these years.

Any unallocated money will be returned to local government in proportion to the SFA as a supplementary NHB amount, as was the case in 2013-14.

As previously announced the Government will not be going ahead with the transfer of £330 million of NHB to Local Enterprise Partnerships in 2015-16. However, £70 million will be transferred from London Boroughs and the City to the Greater London Authority.

Business rates

There are no changes to the business rates retention scheme which is now in its second year, other than an announcement on pooling. DCLG is consulting on 13 proposals for pools in 2014-15, the same number as in 2013-14.

The income from business rates will be affected by the measures announced in the 2013 Autumn Statement. These are:

- The 3.2 per cent RPI increase for 2014-15 will be reduced to 2 per cent.

- A £1,000 discount for all retail, pubs, cafes (excluding banks and betting offices) with rateable values below £50,000 for 2 years.

- The doubling of Small Business Rate Relief will continue for a further year.

- Ratepayers will continue to keep their Small Business Rate Relief entitlement for a year where they take on a second property. New occupiers of former retail premises which have been unoccupied for a year will receive a 50 per cent discount for 18 months.

The Government has said that they these will be paid for through the section 31 grant so that councils are fully compensated. Figures reflected in the settlement aggregate this grant into local business rates

The multiplier will therefore be 48.0 pence, with the small business multiplier being 47.1 pence. Top-ups and tariffs will be uprated by 1.95 per cent; rather than the September Retail Price Index of 3.2 per cent.

The Government has also issued proposals for reforming the system of challenging and appeals for business rates. A consultation will close on 3 March 2014.

LGA view

- **It is good news that councils will be fully compensated for the loss of income from the business rate measures**. The Autumn Statement puts this at a total of £1.1 billion.

- The extension of the small business rates relief extension and other measures to help small businesses is good news as is the Government's commitment to paying for this through the New Burdens Doctrine.

- **However, councils have yet to see the payment to cover the extension announced in last year's Autumn Statement and need strong assurances that they will receive both payments as soon as possible**. Unless it is fully funded it will further undermine council finances at a time when councils need every penny for vital services.

- The amount of holdbacks for the safety net has not changed since the proposals in the summer technical consultation. The Government should set all appeals up to 31st March 2013 against the old business rates pool, thus reducing the need for a safety net top-slice.

<u>Council tax</u>

The Provisional Local Government Finance Settlement announces the following on council tax:

- The freeze grant will be extended for both 2014-15 and 2015-16. This grant is equivalent to a one per cent increase in council tax.

- Referendum limits have not been announced. DCLG says they will be announced separately in the New Year. The written ministerial statement says that ministers are "particularly open to representations suggesting that some lower threshold be applied to all or some categories of authorities, given the strong need to protect taxpayers wherever possible from unreasonable increases in bills, and given next year's elections on 22 May across the country allow for referendums to be held at minimal cost."

LGA view

- **Referendums on council tax are an unnecessary and a costly burden that will put growth generating investment at risk.**

Local Council Tax Support

Funding for local council tax support schemes is now included in the Settlement Funding Assessment.

- As foreshadowed in the technical consultation document, the funding for council tax support in 2014-15 will not be separately identified. The total amount of council tax support, according to the DCLG information, is £3.305 billion for 2014-15. If councils decrease funding to their local council tax support schemes in line with the reduction in SFA over £1 billion will be taken out of external funding by the end of 2015-16.

- DCLG has also announced additional New Burdens funding of £34.8 million and this will go to billing authorities. However, no account has been taken of increased costs of enforcement. As previously announced, DCLG will not be paying a transitional grant in 2014-15.

LGA view

- The National Audit Office has said that councils have implemented local council tax support schemes well. However, the way in which the support figures have not been identified at individual authority level in 2014-15 means that it is not clear how much of local schemes are being externally funded. **The Government should be more transparent about the level of external funding.**

- DCLG are paying for the changes to local council tax support through the New Burdens money which is something the LGA has called for. **However, we do not agree with the decision not to make an allowance for the increased costs of enforcement.**

Better Care Fund and funding for the Care Bill

The Better Care Fund (BCF) – formerly the 'Integration Transformation Fund' – was announced in the June 2013 Spending Round as a 'pooled budget for health and social care services, shared between the NHS and local authorities, to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people'. The local government elements of the BCF (including the £1.1 billion transfer from health to social care) are based on local government formula and the health elements on Clinical Commissioning Group formula.

The Autumn Statement in December committed the Government to 'making sure pooled funding is an enduring part of the framework for the health and social care system beyond 2015/16'.

The fund does not address the financial challenges facing councils and Clinical Commissioning Groups (CCGs) in 2015/16 and instead brings together local government and NHS resources that are already committed to existing activity.

The June 2013 Spending Round set out the following:	
2014/15	2015/16
An additional £200 million transfer from the NHS to social care, in addition to the £900 million transfer already planned (as set out in the 2010 Spending Review)	£3.8 billion pooled budget to be deployed locally on health and social care through pooled budget arrangements

In 2015/16 the BCF will be created from the following:
£1.9 billion NHS funding
£1.9 billion based on existing funding in 2014/15 that is allocated across the health and wider care system, composed of: • £135 million Carers' Breaks funding • £300 million CCG reablement funding • £354 million capital funding (including £220 million of Disabled Facilities Grant) • £1.1 billion existing transfer from health to social care

In the June Spending Round the Government announced £335 million in 2015/16 'so that councils can prepare for reforms to the system of social care funding, including the introduction of a cap on people's care costs from April 2016 and a universal offer of deferred payment agreements from April 2015.' The Department of Health has also identified other costs relating to care and support totalling £130 million that are to be met through the BCF.

LGA view

- The LGA's *Rewiring Public Services* campaign has called for further integration of social care and health services. Integrated services are more likely to improve outcomes in ways which treat people with dignity and respect and it makes sense to get rid of duplication and waste. **The BCF therefore fits well with our aspirations for integrated health and care and is an opportunity to improve joint working between health and social care for the benefit of the individual and the public purse.** Health and Wellbeing Boards will need to be at the centre of this work.

- We also welcome the Autumn Statement announcement that the pooling of resource between health and social care will be a permanent feature of our health and social care system. **However, the BCF does not of itself address the financial challenges facing councils and clinical commissioning groups and is included within NHS Departmental Expenditure Limits, so it could be regarded as double counting**. We need sustainable funding for adult social care both for now and in the longer-term in order to make the most of the Better Care Fund.

- The reforms being implemented through the Care Bill need to be **fully costed and funded as new burdens.** This means funding both implementation in 2015/16 (the £335 million referenced above) and supporting on-going running costs (money for which will be allocated through future Spending Reviews). The additional 'other costs' of £130 million that the Department of Health has identified should be counted as new burdens and therefore funded from new money.

Schools and Children's Services Funding

Schools funding is through ring-fenced resources – the Dedicated Schools Grant and the Pupil Premium. Most Children's Services Funding is included within the Settlement Funding Assessment. Today's announcements concern both revenue and capital funding.

- The Government has announced an additional £2.35 billion of basic needs funding for councils to plan and create new school places that will be needed by 2017. This is additional to the £5 billion allocated between 2011-15 and represents an additional two-year allocation, drawing on the £21 billion of extra schools capital between 2015 and 2020 announced in this summer's Spending Review.

- Provisional figures for Dedicated Schools Grant and pupil premium for 2014-15 have been published. This includes funding for 2 year old nursery education for 2014-15 – a total of £775m. The allocation to councils of Education Services Grant of £750 million has also been published. The figures can be found on the Department's website.

- The Government has announced that £70 million of the £150 million which was paid for adoption in 2013-14 will be used for Special Educational Needs costs in 2014-15. There is as yet no news on how the £80 million balance will be used.

- The expected consultations on the National Funding Formula and the cuts to Education Services Grant in 2015-16 have not been published. The LGA understands that they are likely to be published early in the New Year.

LGA View

- The LGA has been pressing the Government make three year capital funding allocations to councils to allow them to plan properly provide the sharply rising demand for primary school places and deliver the most cost-effective long term solutions. **So the announcement of an additional two year allocation to give councils certainty over central funding between 2014 and 2017 is very welcome and something the LGA called for**.
- We are very concerned at the continuing delay to the announcements about the introduction of a new National Funding Formula for schools in April 2015 and the cuts to Education Services Grant in 2015/16, which is causing great uncertainty for councils and schools.
- Continuing reductions to early intervention funding risk under-resourcing local authorities in their delivery of early support to children, young people and families. Cutting 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. **Local authorities will be less able to provide support for children and families affected by disabilities or existing / potential development delays.**

<u>Police Funding</u>

The police grant will decrease by 4.8 per cent in 2014-15. This year the police grant incorporates the Community Safety Fund, which was provided to local policing bodies in 2013-14 to commission services that help tackle drugs and crime, reduce re-offending and improve community safety. The Home Office has also confirmed there will be a £50 million Police Innovation Fund available in 2014-15 to assist police and crime commissioners establish initiatives that promote collaboration, including with the emergency services and councils.

LGA View

- These reductions in police funding will continue to leave Police and Crime Commissioners with difficult decisions about how they deliver their manifesto commitments, sustain frontline policing and also look to make the efficiencies and savings needed.

- **Working with partners, especially councils, on programmes like those assisting troubled families or improving public health will therefore be crucial in reducing the demands on police time and resources going forward**, and the pooling of budgets and co-commissioning of services will be vital in the future funding of community safety activity.

Fire Funding

The decrease to fire Settlement Funding Assessments is 6.5 per cent in 2014-15 and 8.7 per cent in 2015-16. This reflects decisions taken as part of the Spending Round.

LGA view

- **The reduction in funding for fire authorities continues to put pressure on the delivery of fire services**. This will only be heightened by the additional reductions in 2014-15 and 2015-16 and the expectation that this trend will continue into subsequent years.

Further Information

For further information on this briefing paper please contact Mike Heiser, Senior Adviser (Finance) (mike.heiser@local.gov.uk/ 020 7664 3265); or Lee Bruce, Public Affairs and Campaigns Adviser (020 7664 3097 / lee.bruce@local.gov.uk)

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 members councils and groupings. Please send to lgfinance@local.gov.uk

A dedicated workshop session in the LGA's *Rewiring Local Government Finance* conference on 8 January 2014 will provide an in-depth analysis of the figures announced today. You can find out more about the event and book your place by following this link.

Annex: Tables showing key numbers

Annex: Tables with key information

Table 1. Overall reduction in revenue spending power (RSP)

Authority type	Change in RSP, 2013/14 to 2014/15	Change in RSP, 2014/15 to 2015/16	Total change in RSP over the settlement period
England average*	-2.9%	-1.8%	-4.5%
Shire districts	-2.5%	-3.0%	-5.5%
Shire counties	-1.4%	0.9%	-0.5%
Met districts	-4.2%	-3.7%	-7.8%
London boroughs*	-3.9%	-3.3%	-7.0%
English unitaries**	-2.9%	-1.7%	-4.6%

*Excludes the GLA
**Excludes the Isles of Scilly

Table 2. Composition of revenue spending power

	Adjusted 2013/14, £m	2014/15, £m	Adjusted 2014/15, £m	2015/16, £m
Council tax (net of council tax support)	20,087	20,221	20,221	20,356
Settlement funding assessment (see table 2)	25,092	22,627	22,627	19,498
plus Adjustment to reflect Section 31 grants for business rates cap	0	108	108	108
minus Council Tax Support Funding to Parishes	-40	-40	-40	-40
New Homes Bonus - prior year adjustment	82	34	34	86
New Homes Bonus - current year	668	916	916	1,164
Public health grant	2,662	2,794	2,794	2,794
NHS support to social care	859	1,100		-
Efficiency Support Grant	9	9	9	10
Adult Social Care New Burdens			285	285
Pooled NHS and LA Better Care Fund			1,645	3,460
Other grants, *composed of:*	718	925	552	567
Commons Pioneer Authorities	*0*	*0*	*0*	*0*
Inshore Fisheries Conservation Authorities	*3*	*3*	*3*	*3*
Lead Local Flood Authorities	*15*	*15*	*15*	*10*
Social Fund Admin Grant				
Fire Revenue Grant (FireLink and New Dimension elements)	*27*	*28*	*28*	*29*
Community Right to Challenge	*3*	*3*	*3*	*0*
Local Welfare Provision (Admin + Programme funding) 2014-15	*175*	*172*	*172*	*0*
Housing Benefit Subsidy Admin	*402*	*0*		
Local Council Tax Support and Housing Benefit Administration Subsidy	*0*	*373*		
Council Tax Support New Burdens Funding	*33*	*35*	*35*	*0*
LA Social Housing Fraud	*5*	*5*	*5*	*0*
City of London Offset	*11*	*11*	*11*	*11*
Community Right to Bid	*3*	*3*	*3*	*0*
Council Tax Freeze Grant 2014/15	-	*235*	*235*	*235*
Council Tax Freeze Grant 2015/16	-		*0*	*236*
Local Reform and Community Voices	*42*	*43*	*43*	*43*

Total revenue spending power	**50,137**	**48,693**	**49,150**	**48,287**
Change in spending power		-2.9%		-1.8%
Change in spending power less council tax		-5.3%		-3.5%

Annex B – Glossary of Local Government Finance Technical Terms

Aggregate External Finance	Government grant (including specific grants) and business rates together.
Better Care Fund	Previously known as the integration and transformation fund, this is 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
Central Share	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.
Dedicated Schools Grant	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.
Education Services Grant	From 2013-14, new funding arrangements for education services apply for local authorities and academies. LA Block LACSEG for academies, and the corresponding element of local government revenue funding, was replaced by the new Education Services Grant (ESG). 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.
Efficiency Support Grant	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.
Local Council Tax Support	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
Local share	The percentage share of locally collected business rates that will be retained by local government. This will be set at 50 per cent. The local share of the estimated business rates aggregate is 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

	2010-11 and 2011-12)
New Burdens Doctrine	The Cabinet agreed that all new burdens on local authorities must be properly assessed and fully funded by the relevant department.
New Homes Bonus	A grant paid to local councils for increasing the number of homes and their use, paid each year for 6 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.
Pupil Premium	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 (known as '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
Revenue Spending Power	Broadly speaking, spending power from council tax, Government revenue grants and NHS funding for social care.
Safety Net	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.
Section 31 Grant	A grant paid to local councils under Section 31 of the Local Government Finance Act 2003, under such conditions as the minister may determine
Settlement Funding Assessment	Previously known as start-up funding assessment, 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 - it is also the sum of formula funding and grants rolled in from 2013.
Small Business Rate Relief	Until 31 March 2015 businesses receive 100% relief (doubled from the usual rate of 50%) 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% to 0% for properties with a rateable value between £6,001 and £12,000.
The (business rates) multiplier	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.
Top-ups and Tariffs	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 uprated by inflation each year.

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Appendix B

Local Government Finance Settlement 2014-15 and 2015-16 Consultation

15th January 2014

Submission

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 Finance Panel.

Key points

3. The provisional Local Government Finance Settlement for 2014-15 and 2015-16 confirms that councils will continue to face public sector spending cuts up to 2016, with the next two years being the toughest yet for most authorities. The Government has however started to listen to local authorities and made some important concessions without which local services would have suffered more.

4. We note that the Government has been unable to substantiate the figure in the 2013 Spending Round that there would be a real terms reduction in overall Local Government spending in 2015-16 of 2.3%. The figure of 1.8% announced as this part of the settlement is in cash not real terms and the average reduction in spending power announced by the Government is 3.3% in real terms rather than 2.3%. We call on the Government to substantiate the figure of 2.3% or withdraw it.

5. Central government grant to run local services will fall by 8.5 % over the next two years, even when the additional funding through the Better Care Fund is taken into account. Without ring-fenced and health funding the fall is 15.9% in cash terms. Not all councils get the Better Care Fund so the overall figure masks higher cuts to these councils.

6. As a result of the Autumn Statement there will not be an additional reduction in 2014-2015 this time over and above that announced in June. This is a positive development as it will aid financial planning in local government.

7. We welcome the statement that the business rates changes in the Autumn Statement will be fully paid for. But local government has yet to see the detailed mechanism to be used.

8. 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 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.

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10. The reduction of the money held back from councils for initiatives such as the New Homes Bonus reverses the position announced in the summer technical consultation on local government finance. It demonstrates that the concerns of the LGA and councils were listened to. But we are concerned that the Government will be still be going ahead with the £120m top-slice for the safety net in 2014-15 and that the top-slice removal from London boroughs for New Homes Bonus in 2015-16 will also be going ahead, especially since the Government has not fully explained the reasons for treating London differently. We call for the safety net to be funded by the Government from outside the settlement.

11. We welcome the Government's commitment to continue to help authorities worst affected by the settlement through an Efficiency Support Grant.

12. We note the Secretary of State has yet to announce the level of Council Tax he will regard as excessive in 2014/15 and note that this makes forward planning difficult for many authorities. The next two years will be the toughest yet for local public services. By the end of this Parliament, local government will have to have made £20 billion worth of savings. 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. 2015/16 will be a crunch year for councils and local public services.

13. We are concerned at the ending of the specific grant for local welfare support from 2015-16. There is concern that ending this grant in 2015-16 – contrary to Government promises to review the grant before coming to future decisions; will add to pressures for councils.

14. It is unacceptable that for a second consecutive year, councils have had to wait until late December to find out their funding for the next year. Moreover we note that specific grant allocations from DWP are currently missing from the draft settlement. This hampers local authorities in properly consulting with residents and deprives local areas of the long-term certainty needed to run important local services to a high standard. No business would be run in this way. 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 2014-15 confirms that councils will continue to face significant reductions. Although the Government highlight reductions in Revenue Spending Power of 2.9% in 2014-15 and 1.8% in 2015-16, a reduction over two years of 4.6% (figures not including the GLA), if one takes out the contribution from council tax the reduction is 8.5% over two years and if one takes out contributions from health service grants the reduction over two years is 15.9%.

16. We do however welcome the changes between the summer Technical Consultation, particularly the reduction in the holdback for New Homes Bonus and capitalisation. Without these the settlement would be even worse than it is. We are glad that some of the concerns of the LGA and the sector have been listened to.

17. However the reduction in the Settlement Funding Assessment is 9.4% in 2014-15 followed by a further 13.2%% 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.

18. At the time of the 2013 Spending Round the Government said that the reduction in spending power for 2015-16 would be 2.3% in real terms. The Government has been unable to substantiate these figures. If the reduction in Revenue Spending Power is expressed in real terms the reduction would be 3.3% or 1% more than the figures claimed by the Government. We call on the Government to provide details of the 2.3% real terms reduction for 2015-16 or to withdraw the figure.

Business Rates

19. The LGA notes the Government's decision to cap the increase in business rates for 2014-15 to 2%. The Settlement confirms that the measures in the 2013 Autumn Statement will be compensated for by a s.31 grant. It does not however give details of exactly how this grant will be calculated. We call on the Government to give more details quickly. We also call on them to ensure that the payment for the measures taken in the 2012 Autumn Statement, which has not yet reached local government, is provided as quickly as possible.

20. The settlement confirms that the safety net will be increased to £120m in 2014-15, 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. As we said in our response to the summer technical consultation, 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 would be set against the 'old' national pool.

21. We welcome the current consultation on the reform of the business rates appeals system and will respond fully in due course. In the meantime the Government should fund the risk of safety nets exceeding projected levels and not top-slice additional amounts from the local government settlement.

22. The settlement also confirms that RSG will be further reduced to take account of increases in the local share due to RPI increases. The amounts that will be reduced are £214m in 2014-15 (this is lower than anticipated due to 2% cap) and £312m in 2015-16. Reducing RSG in this way to take account of increases in the local share due to increases in the RPI reduces the value of the incentive offered by business rates retention. We call for this policy to be reversed and for local government to keep all local share growth.

Council tax support

23. The settlement confirms that council tax support funding will not be separately identified in 2014-15 or 2015-16, since there is not a separate element within the Settlement Funding Assessment. The Government says that the top-line transfer has not been reduced. But this is not reflected in authorities' figures.

Furthermore, the detailed calculation model for 2014-15 available on the gov.uk website shows that the council tax support funding has been split between elements relating to upper and lower tier services and fire before the overall reductions have been applied (10.3% for upper tier funding, 14.2% for lower tier funding and 7.8% for fire and rescue funding), meaning that the CTS funding has been reduced at authority level. Higher reductions apply for 2015-16 (16.1% for upper tier funding, 16.3% for lower tier funding and 8.5% for fire and rescue funding. If authorities choose to reduce funding for their CTS schemes, it means that the funding for CTS schemes will fall by around £1bn over three years.

24. This treatment contrasts sharply with the treatment of council tax freeze funding where the element has been specifically protected within authority amounts.

25. The Government statement points out that there is an element in the national pot which reflects the reduction of the taxbase for parish and town councils due to the end of Council Tax Benefits. Authorities will be having discussions with parish and town councils. However it appears that this amount has also not been protected at an individual authority level, so that if parish and town councils continue with the same level of funding as in 13-14 it will be a pressure on the budgets of the relevant billing authorities.

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.

New Homes Bonus

27. We welcome the fact that the top-slice for New Homes Bonus has been reduced by £100m. We said in our response to the summer technical consultation that the government should reduce the 2015-16 amount by £210m in line with the National Audit Office figures. The provisional figures for 2015-16 suggest that this is much closer to the likely figure than the Government's original top-slice of £1.1bn.

28. We welcome the fact that the Government will no longer be top-slicing amounts from authorities outside London to give to the LEPs for 2015-16. This follows widespread concern from the sector, which was reflected in the LGA's response to the NHB consultation. But we are concerned that £70m will still be top-sliced from London authorities to go to the GLA. Given the fact that most New Homes Bonus is top-sliced off 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.

NHS Funding and the Better Care Fund

29. The LGA's Rewiring Public Services campaign has called for further integration of social care and health services. Integrated services are more likely to improve outcomes in ways which treat people with dignity and respect and it makes sense to get rid of duplication and waste. The BCF therefore fits well with our aspirations for integrated health and care and is an opportunity to improve joint working between health and social care for the benefit of the individual and the public purse. Health and Wellbeing Boards will need to be at the centre of this work.

30. We also welcome the Autumn Statement announcement that the pooling of resource between health and social care will be a permanent feature of our health and social care system. However, the BCF does not of itself address the financial challenges facing councils and clinical commissioning groups. We need sustainable funding for adult social care both for now and in the longer-term in order to make the most of the Better Care Fund.

31. The reforms being implemented through the Care Bill need to be fully costed and funded as new burdens. This means funding both implementation in 2015-16 (the £335 million referenced above) and supporting on-going running costs (money for which will be allocated through future Spending Reviews). The additional 'other costs' of £130 million that the Department of Health has identified should be counted as new burdens and therefore funded from new money.

32. The full amount of the Better Care Fund is being shown in councils' Revenue Spending Power figures for 2015-16. There is a risk that this means that the headline spending power reduction does not provide a clear picture of the likely effect of grant cuts on other local government services.. In addition the LGA is aware of concern both in the sector and in the NHS that the money has been effectively double-counted.

Local Welfare Support

33. We are concerned at the ending of the grant for local welfare support from 2015/16 - £172m nationally and that this was made known through the detail of the revenue spending power figures as opposed to being announced by DWP. This would appear to run counter to a ministerial assurance given in the House of Lords to conduct a review of this grant in 2014-15 to help inform future funding levels.

Council tax referendum limits

34. This year, contrary to its previously stated policy, the Government did not announce council tax referendum limits in the provisional statement but stated that it will do so in January. This is of concern to authorities and makes budget planning more difficult. Under this legislation the Secretary of State may come to a view about a Council Tax increase that he believes to be excessive and it would seem that he now has at his disposal all the information – on inflation and the cost of living for example – he would need to come to this judgement. Councils work hard to keep council tax down and many have chosen to take the Government freeze grants. The LGA considers that the decision on whether to hold a council tax referendum should be up to local people, as opposed to being subject to a nationally determined limit. Any lower referendum than the 2% in 2013-14 will add to the financial instability in local government.

Local Government Association
January 2014

Annex

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

Question 1: Do you agree with the Government's proposal to remove the capitalisation holdback and re-allocate the funds ?

We note the Government's decision and understand that it is due to a lack of demand for capitalisation. As indicated above we welcome more money in the 2014-15 settlement. As indicated above, we also think that the increased top-slice for the safety net should be funded from the outside. We would expect to discuss this further with officials if circumstances change so as to increase the demand from authorities for capitalisation of revenue costs.

Question 2: Do you agree with the Government's proposal to reduce the New Homes Bonus holdback from £800m to £700m?

We agree with the decision to reduce the NHB holdback for 2014-15. We also consider that the government should keep the amount for 2015-16 under review and possibly further reduce the holdback if the actual demands are nearer to the figure predicted by the National Audit Office. As mentioned in para. 28 we also call for the Government not to go ahead with the proposed £70m top-slice from London councils.

Question 3: Do you agree with the Government's proposal to increase and roll in funding for rural authorities ?

We know that this decision will be welcomed by LGA members from rural authorities.

Question 4: Do you have any comments on the impact of the 2014-15 settlement on protected groups, as set out in the draft Equality Statement?

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 measures are likely to have 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.

Finance Panel
31 January 2014

Reports on Council Tax Support and Business Rates

Purpose of report

For information.

Summary

The council tax support paper focussed on the scale of financial pressures being transferred from central to local government, with an estimated £1 billion taken out of the council tax support system by 2015/16. The business rate retention paper highlighted the scale of financial risk significantly outweighs the rewards available to local authorities, in particular due to the value of outstanding appeals.

Recommendation

Members to note the reports.

Action

Officers to act on any comments Members have.

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Finance Panel
31 January 2014

Reports on Council tax support and Business Rates

Background

1. At the LGA *Rewiring Local Government Finance* conference, we launched two papers under the banner of '*The story so far',* covering the experience of councils while implementing the localisation of council tax support and business rate retention reforms. This paper summaries the content of the reports, which are attached at **Appendix A** and **Appendix B** for information.

Publications

2. *The story so far: council tax support* reported on various pieces of research conducted by us and by treasurer societies across England. The key findings were that the government will have effectively cut funding for council tax support schemes by £1 billion by 2015/16 and that about a third of billing authorities were considering a reduction in support in 2014/15.

3. We called for the government to consider making the funding arrangements more transparent, generous and supplemented by greater freedoms of council tax discounts in order to make sure localised council tax support schemes are financially sustainable.

4. *The story so far: business rate retention* was based on the results of our survey to which 31 councils across England responded. It asked questions about their experience of financial planning, financial risk, and the incentive effects in order to learn from emerging evidence.

5. The survey found that no councils had the same experience of the reforms, but there were emerging common problems.

6. The primary challenge was confirmed to be the extent of outstanding business rate appeals, which made financial planning difficult for most local authorities. Councils said that the current arrangements provided little scope to manage the risks that arise because of appeals and avoidance, outweighing the rewards available for growing business rate revenue.

7. We will continue to monitor both areas.

Media coverage

8. Both reports received coverage in either national or trade press.

9. Findings of *The story so far: council tax support* were referred to by Channel 4 news, the BBC Radio 2 news bulletins and covered by the Local Government Chronicle, with most focus on future plans of councils and the £1 billion reduction in funding.

10. *The story so far: business rate retention* was most notably reviewed on the Municipal Journal, with a selection of our findings presented in the covering story of the magazine.

Financial Implications

11. The costs have been met within existing budgets.

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REWIRING PUBLIC SERVICES

COUNCIL TAX SUPPORT

Local Government Association

The story so far

BACKGROUND

This report draws on emerging evidence to look at some of the key consequences for councils of the end of council tax benefit and the introduction of local council tax support schemes. It complements the recent report from the National Audit Office[1] which concentrates on lessons for government.

In March 2013 the national system of council tax benefit (CTB) ended. From 1 April 2013, responsibility for council tax support was transferred from the national CTB scheme to local council tax support (CTS) schemes where each billing authority has discretion over its own scheme for working age claimants (although they have to keep the scheme for pensioners unaltered). At the same time the shift was accompanied by a 10 per cent cut in government funding for the schemes.

At least in theory, the localisation of CTB fulfils a long-standing ambition of successive governments to ensure that councils bear part of the welfare cost of rises in council tax. There had been a concern that councils were not incentivised to keep council tax down in circumstances where a large proportion of residents were on benefits. However in practice councils have been faced with what many have seen as an unpalatable choice; either charge council tax to the working age poor, who in many cases had not paid council tax before, or find savings or extra income from elsewhere.

1 http://www.nao.org.uk/report/council-tax-support

To help fund the change, the Government gave new powers to charge additional council tax from empty or second properties. However, despite an extensive debate as the Bill was going through Parliament, the Government did not allow any variation of the 25 per cent Single Person Discount which is the largest single council tax discount granted.

The Local Government Association (LGA) pointed to the risks involved. As well as the 10 per cent cut these included the fact that council tax benefit was based on actual rather than estimated eligibility, so that if there was a rise in claimants, as happened in the period from 2008 to 2011, grant funding would rise in line with benefit payments.

In addition, if council taxes went up so would council tax benefits. There is no such certainty in the new scheme. There was also a risk that more eligible pensioners would claim what was a discount rather than a benefit, due to the perceived stigma of paying benefits. Whilst helping to protect the vulnerable by encouraging take-up, this would add to the cost of the scheme.

We are now approaching the end of the first year of localised CTS, and while the full impact of the policy will not become apparent until at least one year in, from emerging data it is possible to draw some broad conclusions to inform the local government sector and central government.

This paper draws on existing research to analyse the policy in terms of:

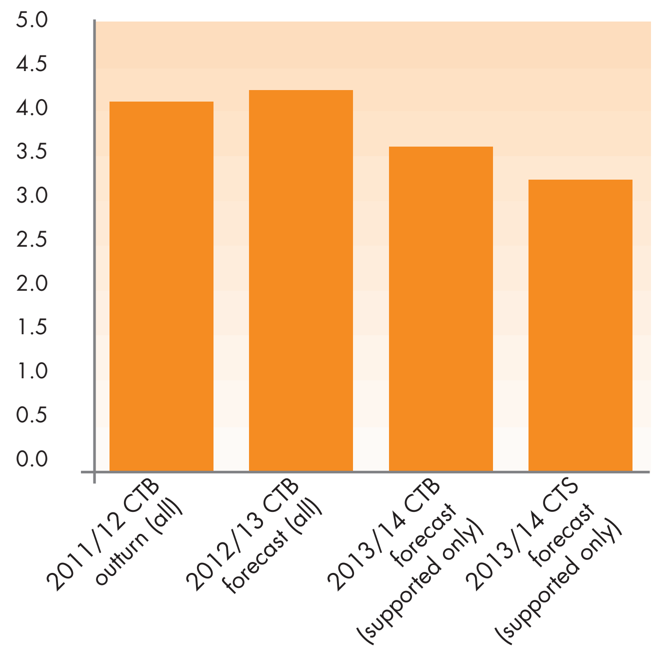
- its impact on local government funding
- its impact on council tax collection rates
- potential changes in the second year of the scheme, and subsequent years
- the interaction of the policy with other policies, including other aspects of welfare reform and on the overall incidence of the council tax.

FUNDING

The localisation of council tax benefit was accompanied by a 10 per cent cut in forecast supported expenditure for 2013/14, with the Government funding the residual grant, estimated at 90 per cent of the cost of the scheme, through Departmental Expenditure Limit (DEL) rather than Annually Managed Expenditure (AME). The headline 10 per cent cut amounts to £410 million in England. But there are two important points to be made.

Firstly, when compared with total CTB expenditure in previous years the cut looks like 23 per cent rather than 10 per cent. This is explained by, firstly, the fact that total expenditure was around £100 million higher than supported expenditure and secondly that expenditure was projected by Department of Work and Pensions (DWP) to decrease[2].

Council tax support funding £bn



Secondly, although funding for council tax support can be identified within councils' overall Settlement Funding Assessment figures in the 2013/14, from 2014/15 onwards this funding will be impossible to identify separately so it is impossible to say exactly how much funding is available for CTS to any individual council. Although the Government claims that the top level transfer indicates that CTS funding has not been cut further[3], in practice allocations to councils are reducing.

If CTS funding has been protected at 2013/14 levels, then the true cut to the remainder of funding is even greater than that indicated in provisional settlement figures[4] – 10.8 per cent and 15.3 per cent cash cuts in the next two years rather than the 9.4 per cent and 13.2 per cent headline figures for cuts in the Settlement Funding Assessment.

If councils reduce funding for CTS in line with the cuts to overall funding, then the total cut in CTS funding amount to 28 per cent or £1 billion in the first three years[5]. This has either to be passed on in the form of lower council tax support, meaning that the working poor pay a higher proportion of their council tax, or funded locally in other ways.

2 See the DWP explanation: http://tinyurl.com/lzmt3qd and particularly the table: http://tinyurl.com/p8bxjc9

3 See '2014/15' transfers at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/267307/Derivation_of_National_RSG_Totals_-_FOR_PUBLICATION.xls

4 Internal LGA analysis

5 This does not include funding for local policing bodies.

TRANSITION GRANT

A one-off grant was offered for one year only to authorities who chose a scheme that fulfilled certain criteria, the most important being that reductions in a claimant's entitlement be limited to 8.5 per cent of the claimant's entitlement under the previous scheme. The grant was announced in October 2012 when many authorities had already decided on a scheme design, or were at least at an advanced stage of the consultation process.

Of the £100 million made available for this transition grant, £53 million was paid out to councils which fulfilled the criteria. Of this, £4.5 million was paid to 28 authorities that had already announced schemes that fulfilled the criteria, and some of those who had not yet announced their schemes may have implemented compliant schemes anyway. But there is some evidence that the grant offer changed behaviour – 43 per cent of councils which had scheme documentation available before the grant announcement changed their scheme to a compliant one.

The transition grant did not cover the full cost of a compliant scheme for all authorities. Of the surveyed district councils whose schemes pass a cut to claimants of 8.5 per cent or less (whom we assume chose this as a result of the transition grant offer) only 38 per cent plan to make their schemes less generous in 2014/15.

The transition grant appears to have had some success therefore not only in influencing scheme design in the first year, but in persuading councils to absorb some of the reduction in funding even after the grant ends.

This gives some evidence that councils believe small changes to the scheme are not worth the trouble. It is worth noting that, while councils have the freedom to amend their schemes every year if they choose, new burdens funding for the costs involved in consultation and implementing systems change has been provided only for 2013/14 and 2014/15 covering the initial switch from council tax benefit to council tax support. No funding for 2015/16 or future years has been announced.

Effect on total budget

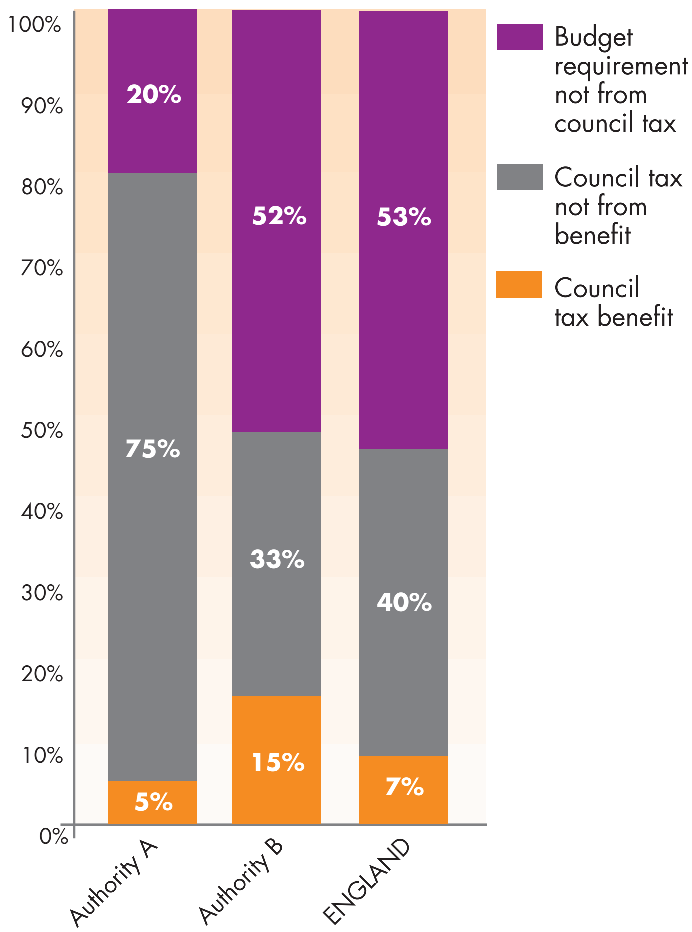
The reduction had a different effect in different authorities. For England as a whole in 2012/13, council tax benefit comprises 7 per cent of the budget requirement, so a 10 per cent reduction in funding is equivalent to a reduction of 0.7 per cent in the total budget requirement. The chart opposite[6] shows data from two real councils to illustrate how the impact varies between authorities:

For Authority A, where just 5 per cent of the budget requirement was funded through council tax benefit, a cut of 10 per cent to council tax support funding is equivalent to 0.5 per cent of the total budget requirement. This authority raises a much greater proportion of its funding through council tax than the England average, and so has greater capacity to raise additional council tax income through technical changes. For Authority B, with 15 per cent of its budget requirement coming from council tax benefit, a cut of 10 per cent to council tax support funding means a reduction of 1.5 per cent in the total budget.

The transition grant is for one year only, so those authorities that took the grant must either fund the loss of transitional grant or reduce the cost of their schemes. Similarly reserves can only be used once; so using them to support funding reductions is not sustainable.

There are some councils which, through technical changes to council tax, were able to raise enough additional income to fully fund the reduction in funding for council tax support, but this is very much dependent on the makeup of the taxbase in each local area.

Percentage of budget requirement raised from council tax and from council tax benefit, 2011/12



6 LGA analysis of https://www.gov.uk/government/organisations/department-for-communities-and-local-government/series/local-authority-revenue-expenditure-and-financing

DIFFERENT POSITIONS LEAD TO DIFFERENT APPROACHES TO FUNDING THE LOSS IN GRANT

Authorities, faced with different financial positions, have responded to the funding reduction in different ways.

- A metropolitan borough and a London borough both reduced discounts on second and empty homes to maximise their income in order to offset the loss of council tax support funding. The metropolitan borough estimates that it will raise 45 per cent of the total loss in funding through this method but for the London borough this figure is 62 per cent. A number of shire districts expect to recover more than 100 per cent of the loss in grant through these technical changes.
- Two shire district councils capped reductions at 8.5 per cent and took the transitional grant funding. For one of them, the grant covered 45 per cent of the total loss in principal funding. For the other, it covered only 19 per cent.
- A quarter of shire district councils surveyed will cover some of the loss in grant through efficiency savings, and some have made cuts to services to cover some of the loss.
- Only 8 per cent of shire district councils surveyed intend to fund some of the loss in grant through use of reserves. How feasible this is as a strategy will depend on how much authorities hold in reserve, how much of this is earmarked for specific purposes, and the authority's attitude to risk in general. In any case, the use of reserves is at best a short-term solution to a permanent loss in funding.

PENSIONERS AND DISTRIBUTION

For billing authorities who choose to pass the cut to claimants, the cut must be taken in full from working-age claimants, because of the statutory protection of the benefits for pensioners.

This means that the cut in entitlement to a claimant is greater than the 10 per cent headline figure. In the average council, the percentage cut required to the entitlement of working-age claimants is 19 per cent, but this can be as high as 27 per cent depending on the proportion of caseload which is of working age.

Even the authority with the lowest proportion of pensioner claimants in England would still have to reduce support to working-age claimants by 15 per cent to fully cover the reduction in funding.

Accordingly it could be said that councils with a high proportion of working-age households on benefit have a greater incentive to help people into work as a result of these changes. It is too early to judge whether this will in fact happen.

In addition, any change in the pensioner caseload will impact the funding available to support working-age claimants. A reduction in pensioners as a proportion of total caseload will increase the funding available for working-age claimants.

In practice, the ageing population means that in the long term, pensioner caseload is likely to increase and therefore funding available to support working age claimants will reduce.

COLLECTION RATES AND COLLECTION COSTS

In many council areas the reduction in support resulted in new debts, in particular the collection of relatively small amounts from those who previously paid nothing. Councils made estimates of collection rates for this new debt ranging from 30 per cent to 99 per cent.[7] The situation is unprecedented so most councils were naturally prudent in their estimates. Initial indications are that collection rates for the new debt are expected to be slightly higher than what was forecast.[8]

But there is a year-on-year drop in overall collection rates. Based on initial data, we estimate that the total council tax collection rate for 2013/14 will be 96.8 per cent, down from 97.4 per cent in 2012/13[9]. At this stage it is not possible to say how much of this is due to council tax support. The financial impact of this is estimated at £140 million, a cost that must be borne by councils and was not compensated under the 'new burdens' doctrine.[10]

Types of scheme

The following table gives some data from a survey conducted by the Society of District Council Treasurers, comparing projected collection rates with type of scheme. The sample was 113 shire districts. The nature of the council tax billing and collection cycle makes it difficult to draw firm conclusions at this stage in the year. Analysis of data from unitary authorities has produced similar results but from a smaller sample size. The figures represent a simple (unweighted) average of percentage collection rates.

Collection rate for council tax base purposes	2012/13	2013/14	Drop in collection rate
default scheme	97.4%	97.1%	0.3%
no cut	98.6%	98.2%	0.4%
cut of 8.5% or less	99.0%	98.2%	0.8%
cut of more than 8.5%	98.6%	97.9%	0.7%

As might be expected, collection rates have dropped more for schemes in which claimants are expected to pay more. It is perhaps worth pointing out that very few authorities intend to (or can afford to) make their scheme more generous in future years and many have already made known their intention to move to a less generous scheme.

7 SDCT research

8 SDCT research

9 SDCT research gives 0.6 per cent drop in the average collection rate. This is then applied to the 2012/13 outturn: http://tinyurl.com/p3j2f7d

10 LGA modelling 0.6 per cent of £23 billion (total council tax revenues in 2012/13).

Shire district councils are in general in more affluent areas of the country than single-tier councils, so it is possible that the effect is more marked in single-tier billing authorities.

One less expected result is that those authorities which chose the default scheme tend to have a lower collection rate to begin with than those which passed the cut to claimants. If this is indeed a real correlation, it could be that authorities whose collection rate was already low were more likely to absorb the cut for fear that chasing the new debt would lower their collection rate even further.

Responses of councils to a Freedom of Information request published in 'The Guardian' newspaper show that while the number of Liability Orders issued for non-payment of council tax increased in most local authorities in 2013/14, the rate of increase is twice as high in authorities which passed on the funding cut as in those that absorbed it.

EXAMPLES OF MEASURES TO IMPROVE COLLECTION RATES

Councils have always had an incentive to increase their council tax collection rates but some have implemented new measures to improve collection specifically related to the introduction of the local CTS scheme. There is evidence that councils are responding to the new council tax landscape with innovative solutions. For example, the London Borough of Islington offers a small cashback award to those claimants whose account balance is cleared by the end of the year.

Councils in the past have encouraged council tax payment by direct debit, as this has tended to improve collection rates. But there is anecdotal evidence that, for those claimants who previously paid nothing, and are now being asked to pay a small contribution towards their bills, direct debits can have the opposite effect.

Often there is not enough money in their account to cover the payment, meaning the transaction is refused and the claimant is charged a fee by their bank. This in turn makes it harder for the claimant to make the next month's payment. Some councils have therefore stopped encouraging direct debit as their preferred payment method, at least for these types of claimants. This could add to local authority collection and banking costs in the long term.

WIDER IMPACTS AND THE FUTURE

Fifty-nine per cent of councils surveyed plan to keep the same scheme in 2014/15, 35 per cent intend to increase the cut to claimants and only 2 per cent intend to move to a scheme more generous to claimants.[11] Of those who intend to reduce the cost of the scheme in 2014/15, 50 per cent are councils with schemes capped at 8.5 per cent or under (ie those we assume to have changed their scheme as a result of the transition grant). 25 per cent are those who use the default scheme or a scheme with no cut to entitlement, and 25 per cent already have cuts to entitlement of more than 8.5 per cent. There are several councils which have already cut entitlement by 20 per cent or more, and intend to cut it further.

It is difficult to isolate the effects of this policy specifically because it was introduced at the same time as so many other funding changes, including council tax referendums, council tax freeze grants, business rates retention, and the New Homes Bonus.

The report of the National Audit Office[12] points out that DCLG has, since its initial impact assessment of the policy, developed its understanding of the combined effects of funding changes on local authorities. DCLG has developed work combining the financial effect of each funding change to project the potential future income of every local authority. It currently has no plans to capture actual effects of welfare changes on demand on local authority services and their costs, to supplement its model of the impact of financial and funding changes on local authorities.

The implementation of council tax benefit also comes at the same time as a sweeping programme of welfare reforms in other areas, some of which will tend to increase demand for local authority services.

11 SDCT survey, numbers do not sum to 100 per cent due to councils which did not answer.

12 http://www.nao.org.uk/report/council-tax-support

In August the LGA commissioned a report from the Centre for Economic and Social Inclusion on the cumulative impacts of welfare reforms.[13] This focussed on the financial impact of the reforms on claimant households, but many councils are also concerned at the impact on council finances through increased demand for services.

The London Borough of Brent made headlines recently when it issued 3,500 summonses for non-payment of council tax.[14] Brent is the area with the third largest loss per household as a result of the various welfare reforms. This could be an early indication that other welfare reforms are having a negative impact on council finances.

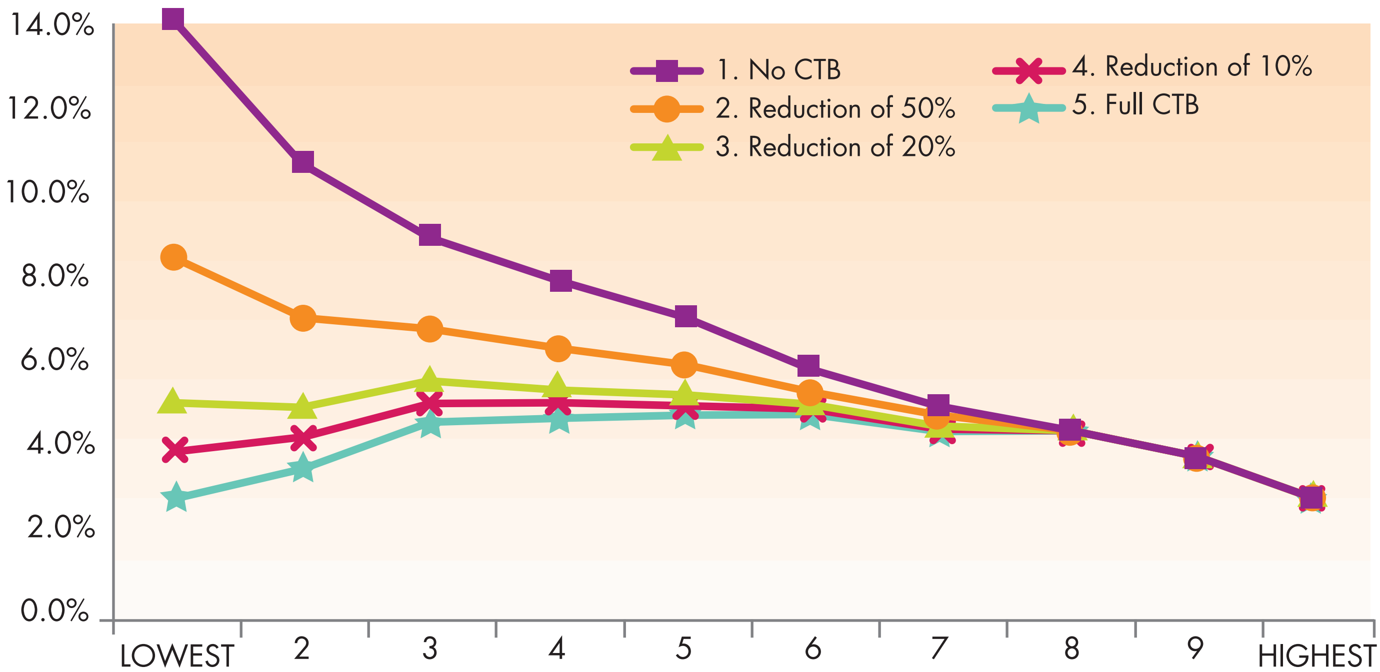
Council tax benefit (CTB) was designed as part of the council tax system to protect those on low incomes. In effect, it means that for eligible households on low incomes, council tax also acts as a hybrid property and income tax, as changes in earnings alter benefit entitlement.

The chart overleaf (based on data from the Lyons Inquiry) shows that council tax is regressive to income before council tax benefit is applied. That is, in terms of the pure structure of the tax itself, the highest-income households are liable to pay the lowest proportion of their income in tax, while lower-income households are liable to pay greater proportions of their total income in tax before CTB.

13 http://tinyurl.com/qy2yuk4
14 http://www.bbc.co.uk/news/uk-england-london-24795818

Once eligibility for CTB is taken into account, council tax liability is a relatively constant proportion of people's incomes throughout the income distribution, becoming relatively progressive to income for those on the lowest incomes, and regressive only in the top three income deciles.

Council tax as a proportion of net household income after housing costs by income decile, under different council tax support schemes



Data from 2011/12

The introduction of local council tax support does affect this. In essence a local council support scheme where the working age poor have to pay a minimum of council tax means that the left hand side of the line rises. This effect will be different in different areas. But as central funding is withdrawn and councils find they have no alternative but to introduce schemes where the working age poor have to pay the line will rise; meaning that council tax will account for more of the income of the lowest decile even after council tax support. We have modelled several different scenarios. The spread in the chart clearly shows that the greater the reduction in claimants' entitlement to support, the more regressive the tax becomes.

CONCLUSIONS AND RECOMMENDATIONS

The conclusions of this brief analysis are:

1. The localisation of council tax benefit was widely presented as being accompanied by a 10 per cent cut. This equates to a cut in central support of £410 million. However, because of the way in which funding was transferred the actual cut in central support to April 2016 could be as much as £1billion. The fact that funding for a demand-led service, over which councils have little if any control, has been rolled into an ever-reducing settlement funding assessment, means that councils are forced to make cuts, either to entitlement to support, or to other services. Different councils are affected in different ways, notably due to different numbers of eligible council tax payers and pensioners.
2. The transition grant was for 2013/14 eligible schemes only. However it does appear that many councils which previously received funding will not change their arrangements in 2014/15. However they may be forced to review them for 2015/16 as more cuts to central government grant support are implemented. Anecdotally many authorities have stated that they would like to review their schemes after at least one full year of operation, so will consider changes for 2015/16.
3. The result of the introduction of council tax support is that council tax has become more regressive, as the chart on p 11 shows. Any further cuts in funding will lead to the position where in a sizable number of authorities the poorest are paying an increased slice of their income in council tax.
4. So far the impact on collection rates is not as severe as had been projected, but there are a number of areas where further data and analysis is needed for conclusions to be drawn. In particular, an analysis of collection rates for the different types of claimant (eg those who were previously on full benefit, those impacted by other welfare reforms) might enable more intelligent scheme design that takes some of these factors into account. The introduction of payment of Council Tax by 12 instalments may also affect any conclusions drawn on collection rates so far.
5. In addition, there is no hard evidence on how those claimants who are paying their council tax bills are managing – if they are relying on short-term loans and building up debts this is not sustainable and collection rates are sure to drop in future years.
6. Similarly there is little evidence as yet of any action being taken by authorities to reduce worklessness reducing the cost of council tax support. It would be too early to judge the impact of such initiatives.

Our recommendations are:

1. That the Government consider a more transparent way of funding. This should be through an identified stream of non-ring fenced funding within the Settlement Funding Assessment. We would recommend that funding for council tax support be transparently identified in 2014/15 and all future settlements.

2. That this and any possible future government consider the case for returning to a 100 per cent funded scheme on the grounds of equity. This does not necessarily mean a return to the old council tax benefit arrangements or that council tax support should be included within universal credit[15]; it merely means that councils should be funded sufficiently to be able to run schemes without being forced to impose reductions by their financial situation. This would have the effect of making the council tax less regressive once more.

3. The freedom to raise more income through changes to council tax discounts and exemptions, in particular council tax from empty homes and second homes discounts, is a step forward but to enable councils to manage within budget reductions the council tax system must be fully localised, including freedom over all discounts.

4. That the Government and the LGA continue to monitor the situation, and the Government publish its analysis of the cumulative impact of all funding reforms at an individual council level, and undertake to analyse the cumulative effect of all welfare reforms on demand for council services at an individual council level.[16]

15 Under section 9 of the 2012 Local Government Finance Act the Government has to have an independent review of schemes within 3 years. One of the matters it has to consider is whether schemes should be brought within universal credit. See http://www.legislation.gov.uk/ukpga/2012/17/enacted

16 http://www.nao.org.uk/report/council-tax-support

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L13-870

REWIRING PUBLIC SERVICES

BUSINESS RATE RETENTION

Local Government Association

The story so far

INTRODUCTION

On 1 April 2013 a new system of business rates retention began in England. Before April 2013 all business rate income collected by councils formed a single, national pot, which was then distributed by government in the form of formula grant. Through the Local Government Finance Act 2012, and regulations that followed, the Government gave local authorities the power to keep up to half of business rate growth in their area by splitting business rate revenue into the 'local share' and the 'central share'. The central share is redistributed to councils in the form of revenue support grant in the same way as formula grant. Local share taxbase growth is retained within local government.

However, this has been done in a way that is consistent with the Government's deficit reduction plans. The total external income to local government is planned to fall by 40 per cent in real terms over the life of this Parliament.

This change gives financial incentives to councils to grow their local economies. At the same time, it has resulted in more risk and uncertainty.

HOW DOES BUSINESS RATE RETENTION WORK?[1]

This report reviews a council survey that the Local Government Association (LGA) conducted during November 2013 in order to gauge how local authorities are coping with the reforms, what the most important issues are, and how the Government could help deal with them.

The experience of councils to date has been varied and no two stories have been the same. For example, there is a huge diversity between the amounts collected by authorities. Some councils that responded to our survey claimed that the system as designed did not adequately deal with this.

However, there are emergent issues that are common among local authorities. By far and away the primary challenge is the level of financial risk that councils face due to appeals and business rate avoidance, with little scope for those risks to be managed under the current arrangements.

This section summarises the way the business rate retention system was set up. Its guiding principle is that councils retain up to half of the tax revenue arising from new businesses setting up, or existing businesses expanding in their area. It does not allow councils to benefit directly from the annual growth in business rates due to the increase in the Retail Price Index. This is deducted from the revenue support grant.

The system as a whole is very complex, in different ways from its predecessor the formula funding system, and the rest of the section illustrates this point.

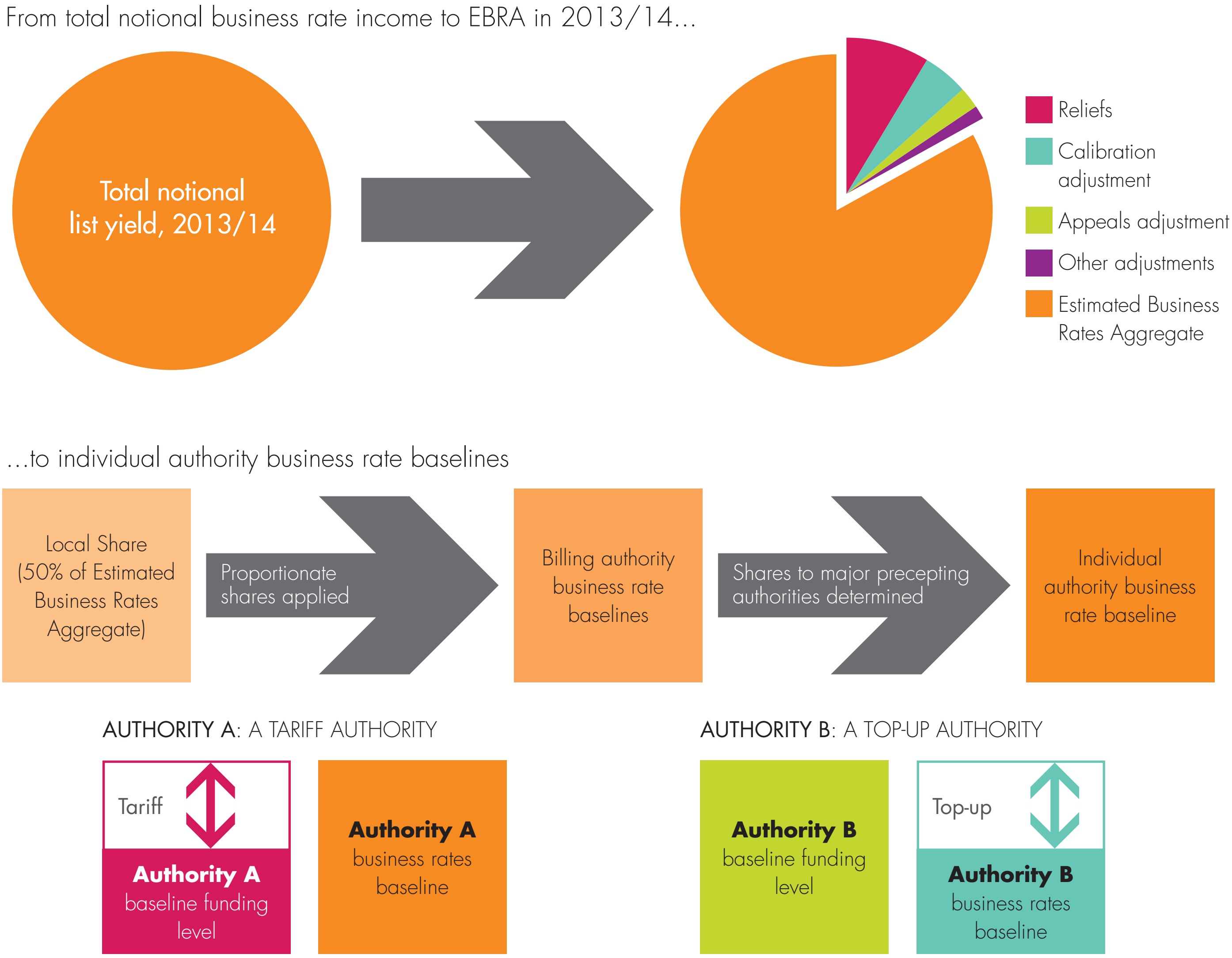
The Government calculated the amount of local government funding to be allocated in 2013/14, known as the Start-Up Funding Assessment (SUFA) (from 2014/15 onwards known as the Settlement Funding Assessment (SFA)) and compared this with their estimate of how much in business rates would be collected by councils, called the Estimated Business Rate Aggregate (EBRA). In order to equalise business rates revenue between EBRA and SUFA, the Government put into place a system of 'top-ups' and 'tariffs'. These are intended to grow with inflationary growth in the RPI each year[2] , but apart from that are only revised when the business rate system is 'reset' (the current government policy is for this to be no earlier than 2020) or at the time of a revaluation

1 This is an outline. See Department for Communities and Local Government (DCLG) practitioners guide for a fuller description: http://www.local.communities.gov.uk/finance/1314/practitionersguides.pdf

2 The Autumn Statement 2013 announced a 2 per cent cap on the increase in business rates multiplier in 2014/15. As a result, we expect top-ups and tariffs to be uplifted by 2 per cent, instead of the 3.2 per cent rate of inflation, and revenue support grant allocations to be adjusted appropriately as part of the local government finance settlement.

(due to come into effect in 2017) when top-ups and tariffs will be recalculated so that councils do not gain or lose solely due to revaluation. Figure 1 shows the process of calculating EBRA, top-ups and tariffs.

Figure 1 The process of calculating EBRA, top-ups and tariffs



Source: Department of Communities and Local Government (DCLG) practitioners guide, 2013

FORECASTING AND PLANNING

EBRA is split between tiers as follows:

- In unitary authorities and metropolitan districts the authority keeps 98 per cent with 2 per cent going to the fire authority in areas where this is a separate authority.
- In London 60 per cent goes to boroughs and 40 per cent to the Greater London Authority (GLA).
- In two tier areas 80 per cent goes to the district and 18 per cent to the county, with 2 per cent to going to the fire authority if it is a separate authority.

Councils keep up to 50 per cent of growth in their business rate receipts arising from taxbase growth, which may arise from new or expanding businesses. Local authorities which were deemed to have a 'disproportionate potential to grow' by the Government (for example most councils in Central London) pay a growth levy of up to half of this retained growth. This is then used to partly fund the 'safety net' system to protect those councils which see their year-on-year business rate income fall by more than 7.5 per cent.

The 'central share' of business rate receipts is used by government to fund the needs-based revenue support grant (RSG). However, RSG is being reduced as part of the Government's austerity measures. As a result, it is expected that the central share will shortly be larger than RSG, with the balance being used to replace other grants to local government.

Most of the features of the system, such as the 50/50 split of business rate revenue growth between local and central government, are fixed until the system is reset, which is not expected until at least 2020. In effect this means that grant distribution is also largely fixed until the reset.

The introduction of business rate retention meant that from April 2013 a significant part of a council's budget became dependent on the amount of business rates collected from its area. This required new, previously uncollected information and new methodology to ensure that financial planning and forecasting procedures remained as robust as before. Business rate retention was introduced under very tight timescales, with final regulations and features of reform announced in late 2012. This meant that local authorities had little time to prepare themselves for the changes, both in terms of long-term planning and the introduction of new systems and procedures in time for April 2013.

Based on the responses to our survey, 77 per cent of respondent councils found they did not have enough time to develop a sufficient understanding of the system to conduct robust medium and long term planning in time for April 2013. Some councils increased contingency reserves in order to ensure unexpected losses of business rate income did not leave their financial sustainability in jeopardy.

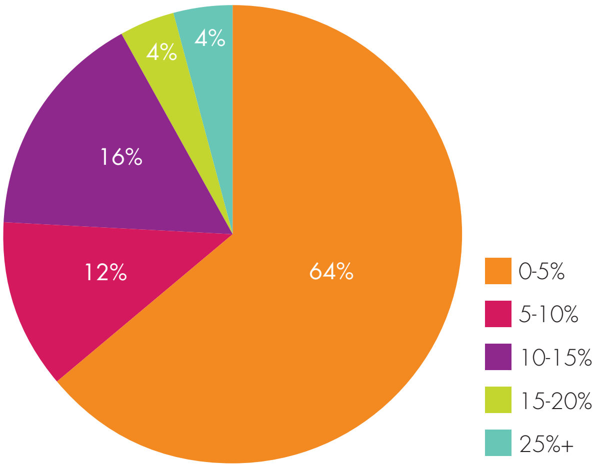
One important factor affecting councils' ability to plan effectively was the government's devised method of estimating business rate income (EBRA). The first year and, indirectly, subsequent years of business rate retention system were based on the Government's estimates of how much in business rates each local authority is expected to collect in 2013/14.

Instead of simply taking local authorities' own estimates of business rates to be collected in 2013/14, the Government calculated its figures by estimating the notional yield by 30 September 2012. It then made various adjustments, such as that for reliefs, the costs of collection, and appeal losses[3], some of which were different to what councils routinely took into account to arrive at an estimate in 2012/13 and previous years.

The process of calculating an individual council's business rate revenue estimate is illustrated by figure 1.

We asked councils to compare their current forecast business rate receipts to the levels of income predicted by the Government's council-level forecast. The results are shown in Chart 1. For more than a third of councils that have responded, the difference is higher than 5 per cent, mostly due to the impact of business rate appeals.

Chart 1 Difference between government estimates of business rate revenue and current council forecasts, 2013/14



3 See http://www.local.communities.gov.uk/finance/1314/1314EBRA_final.pdf and figure 1

Firm conclusions can only be drawn after the end of the financial year. However, experience to date suggests significant differences between the Government's estimates and what's happening on the ground, affecting councils' ability to plan effectively and reap appropriate rewards for business rate growth.

A further sign of problems with initial forecasts is the unexpectedly high call on the safety net in 2013/14, which led to the recent government decision to hold back an extra £50 million from council grant funding to finance the safety net mechanism for 2014/15 onwards. This pressure was not expected before April 2013 and affected the financial planning of 52 per cent of respondent councils.

The business rate retention reform created a need for councils to receive new, previously uncollected, information to enable sufficiently robust financial planning, such as data about upcoming appeal decisions, the value of business rate income at stake and the impact of business rate avoidance. Most of this information had previously been collected by the Valuation Office Agency (VOA) and provided to central government, as councils had no direct stake in business rate collection.

Business rate retention resulted in the need for a major cultural change at the VOA as its importance as information provider has increased. This transition is still ongoing. The VOA has been working hard to provide information, for instance on the appeals and proposals sent to billing authorities in Autumn 2013. Currently, however, 61 per cent of all respondent councils are not satisfied with the level and quality of data provided by the VOA to help financial planning.

The Autumn Statement 2013 announced a set of reliefs and discounts to rates paid by businesses:

- The business rate rise in 2014/15 will be capped at 2 per cent (it would otherwise have risen by 3.2 per cent, in line with the increase in the September 2013 Retail Prices Index).
- The temporary extension of small business rate relief which was due to expire on 31 March 2014 will be extended until 31 March 2015. There will be additional help for businesses who are expanding and would otherwise lose small business rates relief.
- There will be a discount of up to £1,000 against each business rates bill for retail premises, such as pubs, cafes, restaurants and charity shops, with a rateable value of up to £50,000 in 2014/15 and 2015/16.
- There will be a new temporary reoccupation relief granting a 50 per cent discount from business rates for new occupants of previously occupied retail premises for 18 months.
- The Government announced that they will legislate to allow businesses to pay rates over 12 months rather than 10 with effect from 2014. They will also discuss with business options for long-term administrative reform post 2017.

The Government has indicated that it would reimburse councils in full for the changes. At the time of the production of this report, councils are yet to receive more detail on this.

COUNCILS' COMMENTS ON THE TOPIC OF FINANCIAL PLANNING:

Initial planning

"Frankly, we muddled through. There was too much to take on (what with changes to the Formula Grant system at the same time), so we budgeted at baseline level and hoped for the best."

"The implementation timetable was very challenging, the changes required reviews of systems and policies in a very short timescale. They were also implemented in a period where councils were undergoing many reforms and significant budget pressures. The system was also very complex and did not resolve the lack of transparency of the previous system."

"Uncertainty particularly over the treatment of prior year appeals made planning difficult. We did not feel the system was well understood at central government level, which led to confusion."

"We still feel like we're learning as we go along."

Availability of data and information

"The information provided by the VOA has been a vast improvement when compared to two years ago. There are still concerns around time taken to answer specific queries, but this is much better than it used to be."

"Communications are improving, and more data is now being received – however the quality of data is still inadequate, particularly in regard to the likely timescale over which appeals will eventually be settled."

"Information on appeals has been lacking, although we have recently received reports which have been more useful. Liaison with the VOA has also improved with the introduction of the 'Relationship Managers'."

FINANCIAL RISK

The business rate retention system resulted in councils facing an increasing amount of financial risk, mostly arising from potential losses of income due to appeals and avoidance schemes. Previously, the risk was pooled and borne by the Government at a national level. It was not an ideal position as it separated responsibility for collection of rates from consequences of poor collection performance.

Currently, councils have limited ability to counteract risk in relation to appeals and avoidance, with business rate pools an increasingly attractive prospect. The only other recourse that councils have when it comes to limiting risk is the safety net mechanism. We address business rate appeals, avoidance, pooling and the safety net separately below.

Business rate appeals and the retention mechanism

Exposure to business rate appeal risk is one of the biggest concerns of English councils under the new system. This is especially the case in small district councils, or other places dependent on a small number of large businesses, such as power stations.

Each business rate revaluation process results in some commercial properties seeing their rateable value grow, which can mean that the amount of business rates payable by an individual business increases as well. This fuels a wave of appeals as businesses dispute the valuation results.

Historically, decisions on appeals were taken following a lengthy deliberation and negotiation process. As a result, some councils mentioned in our survey that they still have a number of outstanding appeals from the 2005 revaluation waiting to be settled.

The VOA is responsible for maintaining, and periodically updating, the national list of property values which is used to calculate business rates due. At the same time, the VOA and the Valuation Tribunal are responsible for making decisions on valuation appeals which usually arise as challenge to the VOA's initial judgement.

Exposure to business rate appeal risk

Under the business rate retention system, the costs of all successful valuation appeals that are decided from April 2013 are being shared equally between the local and central shares of total collected business rates. While previously councils did not bear any risk from successful appeals, they are now liable for half of the cost as a result of the reform. This includes any backdating liability, which in some cases may go back to 2005, or earlier.

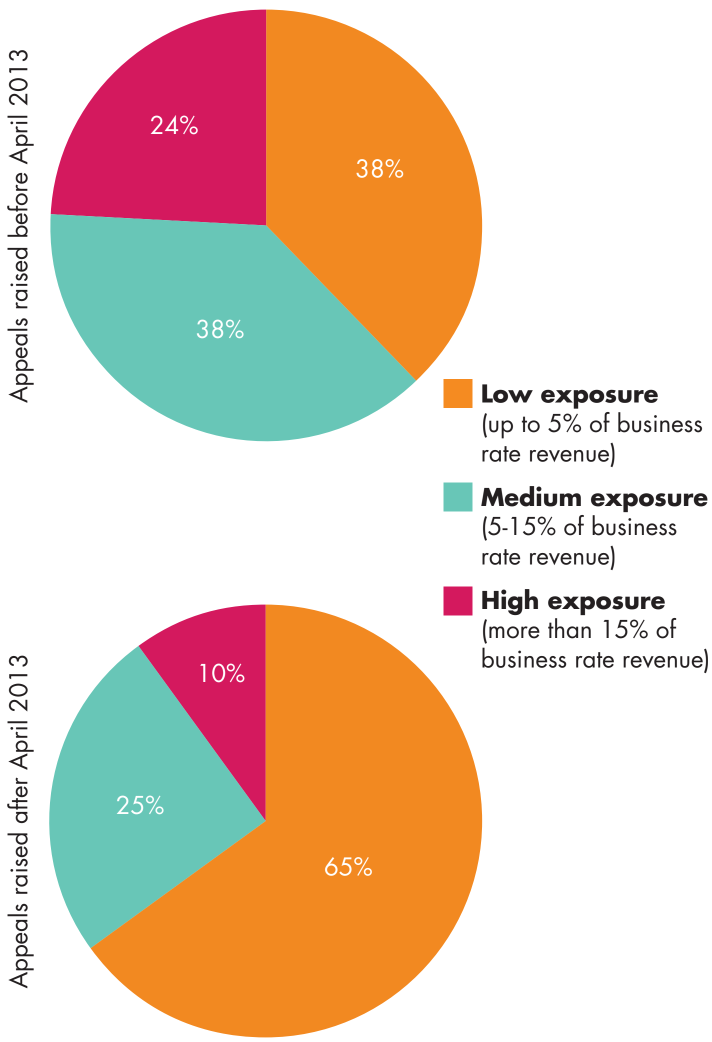
This feature of the system has caused concern for councils with outstanding appeals from before April 2013. As the old business rate pool was closed with no transitional period, the time when the appeal was expressed has no bearing on whether the cost is pooled nationally or shared between councils and the Government. For local authorities with outstanding appeals of a major value this is an even bigger issue, as in some cases a long-standing appeal, if lost, could push a council into the safety net even though the appeal was lodged several years before the reform.

About two thirds of all councils that have responded have been able to provide us with an estimate of how much of their business rate revenue this year is at risk of being lost if appeals proceedings are judged against the council. Chart 2 shows that the risk caused by appeals that have been raised after April 2013 is much smaller than the risk caused by appeals that have been raised before the retention system was implemented. Some councils are at risk of losing as much as 45 per cent of their total business rate income.

Due to the safety net, any loss is capped at 7.5 per cent in any one year. However, since the safety net is funded from the system as a whole, an increase in the safety net requirement leads to a reduction in grant funding for all authorities.

According to the weighted average level of exposure to appeal risk from our survey sample, English business rates as a whole are subject to appeals worth £4.2 billion, or 17.5 per cent of the business rate income in 2013/14 as predicted by the Government. Under business rate retention, councils are exposed to half of this risk. To put this into perspective, if England was a single council, and all these appeals went in the favour of business in a single financial year, it would plunge to the safety net. While it is true that some of these appeals will go in the councils' favour, the uncertainty of outcome and lack of knowledge about the timing of the decision mean that councils are forced to accept a significant, unpredictable financial risk, impacting on the availability of funding for services to local people.

Chart 2 Exposure to business rate appeals of respondent councils



The appeals process

An added pressure, and challenge to long-term financial planning by local authorities, is an often extremely long appeals procedure. Before April 2013 this had no bearing on council finances. Now the certainty of timing of an appeal decision is very important for local authorities to gear up for potential losses.

The reform has provided a cultural challenge to the VOA's procedures as well. While previously the timing of its decisions did not have a significant impact on council and national finances, it is suddenly very important for the agency to be transparent and provide more extensive and accurate data to enable councils to plan carefully. In order to do so, the VOA is attempting to improve its communications with local authorities.

Eighty-one per cent of councils that have responded were not satisfied with the time taken to resolve appeals. Likely timings of any appeal decisions would be very useful for councils looking to plan the potential impact on their finances. Some councils mentioned that they would like to know more about how and why some appeal decisions are prioritised against others as that would help develop their own estimates of the likely timings of appeal decisions.

In the Autumn Statement 2013, the Government announced an intention to streamline the appeal procedures in order to increase certainty in the system and to tackle 95 per cent of the appeals backlog by July 2015.

This was followed by a consultation on the current appeals system[4], where the Government set out its intention to increase transparency of how valuation decisions are made, separate valuation challenge and appeal procedures and to require those challenging their valuation assessment to provide reasons why they think the valuation is incorrect. These appear to be steps in the right direction.

Business rate avoidance

As with most taxes, business rate collection is made more difficult due to various avoidance schemes. A significant part of business rate avoidance represents exploiting loopholes in the existing law. Respondents to our survey highlighted three practices in particular:

- minimum-length (six week) leases which result in empty property relief for a further period of three or six months
- minimal use of premises for a short period of time (for example through keeping a minimum allowed level of inventories) in order to qualify for empty property relief for three or six months once the premises are vacated
- leasing premises to organisations registered as charities (who benefit from 80 per cent mandatory rate relief) which make minimal use of the premises, for example, through installing Bluetooth transmitters to broadcast public service messages.

These are results of the current relief and discount framework, most of which is prescribed by central government.

4 See 'Checking and challenging your rateable value': https://www.gov.uk/government/consultations/checking-and-challenging-your-rateable-value

Councils operate some discretionary relief schemes and have more control of those entitlements, but cannot influence decisions on mandatory reliefs significantly.

Court cases on avoidance have had mixed success, although it should be noted that a recent key case on the use of a Bluetooth transmitter went in favour of the authorities concerned[5].

Two thirds of councils that submitted a response agree that business rate avoidance affected the financial risk that they face. Interestingly, the lack of available information and difficulties in estimation mean that only 20 per cent of respondent councils have explicitly budgeted for business rate avoidance. For the rest, contingency reserves will have to be used to cover unexpected losses.

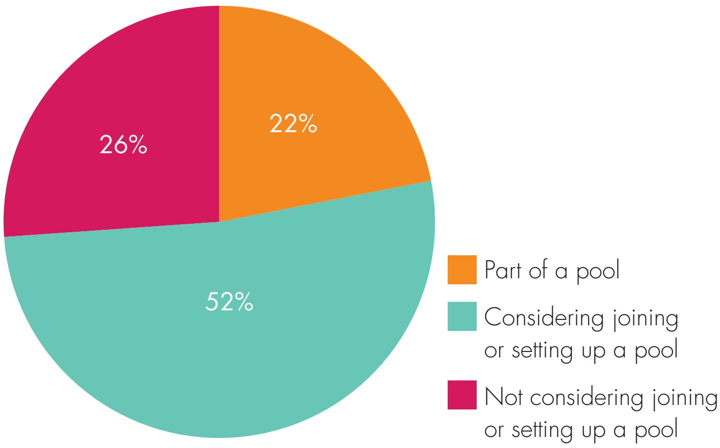
Business rate pooling

One method to counteract business rate risk and volatility that the Government provided to councils was the ability to pool business rate revenue together with other councils.

This was envisaged as a way for councils to limit risk and also affect some characteristics of the system, especially if collectively they can receive a top-up payment as opposed to having to pay over a tariff.

Nationally, 13 business rate pools were created before April 2013, and 23 per cent of all respondents to the survey are currently part of these pools. As shown by chart 3, two thirds of others were considering pooling in the future, either by joining a pool or by setting up a pool of their own, or have done so in the past. This might be a result of the level of financial risk now being more understandable and appreciated by councils.

Chart 3 Pooling status of respondent councils, 2013/14



Business rate pooling could be particularly useful in two-tier areas where the benefits of business rates growth are shared between authorities and where districts and counties can work together to encourage growth.

In some areas pooling is not an attractive or feasible option. For example, some councils are dependent on a small number of large businesses for their revenue. Others are subject to a high level of tariff payment, where pooling would result in other councils effectively 'subsidising' them with their top-up receipts. These reasons among others make some local authorities unattractive partners. The current system does not adequately address this issue.

5 See: http://www.bailii.org/ew/cases/EWHC/Admin/2013/1237.html

The safety net

Authorities that are unable or unwilling to pool are left only with the safety net mechanism to limit the level of financial risk to which they are exposed.

Fifty-eight per cent of respondent councils agreed that the safety net fulfils the objective of limiting financial risk. However, a number of respondents clarified that it only limits risk beyond the loss of 7.5 per cent of a council's business rate income, which means that a high level of volatility and uncertainty remains. In addition, most councils that discussed the principles of the safety net were not satisfied with how it is funded and thought that councils are bearing more than their fair share of the cost of the safety net mechanism.

For example, councils believe that the outcome of pre-April 2013 appeals should be borne by central government and only then can the safety net mechanism be applied. Some others believe that at least half of the cost of the safety net should be funded by the Government instead of a top-slice of local government funds. A number of councils believe that the growth levy should fund the safety net, as planned at the outset of the scheme, with government making up the shortfall.

COUNCILS' COMMENTS ON THE TOPIC OF FINANCIAL RISK:

Appeals

"The lengthy time appeals take gives uncertainty and hinders forecasting and budgeting decisions. It would be beneficial if a timeline could be provided by the VOA that some certainty over when appeals would be settled was given."

"The effect of any growth is being lost due to the volume and cost of appeals and the associated level of volatility and uncertainty around the level of business rates income that will accrue."

"We still have appeals outstanding for the 2005 list. We have also had instances of businesses going bankrupt due to the length of time that they have to wait for appeals."

Discounts and business rate avoidance

"Charities receive a high level of rate relief which has resulted in local high streets being occupied by charities, and landlords / owners of buildings letting to charities to avoid the business rates themselves."

"Charitable relief should be made fully discretionary and only granted where the premises are fulfilling the charitable purpose and the benefit resulting from the occupation is greater than the cost to the public purse."

Pooling

"In the first year, there were not enough incentives or details of operation to set up a pool. There was also not enough time given to adequately analyse the benefits."

"We are a top up authority and all of our neighbouring authorities are top up authorities so there is no benefit of us being part of a pool. There would be additional bureaucracy in managing a pool and possible political challenges in agreeing the governance arrangements for the pool."

The safety net

"As the bulk of the risk for many councils relates to the pre-April 2013 appeals backlog, this should be met from the Government's 50 per cent share of business rate income and not via the safety net mechanism."

"Our funding baseline is so low that we can afford the 7.5 per cent reduction as a one off pressure. Thus we have deliberately placed ourselves into Safety Net this year by writing off a significant amount of appeals refunds, with everything above the threshold effectively being funded by the Government."

LOOKING INTO THE FUTURE

The challenges set out in this paper will continue to face councils under the business rate retention system. Most of the mechanism has been locked in until the next reset, which is not scheduled until 2020 at the earliest.

The main purpose of the business rate retention system is to provide an incentive to local authorities to grow their business rates locally by encouraging local economic growth and improving collection rates. It is too early to tell whether, and to what extent, it will achieve this objective.

Looking ahead, one change is expected to be the next revaluation, which in accordance with statute will be carried out by the VOA seven years after the last revaluation, having been postponed by two years. The revaluation, which will come into effect in April 2017, will use estimated property values as at 1 April 2015. As has been the case in the past, the next revaluation is likely to bring a fresh wave of business rate appeals which will increase the financial volatility faced by councils further.

Valuation appeals are likely to increase sharply in that period and cause a potential financial risk to councils. April 2013 was in the middle of a valuation period, and that has in part caused the current issue of outstanding appeals, especially major ones which are taking an extensive period of time to be resolved.

Out of all councils that discussed this, 60 per cent said that they would prefer the revaluations and resets of the business rate system to coincide as it would deal with the appeal timing disputes. However, other councils said that they prefer the two processes to be staggered as having both a reset and revaluation at the same time might prove to be a higher financial risk than the appeals issue.

The business rate system reset in 2020 will provide an opportunity for a discussion on whether the 50/50 split of business rates collected between local and central government has achieved the objectives intended at the outset of the reform. On the one hand, increasing the local share would provide a bigger reward to councils where businesses are expanding physically. On the other hand, a smaller central share would provide less protection for authorities that struggle economically.

Out of all respondent councils, 81 per cent believe that the local share should be increased. Interestingly, only 29 per cent expect that the Government will actually do so. A number of councils mentioned that it was too early to tell as it would depend on the success of the scheme as well as policies of the next government. The fact that 2020 is a national election year only adds to the uncertainty.

There are other aspects of the system that some councils would like to see reviewed in the future, for example:

- About half of all respondents believe that the current discount and relief system could be improved. It is likely that this is related to the extent of avoidance allowed by how the regime works at the moment.
- Thirty-two per cent of councils believe that the current valuation basis might encourage a certain type of business, disadvantaging others.

COUNCILS' COMMENTS ON THE TOPIC OF THE FUTURE OF THE SYSTEM:

The future of the local share:

"Any increase in the amount local authorities can keep is to be welcomed but not at the expense of reductions in other funding."

"It really depends on what they do with the levy rather than the local share. They could leave the local share the same and reduce the levy rate and this could have a positive effect but simply increasing local share on its own without considering tariffs and levies may not necessarily be positive."

"The council would rather receive government grant than be exposed to volatility in business rate income."

"Although it would increase financial risk to local authorities, the general principle of as much income going directly to local authorities should be supported. However, the real answer is to allow local authorities to set the level of the rates. If the local share is to be increased this should happen gradually (say 10 per cent each reset) so as the impact can be best managed."

The future of the discount and relief regime:

"Transitional relief doesn't help transparency, understanding or seem at all justifiable for businesses that are being revalued downwards. Small Business Rate Relief should become a design feature rather than a temporary adjustment to the system that forms part of the annual Chancellor's statement."

"The current discount and relief regime is stable and understood. Changes will inevitably mean transitional protection issues which will add complication."

"Ideally empty rate relief should be removed or reduced. This would encourage greater occupation and therefore tend to lower rents. The impact of small business rates relief should be reviewed, as it may, in some cases, discourage those businesses from expanding."

CONCLUSIONS AND RECOMMENDATIONS

Responses to our survey provided us with an overview of the councils' experience of the business rate retention system in the period immediately after implementation. It has shown that there are no two identical stories, and that all councils face challenges in some form or other.

Key conclusions are

1. When the system was being set up, the LGA pointed to the risk involved, in particular from appeals. This seems to be justified by early experience.
2. Councils do not believe the business rates retention scheme, as it is currently constituted, provides sufficient incentive. Only about 29 per cent of all councils believe that the business rate retention system, as it is now, provides enough of an incentive to promote economic growth.
3. Due to the fact that the business rates retention scheme has been introduced at the same time as the Government's deficit reduction programme, it has coincided with an unprecedented cut to local authority resources. Only 6 per cent of councils believe that the system ensures all local authorities have adequate resources to provide services to local people. This reflects the results of the LGA's Future Funding Outlook modelling, which shows a growing funding gap in local services.

4. Fifty-eight per cent of councils believe that the safety net limits financial risk, but many authorities mention that it still leaves a significant amount of residual risk that councils have no other way to counteract.
5. This means that as far as most councils are concerned, the risk of the new system is currently outweighing the reward. Risks in relation to appeals and avoidance are not appropriately addressed in the system, although we recognise that following the Autumn Statement 2013 the Government announced a consultation on reforming the appeals system and an intention to deal with 95 per cent of the appeals backlog by July 2015. These steps appear to be in the right direction.
6. A number of respondents noted that it is early to draw some definitive conclusions. However, the survey serves as a useful snapshot of where things stand, and it is already clear that there need to be changes that would help councils plan for the future appropriately, including timely decisions on appeals, a crackdown on business rate avoidance and more high-quality information to help councils gauge the risks the future holds and plan for them more appropriately.

LGA recommendations are

1. During the passage of the Act through Parliament, the LGA called for the size of the local share to be increased to a point where ultimately all business rates growth is retained. This needs to be accompanied by recalculating top-ups and tariffs, which will help to protect services in areas where economic growth is not achieved.
2. The reform can only really work if the risks, especially those arising from appeals or avoidance, are dealt with. On the former a practical, streamlined and timely process to deal with challenges and appeals should be set in place as a result of the current consultation. On the latter, the Government, with local government, should review the discount and relief system and discuss what changes can be made to discourage business rates avoidance.
3. The LGA calls on the Government to revisit its decision to close the old pool on 31 March 2013. Instead any appeals which relate to the period before 31 March 2013 should be set against the old pool. This would reduce the need for the safety net top-slice.
4. Local government should retain all growth from the local share. RSG should not be revised downwards to take account of increases in the business rates multiplier. This would increase the rewards available to councils.
5. The Government should review how the safety net is funded, to avoid the unintended effect of significantly reducing council funding in the case of negative economic shocks.

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We consider requests on an individual basis.

L13-871

Finance Panel
31 January 2014

LGA Governance Arrangements

Purpose of report

For information.

Summary

A special meeting of the General Assembly met on 23 January 2014 and agreed a series of revisions to the LGA's governance arrangements. The revisions seek to reflect the changing needs of our emerging city regions and our non-city areas, and as part of a wider package of activities to secure the long term sustainability of the LGA.

This report outlines the governance changes that were agreed by the General Assembly, with paragraph 16 specifically relating to the work currently undertaken by the Finance Panel.

Recommendation

That the Finance Panel note the changes to the LGA governance arrangements as agreed by the LGA General Assembly on 23 January 2014.

Action

For noting.

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Finance Panel
31 January 2014

LGA Governance Arrangements

Background

1. The LGA's governance arrangements lead and shape the work of the Association. As local authorities prepare to make further tough decisions about vital public services, we must ensure that those governance arrangements equip us to represent our membership effectively and to work with councils to support, promote and improve local government.

2. The changes proposed by the LGA Executive and agreed by the General Assembly are based on five key principles:

Representing our membership
- Councillors across the country are engaged in the work of the LGA.
- The needs of individual councils are balanced with the needs of groupings of councils.

Structures
- City regions and counties have a central role in the LGA's decision-making.
- Current governance arrangements are streamlined to focus on LGA priorities.

Ways of working
- Less reliance on formal "committee" meetings based around officer-written papers.
- Greater emphasis on engagement with the wider sector.

The role of members
- Increased emphasis on the role of members as decision-makers, as representatives of local government and as advocates of the LGA.

Cost of governance
- Overall reduction in direct, support and managerial costs.

Changes to the current arrangements

3. The revised Constitution incorporating the governance changes is available to view on the LGA website - http://www.local.gov.uk/constitution - and a diagram of the new structure is attached at **Appendix A**.

Leadership Board

4. The Leadership Board will continue in its current form. It will be politically proportionate and its membership will comprise the chairman, vice and deputy chairs of the LGA. It will lead and direct the business of the LGA. However under these proposals it will meet every 6 weeks instead of monthly.

LGA Executive

5. The Executive will continue in its current form. It will be politically proportionate and its core membership will comprise the chairman, vice and deputy chairs of the LGA, the chairs of the 9 boards and representatives of Wales and the English regions. The County Councils' Network (CCN), District Councils' Network (DCN) and the Special Interest Group of

Municipal Authorities (SIGOMA) will each retain a non-voting place along with the chairs of Local Partnerships and the Leadership Centre for Local Government. Like the Leadership Board it will meet 6-weekly instead of the current monthly.

6. The Executive will be responsible for determining the LGA's strategic priorities and policy framework and for holding the Boards to account. In particular it will coordinate growth and transport policy on the advice of the City Regions, People & Places and Environment, Economy, Housing & Transport Boards and determine finance and workforce policy on the advice of the Resources Board.

Boards

7. There will be 9 boards in place of the current 10 – 7 policy boards along with two new boards – City Regions and People and Places.

City Regions and People and Places Boards

8. These two boards will represent the interests of city and non-city areas respectively. They will meet four times a year and their remit will include growth, transport infrastructure, skills and wider public service reform.

9. Membership of the City Regions Board will be drawn from the Core and Key cities, SIGOMA and London Boroughs. Membership of the People & Places Board will be drawn from the County Councils Network, District Councils Network and any non-county unitaries not represented by those two bodies.

10. The two Boards will each have 22 members and their make-up will reflect the political proportionality of the wider group of councils from which their membership is drawn. This differs from the seven policy boards, whose make-up reflects the political proportionality of the Association as a whole. LGA Group Leaders are recommending that membership of these two Boards is increased to 22.

11. The chair will be appointed from the largest group on the Board but will fall within the LGA's own proportionate allocations. In line with the LGA's political conventions, the remaining groups will each have a vice or deputy chair.

Policy Boards

12. The seven policy Boards will each have a proportionate membership of 18 members. They will meet four times a year rather than the current six. Each Board will continue to have four lead members - a chair, vice chair and two deputy chairs, allocated between the Groups.

13. The remits of the City Regions and People & Places Boards will include growth and transport. General economic policy, highway maintenance and environment, planning and housing will be dealt with through a merger of two Boards (Economy & Transport and Environment & Housing) which will be called the Environment, Economy, Housing and Transport Board. The Executive will retain an overarching role in these areas.

14. The Children & Young People, Community Wellbeing, Culture, Tourism & Sport, and Improvement and Innovation Boards will continue in their current forms. However, the Improvement and Innovation Board will take over responsibility for all improvement activity, including specific areas such as children's improvement.

15. The Community Safety Board will take on overall responsibility for fire, with the Fire Services Management Committee reporting to the Board. This will bring together all blue light services under one board.

16. A new **Resources Board** will be created**,** combining the remits of the Workforce Board, Finance Panel and the finance elements of the European & International Board. European & International policy will be passed to the appropriate policy board. Responsibility for the LGA's own internal resources, will remain with the Leadership Board.

Other structures

17. The Rural and Urban Commissions and their respective steering groups will be disbanded with the creation of the City Regions and People & Places Boards. However, the two Boards may continue to hold an annual Conference to bring together the wider interest group.

18. Councillors' Forum will continue in its current form but will move to a 6-weekly cycle in line with the Executive and Leadership Board. It will continue to offer a programme of topical external/internal speakers and discussions. It has a proportionate core membership but will continue to be open to all LGA councillors to attend.

19. Audit Committee will continue to monitor the integrity of the financial statements of the LGA and its associated companies and oversee their internal control and risk management. It is made up of one member from each group and is not proportionate.

Other governance issues

Roles of Lead Members

20. Integral to the proposed reduction in the number of meetings is the move to a more flexible model of operation, placing a greater emphasis on the role of the lead members between Board meetings and the importance of regular reports to the Executive by the Board chairs. Revised job descriptions for lead members will reflect the changing role.

Regional appointments to the Executive

21. In response to concerns from some regions regional appointments to the Executive should reflect the LGA's weighted proportionality for the region, unless there is local consensus for an alternative.

Timetable

22. The proposed Cities and People & Places Boards will come into effect from February 2014 and the Urban and Rural Commissions will be disbanded at that point.

23. The Economy & Transport, Workforce and European & International Boards and Finance Panel will be disbanded from July 2014 and the new arrangements will come into effect from 1 September 2014.

24. A full review of the new arrangements, including membership of the new boards will be undertaken after 12 months.

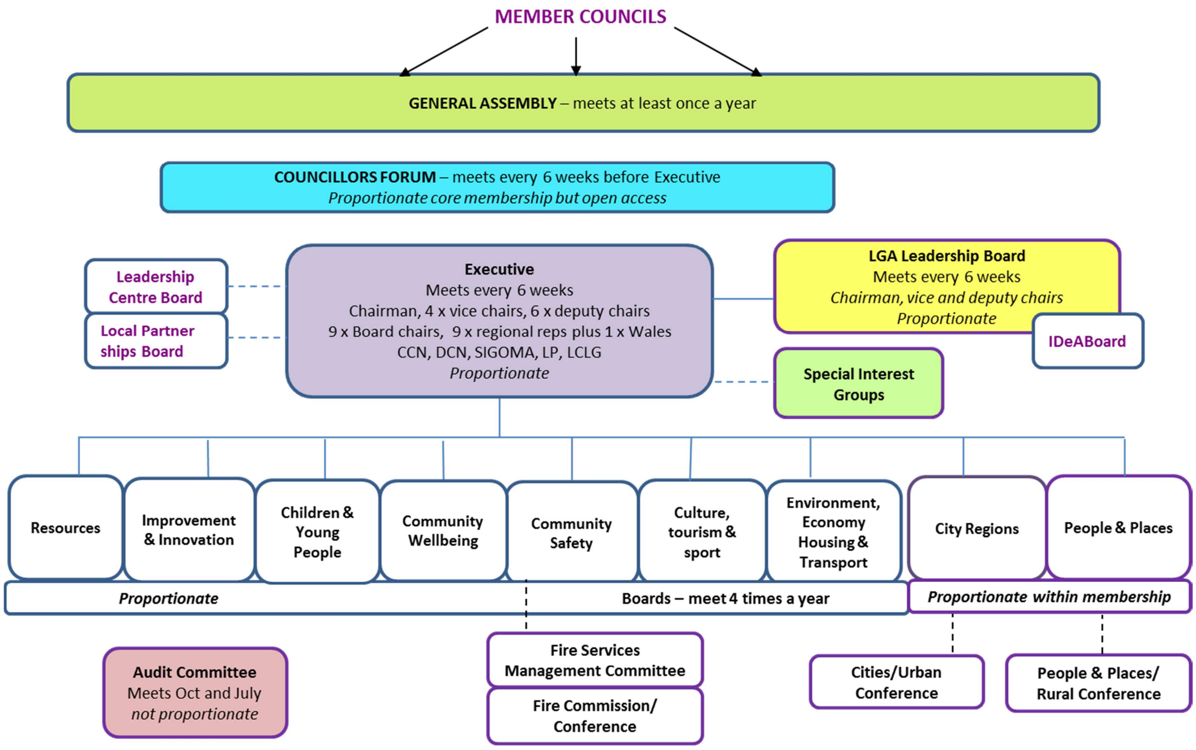
Summary of changes

1. That a new City Regions Board and a new People & Places Board are established from February 2014.
2. That the Urban and Rural Commissions cease to exist from February 2014.
3. That from 1 September 2014, a new Resources Board is established combining the current remits of the Finance Panel, Workforce Board and financial elements of the European & International Board.
4. That from 1 September 2014, the remits of the Environment & Housing and Economy & Transport Boards (not covered by People & Places and City Regions Boards) are merged and the Board is renamed Environment, Economy, Housing & Transport.
5. That the current Finance Panel, Workforce Board, European & International Board, and Economy and Transport Boards cease to exist from 31 July 2014.
6. That the Executive takes overarching responsibility for coordinating growth and transport policy on the advice of the City Regions, People & Places and Environment, Economy, Housing & Transport Boards, and for determining finance and workforce policy on the advice of the Resources Board.
7. That the Improvement and Innovation Board takes over responsibility for all improvement activity, including specific areas such as children's improvement.
8. That the Boards meet four times a year in place of the current six, with a stronger role for designated lead members to work flexibly between formal meetings.
9. That the Executive, Leadership Board and Councillors' Forum move to a 6-weekly from the current monthly cycle

Local Government Association

Finance Panel
31 January 2014

Appendix A



Agenda Item 8

Document is Restricted

LGA location map

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Public transport

Local Government House is well served by public transport. The nearest mainline stations are: Victoria and Waterloo: the local underground stations are **St James's Park** (Circle and District Lines), **Westminster** (Circle, District and Jubilee Lines), and **Pimlico** (Victoria Line) - all about 10 minutes walk away.

Buses 3 and 87 travel along Millbank, and the 507 between Victoria and Waterloo stops in Horseferry Road close to Dean Bradley Street.

Bus routes – Horseferry Road

507 Waterloo - Victoria

C10 Canada Water - Pimlico - Victoria

88 Camden Town - Whitehall - Westminster - Pimlico - Clapham Common

Bus routes – Millbank

87 Wandsworth - Aldwych

3 Crystal Palace - Brixton - Oxford Circus

For further information, visit the Transport for London website at **www.tfl.gov.uk**

Cycling facilities

The nearest Barclays cycle hire racks are in Smith Square. Cycle racks are also available at Local Government House. Please telephone the LGA on 020 7664 3131.

Central London Congestion Charging Zone

Local Government House is located within the congestion charging zone.

For further details, please call 0845 900 1234 or visit the website at **www.cclondon.com**

Car parks

Abingdon Street Car Park (off Great College Street)

Horseferry Road Car Park Horseferry Road/Arneway Street. Visit the website at **www.westminster.gov.uk/parking**