

## Appendix B

# Local Government Finance Settlement 2014-15 and 2015-16 Consultation 15<sup>th</sup> January 2014



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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# Submission

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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 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.

## **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.