Finance Panel

Agenda

Friday 14 September
11.30am

Millbank Room (8th Floor)
Local Government house
Smith Square
London
SW1P 3HZ

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

www.local.gov.uk

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Local Government House, Smith Square, London SW1P 3HZ

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Local Government Association

Finance Panel
14 September 2012

There will be a meeting of the Finance Panel at:

11.30am on Friday 14 September 2012 in the Millbank Room (8th floor), Local Government House, Smith Square, London, SW1P 3HZ.

Attendance Sheet
Please ensure that you sign the attendance register, which will be available in the meeting room. It is the only record of your presence at the meeting.

Apologies
Please notify your political group office (see contact telephone numbers below) if you are unable to attend this meeting, so that a substitute can be arranged and catering numbers adjusted, if necessary.

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
A map showing the location of Local Government House is printed on the back cover.

LGA Contact
Lucy Ellender Tel: 020 7664 3173; Fax: 020 7664 3232;
e-mail: lucy.ellender@local.gov.uk

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This is available in Local Government House for visitors. It can be accessed by enabling "Wireless Network Connection" on your computer and connecting to LGH-guest, the password is Welcome2010LG.

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Agenda

Finance Panel

14 September 2012

11.30am

Local Government House, Smith Square, London SW1P 3HZ

Local Government Association

Finance Panel
14 September 2012

Item 1

Membership and Terms of Reference and for 2012/13

Purpose of report

To ask the Finance Panel to note its Membership and Terms of Reference for 2012/13.

Summary

The Panel's Membership (**Appendix A**) and Terms of Reference (**Appendix B**) are attached to this report.

Recommendation That the Finance Panel notes its Membership and Terms of Reference for 2012/13. **Action** No further action necessary.

Contact officer:	Lucy Ellender
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Finance Panel 2012/2013

Councillor	**Authority**
Conservative (4)	
Melvyn Caplan * **[Vice-Chairman]**	City of Westminster
David Finch	Essex CC
David Westley	West Lancashire BC
Nigel Ashton*	North Somerset Council
Substitutes	
Stephen Baines MBE**	Calderdale MBC
John Fuller**	South Norfolk DC
Alan Jarrett**	Medway Council
Labour (3)	
Sharon Taylor **[Chair]**	Stevenage BC
Catherine West	Islington LB
Steve Houghton CBE*	Barnsley MBC
Substitute	
Mike Connolly	Bury MBC
Liberal Democrat (1)	
Paul Tilsley MBE **[Deputy-Chair]**	Birmingham City
Substitute	
Sam Crabb	Somerset CC
Independent (1)	
Councilman Matthew Richardson* **[Deputy-Chair]**	City of London Corporation
Substitute	
Marianne Overton	North Kesteven DC and Lincolnshire CC

***** new member
** new substitute

LGA Finance Panel

Terms of Reference

The LGA Finance Panel will shape and develop the Association's policies and programmes on local government finance and will report to the LGA Executive.

- to consider issues relating to the financing of local government expenditure;
- to establish positions on those issues for the LGA, and
- to oversee the LGA's representational, media and Parliamentary campaigning

1 September 2012

Finance Panel
14 September 2012

Item 2

Growth and the Autumn Statement

Purpose of report

For discussion and direction.

Summary

Item 3 gives an account of how the LGA's campaigning priorities on council funding and economic growth are connected. In short, councils' ability to fund services will remain under very serious challenge until the national pubic finances are back on a secure footing, and councils need to be empowered to play their full part in driving economic recovery that will generate the tax revenues needed to do that.

The Government is making a series of economic policy announcements over the autumn, culminating in an Autumn Statement which we can expect to address both fiscal and the economic policy questions. The LGA has work in hand on an offer to the Government about growth in advance of the Autumn Statement.

Officers will make a brief presentation on that at the meeting and the Panel's guidance will be sought.

Recommendation

Members are asked to comment on the work programme for the Autumn Statement.

Action

LGA Officers to proceed as directed.

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Local Government Association

Finance Panel
14 September 2012

Item 3

Work Programme

Purpose of report

For discussion and direction.

Summary

This paper suggests priorities for the Finance Panel for the coming year.

Recommendation

Members' are asked for comments on the priorities for 2012/13.

Action

LGA Officers to proceed as directed.

Contact officer:	Paul Raynes
Position:	Head of Programmes
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Finance Panel
14 September 2012

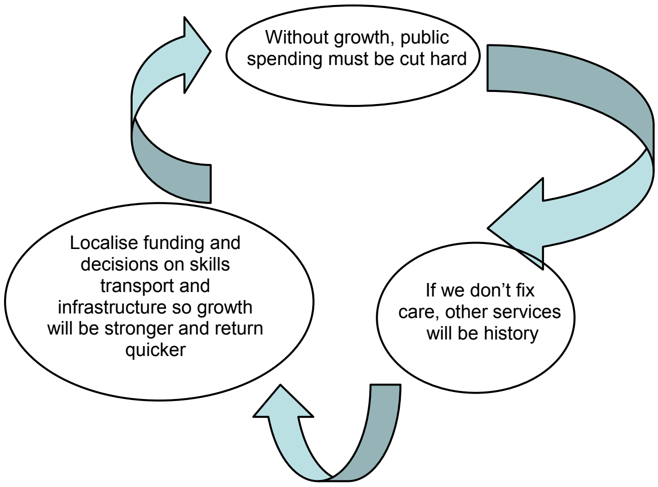
Item 3

Work Programme

Background

1. While leaving itself space to respond to events, the Panel will wish to identify the priorities for its work programme for the coming year. Those priorities might reflect the LGA's overall priorities.

2. The LGA's overarching campaigning narrative is anchored in the need to tackle the country's economic and fiscal problems. Councils need to manage within an overall resource envelope that will probably continue shrinking for the rest of the decade; that requires reform of the way we do things, including in particular reform of social care funding and the kind of place-based integration of services being developed by the community budget pilots; but it also requires councils to play the fullest possible part in stimulating economic recovery that will put the public finances on a sound footing again, which means campaigning for further devolution of control over economic levers and greater freedoms to invest in infrastructure and housing.



3. Against that background, the key priorities we would recommend to the Panel are these:

   3.1. continuing the LGA's work on the **future funding of councils**, including further developing our understanding of the revenue and spending outlook and the cost pressures councils face, with an eye to influencing future government spending plans;

   3.2. monitoring the implementation of the new localised **business rate system,** including keeping an eye on the increased risks councils face and how they manage them;

3.3. seeking to influence the government's **welfare reform** policies, including in particular Universal Credit, localisation of council tax support, and localisation of the social fund, developing an understanding of their impact on local communities, tenants and councils, and supporting councils in managing the changes and the risks they create;

3.4. working with other boards, campaigning for councils to have greater freedom to finance future investment **in infrastructure and housing** and contribute to growth.

4. The Panel may also wish to keep a watching brief on a number of issues with finance implications where lead responsibility rests with other LGA boards, in particular:

4.1. schools funding;

4.2. public health funding;

4.3. social care funding reform;

4.4. housing finance.

5. One further issue members may wish to consider is the funding settlement between the countries of the United Kingdom. The LGA's 2012-13 business plan committed us to work on a fairer mechanism for distributing public expenditure within the Union, although the Panel's predecessors decided not to actively pursue this work. The Panel may wish to confirm whether it still wishes to take that approach to this question.

Finance Panel
14 September 2012

Item 4

Update on Housing Finance

Purpose of report

For discussion.

Summary

This paper updates members on housing finance issues which have implications for councils in three areas:

1. Recent Government announcements on investment in housing
2. Affordable Rent Programme
3. Impacts of Welfare reform on councils' housing investment plans

Recommendations

Members of the Finance Panel are invited to note the update and comment on issues raised in this paper.

Action

Officers will ensure outcomes of Member's discussion are reported to the Environment and Housing Board's to inform decisions on priority areas of work.

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Local Government Association

Finance Panel
14 September 2012

Item 4

Update on Housing Finance

Introduction

1. This paper updates members on housing finance issues which have implications for councils in three areas:

    1.1. Recent Government announcements on investment in housing
    1.2. Affordable Rent Programme
    1.3. Impacts of Welfare reform on councils' housing investment plans

2. The LGA's Environment and Housing Board are meeting on 19 September to discuss priorities for their work programme. It is likely that this will have a strong focus on the issues raised in this paper and on developing LGA policy positions and lobbying on these issues.

3. Members of the Finance Panel are invited to comment the issues raised in this paper which can then be reported to inform the Environment and Housing Board's discussion and decisions.

Recent Government announcement on investment in housing

4. The Government announced a package of measures relating to housing and planning on 6 September 2012. A full LGA briefing is attached at **Appendix A** but in summary the key measures in relation to finance and investment in housing are as follows:

    4.1. **£200 million investment to encourage institutional investment in the private rented sector.**

    It is not yet clear who will be eligible for this funding, or what the timescales and process for the investment will be however it will be important that councils are involved at an early stage in discussions which affect institutional investment at it in housing in their area and how it will relate to existing strategies on Private Rented Sector housing.

    4.2. **A Government guarantee scheme worth up to £10bn which will enable developers to raise debt with a Government guarantee where they commit to investing in additional new–build rented homes.**

    This measure will be implemented via the Infrastructure (Financial Assistance) Bill which is scheduled for its second reading 17 September. The guarantee is subject to EU state aid clearance. Councils are not eligible to apply under the scheme. Officers are seeking clarification from DCLG on additional powers required to implement this measure and the timetable for the bidding process.

4.3. **£300 million to provide an additional 15,000 affordable homes and an extension of the refurbishment programme to bring additional 5,000 existing empty homes back into use.**

It is expected that this funding will be channelled through the Homes and Communities Agency's Affordable Homes Programme and distributed through a competitive bid based process based on value for money delivered. As in previous HCA bidding rounds, councils may find themselves at a disadvantage as a result of the current accounting rules which mean local authority borrowing is classified against Government debt – thereby scoring lower on value for money grounds.

These announcements highlight the importance of LGA arguments for relaxation of financial constraints on council borrowing to allow them to lever in resources to scale up house-building plans.

4.4. **Developers to be able to ask the planning inspectorate to review sites which they consider are unviable due to affordable housing requirements. The planning inspectorate would have the power to remove affordable housing requirements from the existing agreement and set it aside for 3 years in favour of a new agreement.**

This will require primary legislation (expected to be published in October 2012) and represents a significant extension of the Planning Inspectorate's role and could delay or undermine the delivery of much needed affordable housing. The LGA has argued that it will not address core issues stalling development and could lead to further delays whilst legislation and policy is developed and implemented.

Officers are working with housing advisors to develop a technical submission to CLG outlining the risks and issues to consider when designing the scheme.

Affordable Rent Programme

5. The Affordable Rent programme is the primary product by which the Homes and Communities Agency is providing £2.2 billion funding for the development of new affordable housing for the period 2011-2015. Under the programme funding is provided for housing investment programmes on the basis that affordable rented homes will be made available to tenants at up to a maximum of 80% of market rent and allocated in the same way as social housing.

6. There have been mixed reactions to the Affordable Rent programme amongst local authorities. However even where councils and other housing providers are currently involved in building new homes under the Affordable Rent programme, there are significant concerns about whether the model will be sustainable in the longer term.

7. Recent analysis undertaken by the LGA has revealed common concerns to be:

8. **That the 80% market rent rate may be more than the new housing benefit limits in some places**. A number of councils, Housing Associations and lenders indicated that

this that providers are concerned the impact of welfare reform on the ability to let Affordable Rent properties, particularly in high value areas. Uncertainty about future revenue streams may undermine the financial model.

9. **That larger homes will be far less viable under the new affordable rent model** and there will likely be an increase in small-size properties being developed. Our research indicated that this is proving to be the case.

10. **That arrears and bad debts will impact on the ability to borrow** (particularly for Housing Associations)**.** Reductions in grant and increased perceptions of risk are likely to change access to capital as well as driving reductions in the scale of development programmes. There are no immediate changes in borrowing costs as many providers have in place facilities available for the next three years. The view across providers however is that the Affordable Rent model will use more of their resources and will increase their borrowing costs.

11. It is also worth noting is that the reinvigorated right to buy policy includes provision for capital receipts to be retained at a local level on the proviso no more than 30 per cent of the cost of the new homes comes from the Right-to-Buy receipt. This is based on the Affordable Rent model on the assumption that replacement homes will be built as Affordable Rent properties rather than social properties.

12. The LGA lobbied for Councils to be eligible to participate in the Affordable Rent programme, should they wish. A number of councils have been named as successful providers however their ability to participate has been delayed by the transition to self financing and is constrained by the public borrowing rules which place them at a disadvantage to Housing Associations.

13. The Environment and Housing Board is considering as one of its future priorities a programme of work to develop evidence based proposals for a sustainable funding model for social and affordable housing in the next spending review period.

Welfare Reform and impact on councils' Housing Revenue Account

14. Following discussion of the impact of Welfare Reform at the LGA Leadership Board in May 2012, officers were asked to d**eveloping a more complete understanding of some of the cost implications (both direct and indirect) of welfare reform with a view to pursuing a new burdens conversation with Government.**

15. In response to this officers have been monitoring the impact of current and forthcoming housing benefit changes on councils, residents, and local housing markets and establish the costs to councils of implementing the reforms.

16. It is still very early to reach conclusions about the impact of changes which for the most part have yet to take effect, with most measures in the Act not being implemented until April 2013. Nor is it possible to disentangle, at least on the evidence currently available, the effect of welfare changes from those caused by the state of the wider economy. However initial analysis highlights two issues which could impact on councils' housing investment plans:

15.1. The household benefit cap may make it difficult for many households to afford to rent in the Private Rented Sector under the 'affordable rent' model. This may impact on the viability of the model for investment, particularly in high value areas.

15.2. Payment direct to tenants could increase the risk of arrears with an impact on rental income streams which will in turn impact on ability to secure invest in new housing against those income streams. Increased levels of uncertainty and risk on this issue could deter borrowing even if the problem does not materialise.

17. On this second issue, the movement to direct monthly payments to tenants has prompted concerns from many during the passage of the Act regarding the impact of increased arrears and fluctuations in income stream on housing providers' financial position. DWP have accepted that there are some people for whom direct payment of the housing element of universal credit to landlords is still appropriate. A number of demonstration projects testing out issues such as the appropriate trigger points for payment direct to landlords, the impact of direct payments of claimants and protection for vulnerable groups will run from June 2012 for 12 months. The demonstration projects are as follows:

16.1. Southwark Council and Family Mosaic, London

16.2. Oxford City Council and Oxford Citizens, (part of the) Greensquare Group, Southern England

16.3. Shropshire Unitary County Council and Bromford Group, Sanctuary Housing and The Wrekin Housing Trust, West Midlands

16.4. Wakefield Metropolitan Borough Council and Wakefield and District Housing, Northern England

16.5. Torfaen Borough County Council and Bron Afon Community Housing and Charter Housing, Wales

16.6. Edinburgh Council, representing Scotland

18. The LGA is also working with the Association of Retained Council Housing and others to commission which will amongst other areas assess and analyse planned local authority housing capital investment and borrowing and analyse income and revenue expenditure assumptions underpinning capital spending and debt reduction plans and evaluate vulnerability to risk. This information is likely to be helpful in building an evidence base around the possible impact of direct payments to landlords on the HRA.

Financial Implications

19. There are no financial implications arising from this report.

LGA On the Day Briefing
Response to Government Housing and Growth announcement
6th September 2012

Local Government Association (LGA) response

The planning system is undeniably playing its role in promoting growth and Councils are overwhelming saying 'yes' to much needed housing development and economic growth. Removing affordable housing requirements will not make it easier for developers to sell houses more cheaply, and so will not address the underlying wider economic issues that are stalling development

The stalled economy is stifling demand and much needed development is being held up because buyers can't buy and developers can't sell. The number one priority has to be improving access to mortgages and finance for development. The Government's stimulus package for house building and support for first time buyers recognises that.

Councils have a strong track record in using the planning system to bring forward much needed homes and development, hitting a ten year high last year for the proportion of residential applications accepted. This trend has looked even more promising since the implementation of the National Planning Policy Framework[1]. There is a building backlog of 400,000 homes with planning permission that haven't yet been built. That's an estimated three and a quarter years worth of housebuilding[2] which demonstrates clearly that planning is not the problem.

Development is held up by buyers' inability to buy at current prices, and developers' inability to sell at less than current prices. Changes to the Section 106 system for developer contributions to housing related infrastructure will not make it easier for developers to sell houses more cheaply, so will not help. The wider market issues relate to demand and access to mortgage and development finance.

Detailed analysis

1. Increasing investment in the private rented sector

- £200 million investment to encourage institutional investment in the private rented sector.

[1] http://www.glenigan.com/construction-market-analysis/news/telegraph-exclusive-2000-new-building-projects-approved-every

[2] The estimated three and a quarter years worth of units that could be constructed is calculated by taking the total number of unimplemented planning permissions on 31 December 2011 (399,816) and dividing by data from the most recent CLG housing statistics (see table 209: http://www.local.gov.uk/web/guest/research-housing/-/journal_content/56/10171/3700057/ARTICLE-TEMPLATE

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Local Government Association

Briefing

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- A new taskforce to bring together developers, management bodies and institutional investors to broker deals regarding private rental homes.
- A government guarantee scheme worth up to £10bn which will enable developers to raise debt with a government guarantee where they commit to investing in additional new–build rented homes.

LGA response
The private rented sector has a key role to play in providing new homes and it is helpful that the government is providing funding to encourage institutional investment in this area.

New rented homes are needed both in the market rent and affordable sectors and councils will seek to ensure more homes are available in both parts of the market.

2. Affordable Homes

- Through an overall investment of £300 million the government will invite bids to provide an additional 15,000 affordable homes through the use of loan guarantees, asset management and capital funding.
- In addition there will be an extension of the refurbishment programme to bring additional 5,000 existing empty homes back into use.

LGA response

Demand for affordable homes is growing: councils' waiting lists now stand at 1.84m households in 2011[3] and the number of extra units envisaged by the government needs to be set in that context and in concert with the announcements which may see crucial affordable housing removed through amended Section 106 agreements.

It is crucial that this funding is deployed quickly to allow investment in badly needed affordable homes. The quickest way to do this is to devolve it to local authorities who can work quickly with developers, housing providers and directly to deliver bricks on the ground.

S106 agreements also deliver wide ranging crucial infrastructure. Reconsideration of affordable housing elements of S106 raises questions about the relative importance of affordable housing in comparison to the other things that Section 106 pays for[4].

It is helpful that the government is extending its focus on bringing empty homes back into use. Councils play a crucial role in making the refurbishment schemes proposed a success and should be eligible to participate and play a key role in the delivery of this programme.

3. First Time Buyers

[3] http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/rentslettings/livetables/
[4] affordable housing, education, highways and transport (roads and access etc), community facilities (Healthcare Libraries Sport & Leisure Facilities, facilities for Local Community Groups and Young People etc) employment and training measures, town centre and regeneration initiatives, open space and public realm

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- An additional £280 million to extend the First Buy scheme to March 2014.

LGA Response

- The extension of the First Buy Scheme is helpful. This must be viewed against the significant challenges to get on the property ladder, for example the average deposit for a first-time buyer is over £26,000, doubling since 2007 in a period when the average first time buyer income has declined[5].

4. Large Housing Schemes

- An Industry led group will look at barriers to the growth of off site construction.
- Government will work with local authorities, scheme promoters and communities to accelerate delivery of major housing sites.

LGA Response

It is helpful that the government is considering measures to kick start the construction industry in the round. However, the fundamental barrier is access to development and mortgage finance.

We have significant concerns about accountability and certainty for players within the system if ministers wish to make the infrastructure regime discretionary at its boundaries.

5. Public Sector Land

- The Homes and Communities Agency (HCA) will play a stronger role to release public sector land through a targeted programme of transfers.

LGA Response

It is helpful that the government is moving to a coordinated mechanism to accelerate the release of its land holdings. It is crucial that local authorities are closely involved in discussions concerning the relase and use of land so that the public sector estate as a whole can be used to best effect.

6. Reducing planning delays

- Legislation will allow applications to be decided by the planning inspectorate in cases of poor performance in the speed or quality of the decision.
- More transparent reporting of council performance on planning including increasing the use of Planning Performance Agreements.
- Consultation to be launched to speed up planning appeals and a fast track process for small commercial appeals.
- Extension of the measure that allow developers the chance to seek additional time to progress sites before permission expires.

LGA Response

There is a paradox in suggesting that the government's Planning

[5] http://www.cml.org.uk/cml/publications/newsandviews/104?complete=true

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Inspectorate (PINs) should intervene to speed up some council decisions and simultaneously announcing that PINS' own appeals process is too slow.

Councils currently decide 82% of applications within 8 weeks and 93% within 13 weeks. At the same time council budgets have been cut by at least 28% in real terms over the course of the spending review. Importantly, planning fees are capped at less than the cost of providing the service.

It makes more sense to prioritise proper funding for swift decisions than expanding a quango to run appeals and take away decision making from democratically elected councillors and communities and increase the cost of appeals. We would query the current capacity of the PINS quango to be able to undertake this role currently in a way that speeds up decision making overall. We are seeking clarification from government on the performance targets they are considering.

Councils are already using the planning system effectively to bring forward much needed growth. Last year councils hit a ten year high in the percentage of applications approved for all types of development (with 87 per cent of applications receiving approval)[6]. In 2011/12 this equated to an estimated 2,536 residential schemes granted planning permission[7]. There are an estimated three and a quarter years worth of homes in unimplemented units, based on the number of completed dwellings in England and Wales in 2011/12[8]. This shows local authorities are overwhelmingly saying 'yes' to viable and sustainable residential development through the planning system.

It is important that measures which will see the PINs quango prioritise all major and housing related appeals does not divert limited capacity away from their role examining local plans.

It is helpful that the government has responded to LGA campaigning to extend the flexibility to ensure that planning applications that are due to expire can be extended quickly and easily.

7. Reducing red tape

- Legislation to allow developers to appeal to the planning inspectorate to review sites which they consider are unviable due to affordable home requirements. The planning inspectorate would have the power to remove affordable housing requirements from the existing agreement and set it aside for 3 years in favour of a new agreement.
- There will be a review of local and national standards.

[6] www.communities.gov.uk/planningandbuilding/planningbuilding/planningstatistics/livetables/livetablesondevelopmentcontrolst/

[7] Taken from Glenigan research, commissioned by the LGA '*An analysis of unimplemented planning permissions for residential dwellings'*

[8] The estimated three and a quarter years worth of units that could be constructed is calculated by taking the total number of unimplemented planning permissions on 31 December 2011 (399,816) and dividing by data from the most recent CLG housing statistics (see table 209: http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/housebuilding/livetables/) for permanent dwellings completed in England and Wales in 2011/12 (123,770 units)

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LGA response

Development is held up by buyers' inability to buy at current prices, and developers' inability to sell at less than current prices. Changes to Section 106 will not make it easier for developers to sell houses more cheaply, so will not help. The wider market issues relate to demand and access to mortgage and development finance.

Nor can it be assumed that it is affordable housing that is causing the problem in unlocking stalled sites. Registered providers are working closely with developers to make this section of the development viable. Building market housing at a cost people can afford (and access mortgages for) which also deliver an acceptable rate of return for the developer is the crucial issue which needs to be addressed.

Any perception that councils are asking for unaffordable 'nice to have's' through planning which in these difficult times is rendering development unviable is wrong. In addition to much needed affordable housing, Section 106 agreements also fund roads, street lights, new schools, and other facilities needed to support new development, access jobs and unlock further economic activity.

Councils set local policies for S106 agreements which are based on statutory tests that the obligations should be reasonable, necessary and related to the development – they must be convinced that the development should not receive planning permission if the conditions are not met.

Councils are being flexible and, where appropriate, have renegotiated some deals which would otherwise have stalled. Those local renegotiations are the best way of sorting out problems where developers are in difficulty.

When using the new proposals to seek the removal of crucial affordable housing, developers will need to be open and transparent about profit margins and viability.

Bristol City Council regard Finzel's Reach (a £200 million mixed-use development site in central Bristol), as a high quality regeneration scheme. Within this context, Bristol negotiated a revised section 106 package that met some, although not all, of the demands put forward by the developer. Broadly, the council agreed to reduce the section 106 package by around a third (£4.5 million).

Walsall Council has an established process for S106 proposals that are deemed by the applicant to render the development unviable. This includes recourse to independent financial appraisal (at the applicants cost). This appraisal in addition to the planning case officers views are then presented to the planning committee for further deliberation and decision.

Eastleigh Borough Council has worked with developers to offer a "guaranteed purchase" model for those developers who had sites with existing planning permission but were unsure if they could sell the houses so development had stalled. The council offered to act as a purchaser of last resort if the developers could not sell them. The developers then went ahead

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and built new homes. So far the council has not had to buy any new stock. It will rent out any it does purchase at a discounted rate.

There is also a danger that removing benefits will make communities more reluctant to give consent to development in future, as they'll have less trust in promises from developers. The Government has to be careful to avoid creating a situation which could mire future planning decisions in acrimonious challenges and judicial reviews which could slow the planning approval process.

These proposals are intended to be taken forward via legislation to be put in place early in 2013. There is a clear risk that this may delay developments being brought forward or implemented until the new regime is in place.

8. Supporting locally led development
- Local plans put forward which are considering revising their Green Belt will prioritised for Local Plan examination.
- Further consideration of the use of call in powers

<u>LGA response</u>

Suitable land is a scarce resource in some areas of the country and it is right that any decision over the revision of Green Belt designation should be taken forward through the local plan process which ensures that local people are provided with an opportunity to have a say over development in their area. It would speed up the process even more if there was a leaner planning process for local plan preparation.

9. Helping home owners improve their homes and bringing empty properties back into use
- Consultation on relaxing permitted development rights for extensions to homes and business premises in non protected areas for three years.
- Change of use from commercial to residential purposes will now become permitted development.

<u>LGA Response</u>

Councils have a strong track record in dealing with planning applications quickly and efficiently. Over 70% of minor applications are decided by councils within an 8 week timescale.

Any amendments to local planning rules must ensure councils retain enough powers to maintain and improve the character and integrity of local areas for the benefit of business and communities. Consideration of these issues is central in democratically elected councillors' minds when considering these applications under the existing system. The LGA will be seeking further clarification from government on this issue and will provide further details in due course.

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Finance Panel
14 September 2012

Item 5

Update on adult social care

Purpose of report

For information and discussion.

Summary

In July 2012 the Government published a white paper on the future of adult social care and support. Alongside the white paper the Government published a 'Progress report on funding' (its response to the recommendations of the Dilnot Commission on fairer care funding) and a draft care and support bill.

Securing the future of care and support is one of the LGA's top priorities for the coming year. This update report therefore provides the Task Group with an overview of the Government's headline proposals for reform of adult social care.

Recommendation

Members are asked to note the key messages as outlined in the update.

Action

Officers to progress work in light of Members' comments.

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Update on adult social care

Background

1. The Coalition's 'Programme for Government' highlighted in May 2010 the: "urgency of reforming the system of social care to provide much more control to individuals and their carers, and to ease the cost burden that they and their families face". Two commissions played a key role in taking the debate forward. The Law Commission conducted a detailed inquiry on how to simplify adult social care law and the Commission on Funding of Care and Support, chaired by the economist Andrew Dilnot, made a number of recommendations on how to achieve an affordable and sustainable funding system for care and support for all adults. Both commissions reported in summer 2011.

2. The Dilnot Commission called for a cap, suggested at £35,000, for an individual's lifetime contribution towards their social care costs, after which they would be eligible for full state support. The Commission also recommended an increase in the means test threshold above which people should pay full care costs, from £23,250 to £100,000.

3. The Law Commission recommended a single, clear, modern statute that would pave the way for a coherent social care system by putting individuals' wellbeing at the heart of a new set of statutory principles. Under the Commission's proposals users and carers would have clear legal rights to care and support services and councils would have clear and concise rules to govern when they must provide services.

4. Following the reports of the aforementioned commissions the Government ran an engagement exercise to discuss what the priorities for reform should be. The exercise ran from September – December 2011 and was based around a number of areas (such as prevention and integration) that were identified as having the greatest potential to improve the care system.

5. In July 2012 the Government published its white paper on reform, 'Caring for our future: reforming care and support'. At the same time, the Government also published a draft care and support bill and a progress report on funding (its response to the Dilnot recommendations).

6. Alongside the debate about system reform, the debate about system funding has continued to run. For councils, the stakes in resolving the future funding question are high. Adult social care is the largest area of local government spending once the Dedicated Schools Grant is taken out of the equation, forming up to 50 per cent of the budgets of upper tier authorities. In 2011-12, total net spending in this area was £14.9 billion. On the whole, councils gave budgets for adult social care a degree of relative protection last year. With the squeeze on funding set to continue for at least two, if not four, years, it will be very difficult for them to shield a service that absorbs such a large portion of their spending from greater reductions in future, especially since it is also subject to mounting demand. Councils have over the last few years progressively reduced the availability of free care by tightening eligibility.

The LGA position

7. The LGA has been heavily involved in debates about reform of care and support during the last two years months, working closely with both the Dilnot and Law Commissions to share the sector's views and influence the final recommendations. We have also been heavily engaged with Parliamentarians and stakeholders, giving a range of evidence and briefings. Our views feature prominently in recent Health Select Committee reports on Public Expenditure and Social Care, and much of the evidence of the LGA is endorsed by the Committee. We have joined forces with other stakeholders including Age UK, the Association of Directors of Adult Social Services (ADASS) and the Care and Support Alliance.

8. The LGA set out its expectations for social care reform in the March publication, 'Ripe for reform – the sector agrees, now the public expects: a guide to the care and support white paper'. We proposed three tests for the white paper, as set out below:

   8.1. Test one: does the white paper set out proposals for a reformed system that is likely to achieve our aims of :

      8.1.1. Improving the individual's experience through a simpler system that enhances choice and control, fosters quality services, supports the needs of an expanding workforce, and promotes integrated responses
      8.1.2. Providing stability, predictability and transparency and encouraging the long-term view
      8.1.3. Providing sufficient funding that is appropriately directed to meet demographic pressures and incentivise prevention
      8.1.4. Using the totality of local resources through a focus on wellbeing, quality of life, integrated services, and support for carers

   8.2. Test two: does the white paper set out a timetable for reform that recognises the urgency of the challenge and commits to immediate action where possible?

   8.3. Test three: does the white paper articulate a clear role for local government in a reformed system and recognise the importance of a local approach to care and support?

The Government's proposals for reform

9. There are two central themes to the **white paper**: first, changing the focus of care and support toward the promotion of wellbeing and independence through prevention and early intervention (and away from a system characterised by crisis response); and second, improving people's experience of care by improving quality, developing services that are responsive to individuals' different needs, and giving people choice and control via their own budgets and care plans.

10. The detail of the white paper is set out around five “I statements” that articulate what the Government’s vision would mean for a service user or their family/carer. The statements are as follows:

    10.1. I am supported to maintain my independence for as long as possible.
    - How better community support, including housing, can help people stay active and independent.

    10.2. I understand how care and support works, and what my entitlements and responsibilities are.
    - Developing a clearer system to aid people’s navigation through it and make clearer the options available to them.

    10.3. I am happy with the quality of my care and support.
    - Meeting the individual’s expectations of receiving quality services that are responsive to those individuals’ specific needs.

    10.4. I know that the person giving me care and support will treat me with dignity and respect.
    - Ensuring a skilled and responsive workforce that is sensitive to individuals’ needs.

    10.5. I am in control of my care and support.
    - Making sure that individuals are in charge of their budget and services fit around their unique needs.

11. The **draft care and support bill** addresses the Law Commission’s recommendations for a simpler system. It aims to:

    11.1. Modernise care and support law so that the system is built around the individual.
    11.2. Clarify entitlements so people are better aware of what is on offer and are able to plan for their future.
    11.3. Support the broader needs of local communities by improving access to information and promoting prevention.
    11.4. Simplify the care and support system.
    11.5. Consolidate existing legislation into a single, clear statute.

12. Specific proposals include:

    12.1. A national minimum eligibility threshold
    12.2. A portable entitlement should individuals move from one council area to another, with councils required to maintain services until a reassessment is completed
    12.3. Extending the right to an assessment to more carers and giving carers a clear entitlement to support for their own wellbeing
    12.4. A legal entitlement to a personal budget
    12.5. Clarity on Ordinary Residence

13. The progress report on funding accepts the following proposals of the Dilnot Commission:

    13.1. Financial protection through a cap on costs
    13.2. Extended means test
    13.3. National minimum eligibility criteria
    13.4. Deferred payments available to all, with a consultation on how interest is levied by councils

Summary of financial announcements

14. £100 million in 2013/14 and £200 million in 2014/15 to be transferred from NHS to councils to help better integrate care and support.

15. £200 million capital spread over five years for specialist housing schemes.

16. Start up funding of £32.5 million from 2014/15 to develop local online information services.

17. Investment by NHS in end of life care pilots to be increased from £1.8 million to £3.6 million.

Reaction to the Government's reform proposals

18. Based on our three tests set out above our initial reaction to the Government's proposals is as follows:

<u>Test one</u>

19. The announcements meet many of our expectations. The LGA has previously set out a vision based on community and individual assets to support users and carers to make good decisions about their future care needs. This needed to be based on clear, national and portable entitlement to services, coupled with individuals having the flexibility to design support to meet their needs in their local context.

20. We also wanted an emphasis on prevention, a more integrated approach to how housing and health contribute to good care, and on developing local markets and ensuring continuity of care provision. We also stressed the need to recruit, train and support an expanding workforce. All of these issues are now contained within the White Paper.

<u>Test two</u>

21. Our second test looked at whether the white paper set out a timetable for reform that recognises the urgency of the challenge and committed to immediate action where possible. The LGA recently outlined the resource pressures facing Councils in its recent report 'Funding outlook for councils, from 2010/11 to 2019/20' and in particular how significant social care funding reform is to the way local services across councils will be provided in the future.

22. The Department of Health have issued a draft Bill with a view to completing its passage by Autumn 2014. Most changes requiring legislation will be implemented from April 2015 at the earliest.

23. The Government has not committed to a new funding model at this stage. All the key funding decisions on implementing Dilnot reforms and addressing the true costs of a reformed care system are postponed until the next Comprehensive Spending Review. It is likely that these will be assessed in the context of measures to stimulate growth and other public spending pressures.

24. The Dilnot proposals under consideration are mainly focused on older people. The Commission recommended care and support for adults should be free and unless this wider issue is addressed, these groups will be disproportionately affected by councils' need to ration services in response to funding shortfalls.

25. The Government has made much of the benefits of extending deferred payments. However, the ADASS budget survey 2012 showed that councils have already made deferred payments to around 8,500 people to a total value of £197m (an average of £23,000). The implication of this level of debt in an already overstretched system needs urgent attention.

26. The White Paper therefore falls a long way short of the second test of confidence that the White Paper will lead to action in responding to the current crisis in social care funding.

<u>Test three</u>

27. Our third test was that the reforms articulated a clear role for local government, that appropriate links were made with Health and Wellbeing Boards and that clearly defined relationships for councils with key partners were established.

28. There are clear new duties proposed that are intended to promote cooperation but the LGA will be keen to ensure that social care and health reform are not developed separately and that the focus remains on developing integrated care and support and health responses that meet the needs of people and communities.

LGA Finance Panel
14 September 2012

Item 6

Business Rates retention

Detailed issues in LGA response to consultation

Purpose of report

For discussion and direction.

Summary

This report explains the main issues raised by the Government's July consultation on the partial retention of business rates from April 2013, and seeks the Panel's direction on a number of issues that will need to be covered in the LGA's response to the consultation.

Recommendations

Members are asked to confirm the shape of the LGA response to the Government's consultation, and related lobbying work, as set out in the detailed recommendation at the end of this paper.

Action

Director of Finance and Resources.

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LGA Finance Panel
14 September 2012

Item 6

Business Rates retention
Detailed issues in LGA response to consultation

Background

1. The LGA Finance Panel has responsibility on behalf of the LGA Executive for consideration of the more detailed issues on the proposals for partial localisation of business rates.

2. The Local Government Finance Bill, which is expected to become law shortly, sets out the framework for what the Government now calls the Business Rates retention scheme. Within the broad framework in primary legislation, the full detail of the new business rates arrangements will emerge in part through secondary legislation but more particularly through decisions that will be made by Ministers.

3. The Government issued a 250-page consultation paper on 17 July seeking local authorities' views on a large number of detailed issues that need to be settled to enable the new arrangements to come into operation in April 2013. Moving from the present Formula Grant system, under which the Government decides how total business rates revenue is to be returned to local authorities, to arrangements in which 50% of locally raised business rates are retained, raises a lot of detailed issues. The transition has been made considerably more complicated by the Government's insistence on very precisely controlling total funding levels for local authorities. Because the business rates yield has been increasing, but the Government has been reducing overall funding, this means that more and more grants that used to be funded separately from business rates will in future be paid out of the central share of business rates that the Treasury takes. This enables the Government to fulfil its continuing legal obligation to ensure that the proceeds from business rates are fully returned to local authorities.

4. The Government consultation contains over 80 questions. Many of these cover the detail of the way in which funding baselines are initially distributed between local authorities. The LGA does not usually take positions on such matters, because different authorities inevitably take different views depending on their own position, and there is seldom an answer that benefits local government as a whole. Other consultation questions simply seek confirmation on basic points where there have to be changes – for example in the accounting arrangements as between central and local government – but where the way forward is largely a matter of common sense and unlikely to raise controversy. This paper does not discuss these matters further but seeks direction from members on a range of material issues of detail affecting local government as a whole.

Money available for 2013-14 budgets

5. The Government consultation proposes that various amounts of money are to be held back in April 2013 when the new system comes into operation. The Government intends to keep these amounts for use for certain specific purposes, and hand back any unspent balance to local authorities after the end of the financial year.

6. The amount to be held back initially is **£345 million**. This is to fund (a) the cost of the *safety net* that the Government will use to ensure that no local authority will be at risk of loss from catastrophic decline in its retained business rates income; and (b) such *capitalisation* requests as the Government chooses to allow – these have in previous years been covered from the wider DCLG settlement, and not from the cash raised from business rates.

7. It is recommended that this proposition is robustly challenged. The proceeds of the levy on local authorities achieving real terms business rates growth are supposed to fund the safety net, but because the Government will not be ascertain and collect levy income until the year after the new arrangements begin, it will not immediately know how much is available to fund the safety net. The Government is therefore asking local authorities to pay up an amount in advance to ensure that it has sufficient money available. This appears entirely unreasonable, particularly as DCLG has not published any information evidencing that the size of the hold-back is a reasonable estimate of the safety net requirement.

8. The position on capitalization is, if anything, even worse. Here the Government is asking local authorities to pay cash in advance from their revenue budgets to offset what are essentially permissions to allow the spreading of various kinds of exceptional revenue expenditure over more than one year, granted at Ministers' discretion.

9. Taking real money from council budgets to cover what are essentially artificial quirks of government accounting is, it is suggested, something the LGA should strongly oppose, particularly at a time when funding is being heavily cut anyway.

Forecast business rates income

10. In order to commence the new arrangements, the Government has to make a forecast of the total income that local authorities might expect to raise from business rates in 2013-14. If the actual amount raised is more than the forecast, then local authorities collectively will potentially benefit by keeping 50% of the overall excess. But, if the amount raised is less than the forecast, local authorities have to cover 50% of the loss from their own budgets, and individual authorities will only get relief from the loss if it is large enough to call the safety net into operation.

11. Historically, forecasts of business rates income by the Treasury have tended to be over-optimistic, as can be seen by examining the forecasts accompanying the Chancellor's Budget over a series of past years. Forecasting is now the job of the Office for Budget Responsibility, which helpfully detaches the process from Ministerial influence but does not necessarily mean that the optimism bias will be eliminated.

12. It is understood that, within Government, officials have been looking carefully at how the forecast is constructed, and this provides some degree of assurance. However, local authorities cannot at this stage have any confidence that the accuracy of the forecast will be improved. Furthermore, to the extent that the forecast includes an estimated element of real growth in business rates, the system appears to be based on the assumption that this element of growth is entirely the Government's to keep, and not local authorities' to share.

13. It is therefore recommended that the LGA should seek two assurances from Government on the business rates forecast. First, if the new system is as Ministers have said intended to provide a strong financial incentive to promote growth, then the business rates forecast should transparently set out what part of the 2013-14 yield represents real growth, and allow local authorities to retain that growth fully, without reduction in other funding. Second, if the business rates yield for 2013-14 turns out to be lower than forecast, because of incorrect forecasting assumptions or indeed other events that are clearly outside local authorities' control, then the Government should fully compensate local authorities for losses in the local share.

Transparency of return of the business rate to local government

14. At present, business rates income gets returned to local government in two different ways. The first and most visible way is through the 'Distributable Amount' included in Formula Grant each year. This is part of the local government finance settlement determined in periodic Spending Reviews. There is, though, a second and less visible return of money, which the Government accounts for in an entirely different way. This happens when local authorities find that, for example because of appeals against rating valuations, they have to pay back business rates money already collected in respect of earlier years. In 2011-12, a total of £774 million was paid back to local authorities in this way, and the amount for 2010-11 was even higher.

15. At present, central Government has full responsibility for covering these kinds of shortfalls, and as part of the overall Spending Review Settlement, money separate from the cash-limited part of local government funding is allocated to cover them. The Treasury takes the risk on the adequacy of this amount, which is part of the Government's Annually Managed Expenditure (AME). Spending Review 2010 includes £500 million of AME for this purpose for each of 2013-14 and 2014-15, but the Government's consultation does not provide clear and transparent information about how local government is going to benefit from this. It appears that the Government intends that, from April 2013, local authorities will take 50% of the risk on all future losses on appeal, including those relating to years before 2013-14. This potentially confers a windfall gain for the Treasury at local authorities' expense.

16. It is therefore recommended that the LGA should seek from Government both a clear and transparent account of how the AME money that is included in the Spending Review 2010 settlement will be applied to benefit local government in 2013-14 and 2014-15, and a specific assurance that losses on appeals and other adjustments resulting in repayments of business rates by authorities in respect of 2012-13 and earlier years will continue to be fully covered by the Government.

Business rates proportionate shares

17. In response to earlier consultation about how each local authority's *tariff* or *top-up* should be calculated, the Government is proposing to use figures based on averaging business rates over the previous five years. The rationale for this is that the Government does not wish the way the initial arrangements for the system are set to be unduly influenced by recent one-off events.

18. Initial research by officers suggests, though, that this proposal – which in principle has much to commend it – may operate unfairly for some authorities where the current level of business rates income is, relatively, significantly lower now than at the start of the five year period. Such authorities could find that they are set a level of *tariff* (the amount by which their business rates income is structurally in excess of their normal funding level) that is considerably greater than their current capacity to fund it. In short, the new system would not provide an incentive for future growth but a penalty for the impact of, for example, a large factory closure some years ago.

19. Officers are carrying out further work to establish the potential severity of this issue and will report further on it to members at the Panel meeting. It is possible that a minor adjustment to the proportionate shares proposals could help to alleviate this problem for the authorities concerned without significantly affecting the position of others.

Funding baselines

20. The starting point for funding under the new arrangements is proposed to be determined by means of a Local Government Finance Report that includes a calculation on similar lines to the present Formula Grant arrangements. That will lock in most elements of the current formula funding and, to that extent, authorities will only be able to escape the consequences of what are perceived to be adverse effects by growing business rates locally.

21. The LGA has been developing a model to assist authorities estimate the likely baseline, and it is hoped that this can be made available to member authorities shortly. The baseline amounts can be expected to depend heavily on decisions that Ministers make about the level of floor damping, an issue on which the consultation material provides no indication of the Government's thinking. Individual authorities will have sharply divergent views on this general issue, depending on their position in relation to the grant floor, and it is not one on which the LGA can expect to reach a consensus view.

22. There is, though, a particular issue on which we have received representations and that concerns a small group of authorities whose funding for 2011-12 and 2012-13 was cut so heavily that, for those years, they received special transitional protection to limit their overall reduction in income. Members may therefore wish to consider what the LGA could do to assist authorities in this position, without detriment to the position of others. Officers will provide some further detail at the Panel meeting to assist discussion. The issue particularly concerns some Shire Districts that, until 2011, received large amounts from what was then the Working Neighbourhoods Fund.

23. A separate and much more significant issue affecting baselines of Single Tier and County Councils is the adjustment proposed to remove a total of £1,218 million in respect of funding for local authority and academy central functions. The detail of this is the subject of a separate consultation by the Department for Education, which is proposing to return part of the funding removed using a new national formula. The formula will, to put it at its simplest, return money at the current national average per pupil rate for pupils in local authority maintained schools, and at a much lower rate per pupil (£8 - £15 has been proposed) for pupils in academies. We are aware that there is a great deal of dissatisfaction with these proposals, just as there was with the original Academies Funding adjustments for 2011-12 and 2012-13. A detailed response to the DfE consultation is being prepared and a draft will be copied to members of the Panel in due course. The Children & Young People's Board has previously overseen the work on the Academies Funding transfers and it is suggested that they retain responsibility for clearance of the LGA response on the DfE consultation.

The District – County split

24. In two-tier areas, the consultation proposes that for the purposes of the *top-up* and *tariff* calculations 80% of business rates should be allocated to Shire Districts, with 20% to the county (18% in cases where the Fire and Rescue Service is run by a separate authority). The Government has said that it wishes to place the strongest incentive for growth in the hands of the lower tier, whilst providing a high degree of stability for authorities responsible for adult social care and children's services.

25. It has, though, been conclusively established through study of the detailed design of the proposed arrangements, that the impact of the Government's *levy* is such as to make the particular level of split largely irrelevant for Shire Districts <u>where they succeed in growing their business rates income in real terms</u>. In short, provided that there is real growth in business rates, a Shire District is not likely to gain any significant extra reward from an 80-20 split, as opposed to a 70-30 or 60-40 split. However, if a Shire District's business rates income declines, then its position is likely to be considerably worse, the higher the proportion of business rates allocated in the split.

26. Officers believe that the implications of this part of the design of the scheme may not have been fully appreciated by those advising Ministers, and to be fair it is a complex point to work through and understand in detail. The issue for the Panel is whether the LGA, as opposed to its Special Interest Groups, should make any particular representations for change. It is suggested that any consensus emerging between Districts and Counties for an alternative proposition should be supported but, failing that, the LGA should in its response to the consultation at least seek to ensure that the potential downside risks for both kinds of authorities are fully explained.

The safety net

27. The proposed arrangements include a *safety net* providing a floor below which its retained business rates income cannot fall. The safety net is funded by the *levy* referred to earlier, and is inflation-linked. The Government has suggested that it should

be set in the range 7.5% - 10% below indexed baseline funding.

28. Because the safety net and levy are linked (and there is the associated issue of the £345 million contingency funding that the Government wants to take out anyway), it is difficult to illustrate in simple terms the implications of striking a balance at one or other place. Officers therefore intend to run a range of scenarios setting out how the choice might be expected to operate in practice, using historic information about cases where business rates have suffered large year on year declines. A summary of the conclusions will be presented at the Panel meeting. At present, officers' inclination is to recommend that the LGA supports a safety net level giving a more generous degree of protection, but this advice would benefit from more detailed analysis before it is finalized.

The consultation response

29. The LGA's response to the consultation will need to be submitted by 24 September, so the Panel's meeting will enable members to provide direction on the overall shape of the response. The LGA Chairman and Group Leaders also have a remit, arising from the last time Business Rates localization was discussed at the LGA Executive, to set the strategy for the overall response to the consultation. Officers will report at the Panel's meeting on the results of that discussion, which is not scheduled to take place until after the deadline for preparation of this paper.

30. Subject to that, it is proposed that the LGA consultation response be submitted in draft for clearance by the Chairman and lead members of the Panel, reflecting the Panel's direction and any further views expressed by the LGA Executive.

Financial implications

31. This is core work for the LGA which is funded from existing budgets.

Recommendation

32. Members of the Panel are recommended to authorise clearance of the LGA consultation response to the Business rates retention consultation by the Chairman and lead members, on the basis that the response:

   32.1. Strongly argues for withdrawal of the proposed £345 million hold-back from 2013-14 budgets;

   32.2. Seeks assurances from Government over the reliability and transparency of the business rates forecast, and protection for local government from the consequences of incorrect forecasting assumptions or other matters outside local authorities' control;

   32.3. Demands transparency over the arrangements to ensure that AME included in the DCLG Spending Review settlement for 2013-14 and 2014-15 continues to benefit local authorities in the amounts originally envisaged, and an assurance that late adjustments to business rates yield for 2012-13 and earlier will continue to be fully funded by the Government;

32.4. Considers the possibility of representations on the business rates proportionate shares calculation and on the impact on the funding baselines of authorities previously in receipt of Transition Grant;

32.5. Together with the separate response on the new local authority central education functions funding consultation, fully rehearses member authorities' significant concerns about the level of funding removed for Academy central functions spending;

32.6. Considers, in the light of members' direction, the approach to be taken on the 80-20 District-County split and on the level of the Safety Net.

Finance Panel
14 September 2012

Item 7

Update on public health funding

Purpose of report

For discussion.

Summary

This report provides an update on issues relating to the funding of local authorities' new public health responsibilities from April 2013. This report will also be going to the September meeting of the LGA Executive following discussion at the Executive in July.

Recommendation

The Finance Panel is asked to note the developments in public health funding and provide a steer on any further action now required.

Action

LGA officers to action as necessary.

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Local Government Association

Finance Panel
14 September 2012

Item 7

Update on public health funding

Background

1. The July meeting of the Executive considered a report on the funding of local authorities' new public health responsibilities. In the course of the discussion, concerns were expressed about the quality of the evidence supporting the use of the measure of Standardised Mortality Ratio under 75 (SMR<75) as the principal constituent of the new allocation formula for the distribution of public health funding to local authorities.

2. Members asked for a further report to come back after the announcement of the new funding allocations. In the meantime, this report sets out the action taken following the July discussion and, in particular, provides information on the LGA response to the Department of Health consultation on the funding allocation proposals.

The funding consultation proposals

3. The Department of Health's consultation issued in June was about the manner in which public health funding should be distributed between local authorities, rather than the total amount to be allocated. In the consultation response approved by the Lead members of the Community Wellbeing Board, we stated very clearly that the LGA's view is that further debate is needed about the **overall** amount of funding, to ensure that local authorities can meet their new public health responsibilities. The present position is that the Department of Health estimated in February that 2012-13 expenditure on the public health functions to be transferred to local authorities would be about £2.2 billion, and that at individual local authority level it was unlikely that funding allocations would fall in real terms below the 2012-13 estimated expenditure. This initial protection of funding has been widely welcomed.

4. Many local authorities see a strong case for increasing investment in public health. For example, London Councils said in their response to the consultation that "It is important to get the overall quantum to be spent on public health right. There is a case to be made that this has historically been too low to achieve a significant and sustained positive impact on health outcomes and on health inequalities. Looking forward it will be important to ensure that the total resources available for public health are sufficient to meet needs". Newcastle City Council made the same general point in its response and illustrated this by reference to the significant reduction in early mortality rates from cardiovascular disease, highlighting that this would not have been achieved without investment in public health measures.

5. This kind of evidence demonstrates the value of increasing the level of public health spending devolved locally, because there does not appear to be any comparable evidence suggesting that equivalent value would be derived from centrally allocated spend (estimated at £2.2 billion in 2012-13 for the NHS Commissioning Board and £620 million for the Department of Health), or from that allocated to Public Health

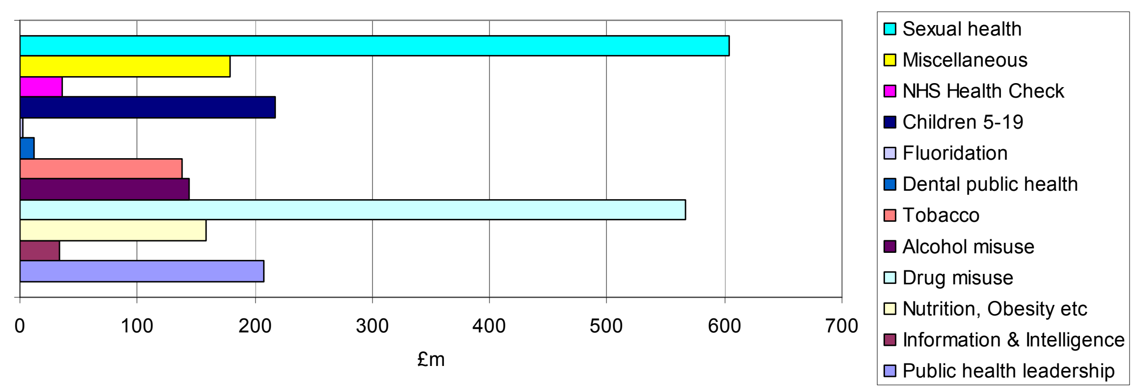
England (estimated at £210 million for 2012-13).

6. The LGA was able to see analysis prepared by the Association of Directors of Public Health examining the consequences of the distribution formula proposed in the Department of Health consultation. This analysis showed that the formula as currently published was regressive and areas with the best health outcomes (predominantly in the south) were likely to be the biggest beneficiaries in comparison to their current spend, with those with the worst outcomes (predominantly in the north) likely to be the biggest losers.

7. LGA officers sought to test this analysis further and found that, if the Department of Health's recommended formula were to be applied, there would only be a 3 per cent correlation between the funding allocated to an individual authority and the extent of deprivation in the authority. By contrast, at current levels of spending there is a 30 per cent correlation. This finding strongly suggests that some adjustment to the proposed formula is required to incorporate a more appropriate weighting for inequalities.

8. It was noted that, within the public health functions transferring to local government, there are two dominant categories of expenditure: sexual health services and drug misuse services. Details of the latest available analysis are given in **Chart 1** below.

Chart 1 - Analysis of local public health spending 2010-11



9. Officers concluded in the light of this analysis that the funding formula that the Department of Health had proposed required further adjustment, because it clearly did not lead to an effective resourcing allocation for sexual health services.

10. Lead Members of the Community Wellbeing Board therefore authorised a response to the Department of Health consultation making the following four key points:

    10.1. **The formula requires further adjustment to provide an effective resourcing allocation for sexual health services**.

10.2. Whilst the standardised mortality ratio (SMR) for those aged under 75 years may be a reasonable starting point for the construction of a needs based formula, **the weighting suggested to help reduce inequalities must be reconsidered**. The suggested weighting does not appear to be based on adequate objective evidence and, as has been pointed out by the Association of Directors of Public Health, is regressive.

10.3. **Considerably more work is needed to establish the correct baseline level of public health spending**. The department has identified an excessive correction for the amount removed on account of the costs of termination of pregnancy, sterilisation and vasectomy. Member authorities have also expressed concerns that inadequate amounts were reported in some other areas, notably in relation to administration and support costs and in specific cases where health budgets faced more general pressures.

10.4. The adequacy of the funding formula cannot be assessed without reference to the quantum of funding. Councils in some areas have serious and well-founded concerns that the future public health investment in their communities could fall well behind likely need. **The LGA calls for a clear commitment from the department for an increase in resources to a level that will maximise the value for money available from well targeted investment in public health**.

Next steps

11. The Department of Health’s Advisory Committee on Resource Allocation (ACRA) has the responsibility for advising Ministers on the overall resourcing formula. It is understood that the Committee has met to consider responses to the consultation, but its conclusions are not currently known. Officers will seek further engagement with the Department on this, and will work with member authorities and other interested parties, in particular the Association of Directors of Public Health, to provide further evidence in support of the principal points made in our consultation response. A further report will be made to the Executive when the funding allocations are known.

Note of decisions taken and actions required

Title:	Finance Task Group
Date and time:	24 July 2012, 2.30pm
Venue:	Millbank Room, Local Government House, Smith Square, London, SW1P 3HZ

Attendance

Position	Councillor	Council
Chairman	Sir Merrick Cockell	RB Kensington and Chelsea
Vice chair	Sharon Taylor	Stevenage BC
Deputy chair	Paul Tilsley MBE	Birmingham City
Members	David Westley	West Lancashire BC
	Geoffrey Theobald OBE	Brighton and Hove City
	Catherine West	Islington LB
Substitutes	John Northcott	Mole Valley DC
In attendance	Ian O’Donnell	LB Ealing
	Andy Hyatt	RB Kensington and Chelsea
	Joanne Seagers	NAPF
Apologies	Marianne Overton	Lincolnshire CC
	David Finch	Essex CC

Officers: Carolyn Downs, Stephen Jones, Paul Raynes, Tim Hamilton, Caroline Green, Piali Das Gupta, Warren Leigh, Paul Clarke 2, Virginia Ponton

Item	Decisions and actions	Action by

The Chairman welcomed members to the meeting and noted apologies.

1 Future funding of councils

Paul Raynes introduced the first item, highlighting that the Funding Outlook report launched at the LGA Annual Conference was well received by a wide audience and earned good media attention. 280 local authorities had asked for their own profiles. Paul drew members' attention to paragraph 8 of the report on next steps.

Carolyn Downs added that the large amount of work on future funding needs to be brought together. She said the results of pilots and analysis have been presented and subject to members' agreement, an offer can now be developed for the sector.

Members:

- echoed that the report had been well received, congratulating officers on a robust document, and urged local authorities to feed back;
- discussed the business rate retention consultation with Stephen Jones, who said that the consultation document matches expectations but that there is a lot of work still to be done;
- stressed the importance of pressing for community-based budgets and the freedom and flexibility to raise money locally and improve pooling;
- said that LGA finance updates are often received by chief executives rather than directors of finance, for example;
- urged cross-party discussion on solutions to adult social care issues;
- were concerned about a lack of local authority understanding of the financial outlook and additional burdens on local authorities and that the figures and messages were being underestimated;
- saw the need for more radical thinking to bridge the funding gap such as engaging with the private sector;
- voiced concern over equalities implications.

The Chairman said he had met that morning with Baroness Hanham and Lord Atlee, and with Richard Benyon MP the day before, to discuss council tax benefit and local government flexibility. He expected an update on council tax benefits in September.

Carolyn said that there is already a toolkit that can help with consulting and equalities, which can be circulated to members. She also urged members to ensure that they are clear in their decision making to demonstrate the thought process behind tough decisions.

Local Government Association

Decision

Members noted the report.

Actions

- On the day briefing on the business rate consultation to be circulated
- Finance communications to be sent to directors of finance as well as continuing to send to chief executives.

2 NAPF and Infrastructure Funding

The Chairman introduced Joanne Seagers, Chief Executive, NAPF. Caroline Green introduced the item. It had been agreed at a previous meeting that it would be helpful to invite the NAPF as a key partner, to discuss how both organisations might work better together and help local authorities develop collective approaches and link to the collective bonds agency.

Joanne thanked the group for the invitation and outlined an opportunity for pension fund investment in infrastructure as well as outlining NAPF's work on developing a Pensions Infrastructure Platform (PIP). She discussed why infrastructure as a long-term and low-risk investment with low fees, low leverage and access to expertise. She proposed that investment would concentrate on lower risk areas such as schools, airports and regulated utilities rather than parking or other usage-based assets. She set out some of the barriers to investing in infrastructure and highlighted the collective buying power to access opportunities earlier. She updated members on the progress with investors so far. The next step is to develop more detail with investors and have the PIP in place in early 2013. Joanne asked for members' input and support.

The Chairman thanked Joanne for her presentation.

Members discussed:

- LGPS investment;
- potential competition with county council pensions funded by local authority bonds;
- risk, particularly in construction and town centre development;
- ensuring that LEPs are engaged;
- engaging with areas outside of the city deals;
- how responsive the LGA could be on the next steps in the report.

Local Government Association

Joanne highlighted the low fees and inflation-linked returns associated with this opportunity and said that authorities could choose a mix of bonds rather than choosing between different offers. She said she was happy to work with members on the next steps as per paragraph 9 of the report.

Caroline said that the LGA will continue to work with colleagues on this.

On city deals, the Chairman said that the LGA is pressing for other areas, not just cities to be considered. He stressed that the key issue is to get the investors in place. He thanked Joanne for attending.

Decision

Members noted the report.

Action

- Presentation slides to be circulated to members.

3 Fraud against Local Government: Report on Actions

Warren Leigh introduced the item and drew members' attention to the supplementary paper tabled at the meeting and introduced Ian O'Donnell, Executive Director of Corporate Resources and Andy Hyatt, Corporate Investigations Manager, RB Kensington and Chelsea, to the group.

Ian outlined that fraud is increasing and large savings can be made through tackling fraud, especially in housing benefit and council tax. He gave some background to the Fighting Fraud Locally Board (FFLB) and the Fighting Fraud Locally (FFL) strategy, which helps local authorities to better understand the threat of fraud, be more resilient and work more collaboratively in this area. He listed the tools available to local authorities and highlighted some issues for the LGA to consider, including the consultation on where the Audit Commission tools and National Fraud Initiative (NFI) service will sit after the demise of the Audit Commission. Stephen Jones and Ian are liaising on a response to the consultation on NFI. Ian asked for support from the LGA for FFL and offered FFLB support and expertise to the LGA.

Members:
- highlighted an inconsistent approach to tackling fraud across local government and the link for local authorities between fraud and community budgets;
- suggested using the fraud agenda to demonstrate the capability of

local government to make savings.

Carolyn Downs said that the LGA and FFLB should support an independent bid for NFI.

Ian thanked the group for the invitation to speak and concluded that there was a great deal of enthusiasm for tackling fraud and that the FFLB was working to avoid duplication between local authorities.

The Chairman said there is a need to raise the profile of this work and the savings it provides and said that concerns over potential negative publicity from this had been unfounded. He added that joining resources and skills locally is important. He thanked the speakers.

Decision

Members noted the report.

Action

- Presentation, FFL strategy and resource links to be sent to members.
- Officers to continue to work with FFLB colleagues on the next steps.

4 Housing Finance update

Caroline Green introduced the item, which was requested at a previous meeting. She outlined the work to lobby on the funding available for local authorities to borrow for housing and the work to support council housing finance through a voluntary code. The impact of welfare reform and direct payments will be explored through pilots and the LGA work on the right-to-buy continues to focus on securing the principle of local retention of receipts and allowing more local flexibility and discretion.

Members:

- were concerned about the right-to-buy funding gap, where it does not allow for headroom in local authority borrowing; a lack of capacity for local authorities to self finance; and funding for new towns and regeneration as well as the impact of decent homes standard which cannot be phased in new towns;
- agreed the need to work with the LGA Environment and Housing Board and for better relations with the housing minister;
- saw a need for work further on financial capabilities, assistance and tools;
- asked for a meeting between the Chairman and LGA housing

leads to be organised.

Decision

Members noted the update.

6 Minutes of the last meeting

The minutes of the last meeting were agreed.

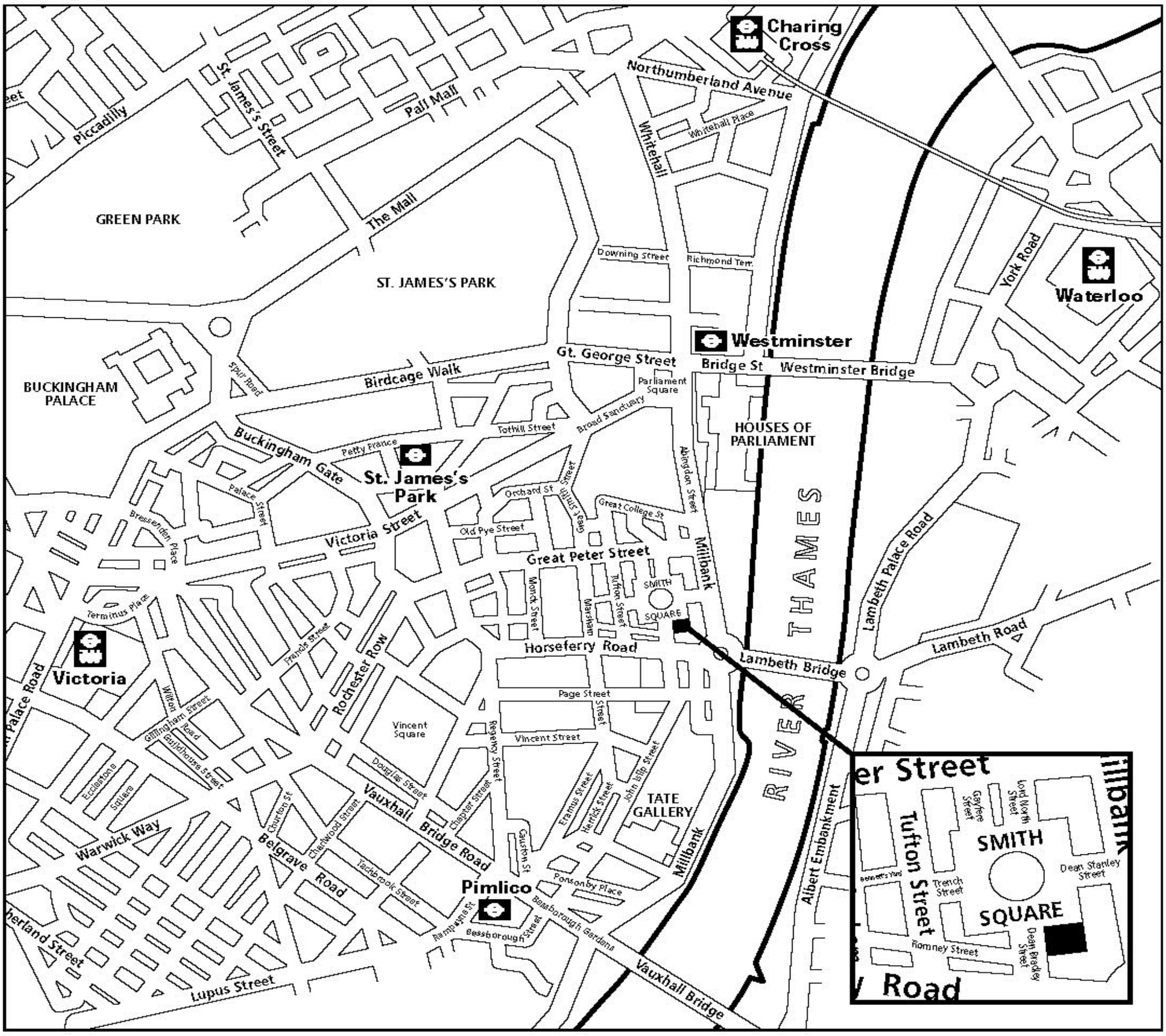
Members said that they had found the meetings interesting and agreed that the good work done by the task group was demonstrated by the need for the establishment of a Panel.

The Chairman thanked all for their work on the task group, which would be succeeded by a Finance Panel, and closed the meeting.

Action

- Groups to nominate to the Finance Panel.
- Dates of meetings to be circulated to all existing members.

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** (District and Circle Lines); **Westminster** (District, Circle 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 goes close by at the end of **Dean Bradley Street**.

Bus routes - Millbank
87 *Wandsworth - Aldwych* ***N87***
3 *Crystal Palace – Brixton - Oxford Circus*

Bus routes - Horseferry Road
507 *Waterloo - Victoria*
C10 *Elephant and Castle - Pimlico - Victoria*
88 *Camden Town – Whitehall – Westminster- Pimlico - Clapham Common*

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