Local Government Association

Finance Panel
25 January 2013

Item 1

Appendix A

Local Government Finance Settlement 2013-14 and 2014-15

Local Government Association Response

Summary

The key points in this response are:

- The settlement was late and incomplete – and this is a source of concern for all authorities
- Although we acknowledge that there were no further cuts for 13-14 in the autumn statement, the 2% reduction for 2014-15, on top of the already announced cuts is ‘unsustainable’
- The growth in the local share for 2014-15 has been used to cut Revenue Support Grant in that year.
- Business rates retention has considerable risks for councils. The volatility caused by appeals which exposes many authorities to an unacceptable level of risk
- We welcome the clarification now provided by DCLG on council tax support funding in the 2014-15 settlement – but note that this implies that funding for other services has been cut by more than 8.5%
- Although we welcome the announcement that authorities will be able to fund capitalisation for equal pay purposes through asset sales, we are concerned that non-equal pay capitalisation will be top-sliced
- The academies central services funding transfer will cause considerable problems for some authorities, although we welcome the reduction in the total top-slice by the use of later data
- We are concerned about the cuts in general funding at the same time as an increase in ring-fencing. In particular, we are concerned at the cuts to early intervention funding which seem bound to affect local authority provision.
- We welcome the government’s decision to provide additional grant funding to the worst affected of the shire districts that received transitional grant funding in 2012-13, but ask the government for this to be provided without strings
- Council tax decisions are for local people to take

The settlement was late and incomplete – and this is a source of concern for all authorities

1. The settlement was published on 19th December, the latest it has ever been, although we understand that this is partly a consequence of the late announcement of the autumn statement. Authorities have raised concerns with the timing of the settlement which has caused considerable problems for councils

in finalising their budget processes for 2013-14 at a time when the major changes of business rates retention and local support for council tax are introduced.

2. Furthermore, grants for public health and the holdback for early intervention were either announced late or are still outstanding. The £2.66bn grant for public health was not announced until 10th January. The allocation of the £150m holdback from EIG has still not been announced. This has added to the difficulties authorities are experiencing in finalising their budgets for 2013/14. We ask ministers to ensure that any outstanding grants are announced as soon as possible and certainly no later than the final settlement figures. We understand from officials that the intention is that the final settlement will be published and debated in Parliament by the first week in February, in accordance with the usual timetable. We hope that this happens.

3. Local authorities need certainty and predictability over their funding future. In this context, the series of funding announcements that occurred in the summer, such as the changes to early intervention funding, were unhelpful and need to be avoided in the future.

Although we acknowledge that there were no further cuts for 13-14 in the autumn statement, the 2% reduction for 2014-15, on top of the already announced cuts is 'unsustainable'

4. The overall decrease in the 'start-up funding assessment' (formula funding plus the grants rolled in) is 3.9% for 2013-14. This is better than in recent years, (a fall of 12.1% in 2011-12 and 4.7% in 2012-13). However we note that the fall for 2014-15 is 8.5%, including the further 2% cut in the Autumn Statement 2012.

5. The government is reporting cuts to revenue spending power of 1.7% in 2013/14. Based on the LGA future funding model, which takes into account spending pressures and income from fees and charges we predict (on the basis of the DCLG figures) a 4.8% fall in income in 2013-14 while spending pressures rise by 0.7%.

6. DCLG figures for revenue spending power (which includes income from council tax and the New Homes Bonus) for the four years of the Spending Review (using the draft 2014-15 figures which were initially put up on the DCLG website) show that there is a real terms reduction of 20% for all councils over this period. These figures confirm that some councils are facing larger reductions than others. 69 councils have a real terms reduction in revenue spending power over the four spending review years of 25% or more.

7. Councils will be working out their own figures using their own local information and estimates and in many cases these will differ significantly from the DCLG figures. There are concerns about the figures used for the Revenue Spending Power calculation, as councils are informing the LGA that they do not concur with their own figures. For example, councils point out that they do not take into account the 10% cut in council tax support and that the council tax requirement for 2013-14, which is based on the 2012-13 figures does not take account of the reduction in taxbase due to the abolition of council tax benefit.

8. It is pleasing that campaigning from the LGA and member authorities has resulted in councils being protected from additional cuts in 2013/14. However, within the context of on-going pressures to key service areas such as adult social care and waste collection, the extra two per cent cut in 2014-15 is unsustainable to local government.
9. It is generally recognised that councils have managed the cuts so far by maximising efficiencies and redesigning services. With further cuts on the horizon, this will be impossible to repeat and impacts on local frontline services that residents rely on and value are inevitable.
10. The modelling work done by the LGA in 2012 show a funding gap of £16.5bn by 2019-20 if cuts in support continue on the current trends. We are happy to continue dialogue with the Government based on the findings of our modelling work. The LGA will be making the case for sustainable funding for local government in the Spending Review for 2015-16 which is expected before the summer.
11. We would ask the Government to discuss further with the LGA what additional support will be offered to authorities suffering financial stress.

The growth in the local share for 2014-15 has been used to cut Revenue Support Grant in that year

12. According to the settlement, Revenue Support Grant (RSG) falls by 17% in 2014-15 whereas the cut in the start-up funding assessment is 8.5%. This difference is explained by the government reducing RSG by the equivalent of a 3.1% increase in the local share, in line with the expected increase in RPI. This means that authorities do not get to keep any of the increase in business rates due to inflation in that year. This is contrary to the principle of business rates retention. Growth in the local share should be kept within the sector and not used for cutting other grants.
13. We ask the government to reverse this decision and allow local authorities to keep growth in business rates due to inflation in 2014/15 and future years.

Business rates retention has considerable risks for councils. The volatility caused by appeals exposes many councils to an unacceptable level of risk

14. Our frequent discussions with the Secretary of State and officials on this subject have demonstrated that local authorities are seen as key to promoting the economic growth of their areas, which we welcome.
15. Further top-slicing and complexity within the new model will directly contradict this initiative and we hope that consideration will be given to making more of the business rates funding available for local authorities, not less.
16. We are pleased that in response to LGA and authority lobbying the government has included adjustments to take account of business rates appeals and non-collection. The total adjustment for appeals is £593m. The LGA understands from authorities that the appeals in the pipeline could be considerably larger than this. This exposes local government to an unacceptable level of risk.

17. We ask the government to keep the total sum under review and if this proves to be insufficient to commit to making additional payments to compensate authorities, either within the scheme or under the New Burdens Procedure.

18. We further welcome the announcement that the Government is to make regulations to enable councils to spread the cost of refunds due to successful appeals over 5 years.

We welcome the clarification now provided by DCLG on council tax support funding in the 2014-15 settlement – but note that this implies that funding for other services has been cut by more than 8.5%

19. The main funding for local council tax support, which replaces council tax benefit from 1 April 2013 is within the start-up funding assessment. In 2013-14 it is included as a separate line. However for 2014-15 it is not separately identified, although other grants included within this figure, such as early intervention, have been.

20. The Office for Budget Responsibility in the material which it released at the same time as the Autumn Statement included a table which showed the transfer as a constant £4.3bn (including funding for police, and for Scotland and Wales) over the whole period up to 2017-18. [1] Following representations and consultation meetings with ministers, where the LGA and others made this point forcibly, DCLG officials have now confirmed that the amount of funding included for local council tax support in 2014-15 is the same as in 2013-14.

21. Although this will not in itself provide increased resources, and would imply an even steeper fall in the rest of the Start-up Funding Assessment, it will enable councils to have more certainty of funding as they plan their local council tax support schemes for 2014-15 and future years.

Although we welcome the announcement that authorities will be able to fund capitalisation for equal pay purposes through asset sales, we are concerned that non-equal pay capitalisation will be top-sliced

22. The government has announced that local authorities would be allowed to use the receipts from asset sales to fund equal pay claims. However, their position on capitalisation for other purposes is that it should be top-sliced from the total resources available for local government. Capitalisation does not provide any increased resources for local government, it just allows various kinds of exceptional revenue expenditure to be financed by borrowing and hence spread over more than one year. Therefore, this is effectively a cut in government funding of £100 million.

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[1] [1] Economic and Fiscal Outlook December 2012. Box 4.2 page 141 at http://cdn.budgetresponsibility.independent.gov.uk/December-2012-Economic-and-fiscal-outlook23423423.pdf

23. We call on the government to allow councils to capitalise expenditure, which may well be more than £100m, without top-slicing it from revenue funding. We also call on them to be given more flexibility on the use of capital receipts.

The academies central services funding transfer will cause considerable problems for some authorities, although we welcome the reduction in the total top-slice by the use of later data

24. The government has decided to use 2012-13 spending data as opposed to 2011-12 data to determine the academies funding transfer. We welcome this decision, which has the effect of reducing the total transfer by £180m.

25. However the decision of DfE to only give £15 per pupil for those services which authorities have to provide for pupils in academies will cause considerable problems, particularly for councils which have a low spend on central services and which already have large numbers in academies.

26. DfE have provided extra money to protect the position of those academies that lose large amounts but they have not offered the same protection for authorities.

27. We ask the Government to provide additional protection for authorities who suffer a large loss.

We are concerned about the cuts in general funding at the same time as an increase in ring-fencing. In particular, we are concerned at the cuts to early intervention funding which seem bound to affect local authority provision.

28. The LGA welcomed the reduction in ring-fencing in 2011-12. However in this settlement there seems to be a movement back to ring-fenced grants. This goes against local choice on expenditure decisions.

29. As an example, the LGA has heard considerable concern from member authorities that both the £150m holdback and the increase in resources for provision for disadvantaged 2-year olds, which is within the ring-fenced Dedicated Schools Grant are at the expense of other early intervention expenditure. The amount incorporated in the Start-up Funding Assessment, which is £1.709bn represents a 28% fall compared with the Early Intervention Grant in 2012-13. LGA member councils have expressed the view that this could well lead to a fall in the number of children's centres being funded.

30. Whilst we understand that the government wishes to prioritise certain policies, it should be for local authorities who have responsibility for local services to prioritise the use of scarce resources according to local priorities. Increases in funding steams for some areas are welcome but they should not come at the expense of reducing other areas. We expect the Government to apply its New Burdens policy in this area.

We welcome the government's decision to provide additional grant funding to the worst affected of the shire districts that received transitional grant funding in 2012-13, but ask the government for this to be provided without strings

31. Seven shire districts will be eligible to receive the new Efficiency Support Grant in 2013-14 and 2014-15. The LGA, in its response to the business rates technical

consultation, drew attention to the position of the shire districts that received transitional grant in 2012-13 and so we are pleased that provision has been made.

32. However we are concerned that in order to get this grant funding the authorities will have to produce a business plan to demonstrate the savings being made in shared services, shared chief executives, shared procurement and asset management and that receipt of the grant in 2014-15 will be dependent on showing progress in these areas.

33. The LGA is aware that many authorities are demonstrating savings through these and other routes. However we are concerned at this being made a condition for the receipt of grant.

Council tax decisions are for local people to take

34. The settlement confirmed that there will be a council tax referendum threshold of 2% (with a concession for shire districts, fire and police authorities in the lowest quartile of council tax to increase their Band D council tax by the maximum of £5 or 2%).

35. It also confirmed a 1% grant for 2013-14 and 2014-15 for councils which freeze their council tax in 2013-14. Although councils do not wish to impose council tax increases on local people, this is giving them very little leeway, particularly at the time when there are funding reductions and the new local council tax support arrangements are being introduced.

36. We ask the government to remove the referendum threshold.

Conclusion

37. We hope ministers will act on these points in coming to their decisions on the final settlement

Local Government Association

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