Finance spending round submission

April 2013

1. Summary of key proposals

Local government funding – Local government has had the steepest reductions in the public sector over the current spending review period with a reduction of 33 per cent in funding in real terms. Local government needs a stable funding outlook which supports effective financial management and planning. This includes a full and transparent evaluation of the individual and combined impacts of policy and funding changes on local authorities and the services they provide. From 2014/15 onwards the Government should look at ways in which ring-fenced health and schools budgets can be used by local government to make improvements in areas of mutual benefit.

Council tax – Funding should be provided for the increased costs in council tax collection and enforcement. Councils should be fully compensated for the on-going effects of council tax freezes.

Local authority income – Decisions on the levels and changes to local sources of income such as council tax, planning and licencing fees should be taken by local authorities, who are accountable to their local communities, rather than being prescribed by central government.

Business rates – While the system needs to continue to protect against risks effectively, the Government should seek to increase the local share while continuing to equalise. All growth in the local share should be kept by local government, without a corresponding cut in the revenue support grant.

New Homes Bonus – The Government should continue to provide additional funding to the scheme and review it to see whether it has met its aim of incentivising new housing growth.

Capitalisation and borrowing – Local government should be able to capitalise one-off revenue expenditure without a top-slice or an over-regulated process and any resources for capitalisation and the safety net not used in 2013/14 should be fully returned to local government.

Community Budgets – Should be extended nationally as the preferred local delivery mechanism for government departments, with appropriate support to local areas to ensure that the maximum benefits are felt from the change.

Joint work to develop a local authority bonds agency[1].

2. Local Government funding

Over the spending review period from April 2011 to March 2015 local government funding is reducing in real terms by 33 per cent. Local government responded by reducing headcount and achieving total efficiency savings from shared services of £263m, with 337 councils now in shared service arrangements. Despite best efforts, there has been an inevitable impact on service provision although local government has protected, as much as possible, spending in certain key service areas such as adult social care[2].

[1] More detail can be found in LGA submission to HM Treasury March 2013
[2] Tough times 2012, Audit Commission, November 2012

All authorities are experiencing reductions in funding[3] from central government over the 2010 Spending Review period. However, some authorities are experiencing bigger cuts in both grant and the Government's assessment of 'revenue spending power' than less deprived authorities.

Initial analysis suggests that for 86 councils (these councils are not confined to specific regions, tiers or political control) estimated income will account for less than 85 per cent of projected spend in 2015/16[4]. All councils are experiencing reductions in funding from central government over the 2010 Spending Review period. However, some councils are experiencing bigger reductions in funding than others. Those that were more dependent upon grant in 2010/11[5] are experiencing bigger reductions in funding from central government over the period. There is a strong relationship between grant dependency and deprivation[6] with more deprived authorities tending to be more reliant on central government grant. While the New Homes Bonus, and business rates retention offer opportunities, for some councils with limited ability to increase their income through these and other sources combined with increasing demand for services it will be more difficult to close the funding gap. **The future funding regime needs to provide sufficient flexibility to deal with differing local circumstances. We support the NAO recommendation[7] that government should evaluate the individual and combined impact of funding and policy decisions on local authority finances and what this means for service levels. It is essential that authorities that are suffering from the combined impacts of government policy and finance changes, growing demand for services and limited ability to raise income are given the tools they need to help deal with these circumstances. These include Community Budgets and freedoms and flexibilities around finance including local authority income generation.**

Local government is the most efficient part of the public sector. Protected budgets continue to be spent without the same due consideration of value for money. It is not logical to continue to protect ring-fenced health and schools budgets while funding for services that contribute to improved outcomes in these areas is being cut. **From 2014/15 onwards the Government should look at ways in which these budgets can be used by local government to make improvements that benefit these protected areas, such as early intervention and health. In addition, the Government should consider whether money spent on universally available services such as concessionary fare bus passes for older adults should be more targeted.**

Funding in 2014/15 has already been cut by 8.5 per cent, including the further 2 per cent reduction announced in the Autumn Statement in 2012. The impact of Budget 2013 reductions in Communities and Local Government's Departmental Expenditure Limit in 2014/15 has not yet been decided. The LGA has characterised a further reduction in 2014/15 as unsustainable

[3] Based on the Government's revenue spending power excluding council tax. Includes local share from 2013/14.
[4] Based on initial results from an updated LGA funding outlook model.
[5] For single tier and county councils.
[6] Based on rank of average Index of Multiple Deprivation score.
[7] Financial sustainability of local government, National Audit Office, 2013

without impacting on services. **We are seeking a commitment from government to find ways to provide local government with a stable funding outlook, without last minute reductions, which support effective financial planning and management**.

3. Council tax support

The localisation of council tax support has passed considerable risk from central to local government, such as from increases in claimant numbers. Further reductions to local government funding will increase the pressure on councils to collect more council tax from people who previously received council tax benefit, potentially leading to increased costs of collection and enforcement, or the need to find reductions from other sources.

For those that took up the Government's transition grant in 2013/14 this may have merely postponed their funding difficulties in terms of council tax support until 2014/15. **The Government should ensure that councils are properly compensated for the increased administrative costs of council tax collection and enforcement, which at present have not been recognised in the new burdens funding for council tax support.**

4. Flexibility around local authority income

Decisions on the levels and changes to local sources of income should be taken by local authorities, who are accountable to their local communities, rather than being prescribed by central government. Council tax has effectively been frozen at 2010/11 levels due to a series of council tax freeze grants. However, the level of the compensation for freezing council tax has reduced, particularly in 2013/14, and whether revenue foregone in future years is part of the offer varies from one year to the next. Alongside this, capping and subsequently council tax referenda have restricted the level of increase in council tax should an authority choose not to take up the council tax freeze offer.

In 2013/14 a council tax referendum threshold of 2 per cent[8] limited councils' options to either an increase in council tax up to that limit or a council tax freeze grant equivalent to a 1 per cent increase in council tax. This left local authorities with little leeway at a time of funding reductions and increased risks due to business rates retention and the localisation of council tax support. Local authorities need flexibility around income generation including council tax. Therefore, **restrictions on council tax should be removed so that councils can determine with their communities the appropriate level of council tax and be accountable through local elections for doing so. Councils who have taken up the council tax freeze grant offers should be fully compensated for the ongoing effects of this.**

In addition, the Government should grant councils the full and unconstrained ability to vary locally all council tax discounts, including the single person discount. This would give councils more flexibility, for example in setting council taxes for people in receipt of council

[8] With a concession for shire districts and 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 per cent

tax support.

Local authorities also need flexibility around other income. For example, planning fees are centrally set and the current system does not properly reflect costs, meaning local authorities operate at a loss of around 20 per cent. It also means that some applicants are heavily subsidised and others pay more than necessary, with council taxpayers picking up the difference. Local circumstances on planning are very different and a ‘one size fits all’ regime does not help either councils or applicants. **Providing local authorities with the flexibility to set their own planning fees to reflect the full cost of delivering the service would not only properly resource planning services, it would ensure that fees were set transparently and fairly and see fees go down for many commercial applications.**

Local taxpayers are currently subsidising the drinks industry by almost £1.5 million a month. Although the Police Reform and Social Responsibility Act 2011 makes provision for local authorities to be able to set fees locally, councils are still bound by centrally set fees which do not reflect the costs of administering and ensuring compliance with the 2003 Licensing Act regime. The Home Office has committed to consulting on the introduction of locally-set fees, but two years after the legislation was put in place has still not done anything. **Implementing the statutory provisions that allow councils to set licensing fees under the 2003 Act to better reflect the cost of delivering the service would mean that councils have the necessary resources within their control to operate an effective licensing system, which targets activity at problem premises and provides freedoms and flexibilities to reward responsible businesses. This would support the Government’s ambition of reducing alcohol related crime and disorder while promoting the night time economies of our town and city centres.**

5. Business rates retention

Local government has a key role to play in economic growth. Therefore, moves to allow local government to retain more of the business rates are welcome. **Central government should begin to consider ways of increasing the local share, while ensuring that the system of equalising, through top-ups and tariffs, is adjusted to take account of this.**

However, the business rate retention system also exposes councils to reductions in funding due to volatility in the tax base. There are also other risks being passed from central to local government, for example, due to business rates appeals. **Government should monitor progress of the new system in 2013/14 and make any changes necessary to minimise the risks and unintended consequences of the system.**

In 2014/15 the growth from inflation in the local share of business rates has been netted off from revenue support grant (RSG), despite the policy intention to reward local people for growth in their areas. **Local government should be able to retain growth in the local share without a compensating reduction in RSG in 2014/15, 2015/16 and future years.**

6. New Homes Bonus

The New Homes Bonus provides funding to councils for new homes in their area. While most of the funding comes from a top slice of formula funding, the DCLG allocation of £200 million in 2011/12 and £250 million for each of the years 2012/13 – 2014/15 should continue. Its removal would constitute a cut and intensify the re-distributional effect of the bonus between authorities. **The Government should continue to provide additional funding for the New Homes Bonus and review the scheme to see whether it has met its aim of incentivising new housing growth, as recommended by the NAO.**

7. Capitalisation and borrowing

It is sometimes suggested that capitalisation amounts to the granting of permission for local authorities to borrow and that it is therefore right for the Government to control it tightly at a time when overall government borrowing needs to be reduced. There are a number of responses to this. First, local authorities may use capital receipts rather than borrowing to fund this. Second, local authority borrowing is governed by the prudential code. This gives considerable flexibility for local authorities to borrow, within a clear framework of prudent management of borrowing. The prudential code has proved extremely successful in practice. Third, local authorities – in complete contrast to central government – do not borrow to cover deficits on their revenue budgets. Fourth, in many countries local authority borrowing is not scored as part of overall government borrowing, and there is no compelling reason why the UK should not follow a similar practice. Finally, even at a time of fiscal austerity, the facts show abundantly clearly that local authorities have maintained strong financial discipline. This is at a time when the route of financing capital expenditure from revenue, which was used by some councils, has become more difficult due to overall reductions in revenue resources. **Treasury rules should be changed to enable local government to capitalise one-off revenue expenditure without a top slice of revenue funding or an overly-regulated process**. **In addition, any of the topslice for capitalisation and the safety net which is not used in 2013/14 should be fully returned to local government.**

8. Public service pensions and contracting out

In the Budget the Government announced that the introduction of the single tier state pension is to be brought forward from April 2017 to April 2016. At the same time the State Second Pension from which occupational pension schemes (including the Local Government Pension Scheme, Teachers Pension Scheme and the Firefighters Pensions Scheme) are contracted out of will also cease. The result is that employers and employees who are members of occupational schemes will no longer benefit from National Insurance rebates of 1.4 per cent and 3.4 per cent respectively. By adopting pension reform one year ahead of the rest of the public sector we are making a significant contribution towards the deficit reduction programme. **There should be new burdens funding in the spending round otherwise local authorities will be faced with**

an unsustainable increase in National Insurance costs in the region of £800m per annum.

9. Public health

The majority of the public health allocation will be needed to meet existing public health contracts that have been transferred from PCTs to local authorities. **A real terms increase of public health funding would enable local authorities to expand investment in their public health activities to improve health outcomes and, thereby, reduce the costs of health and social care services**.

From 2015/16 responsibility for the public health of children aged 0 – 5 will transfer to local government. **The Government will need to honour their commitment in the New Burdens Doctrine to meet the full costs of this new duty**.

There is no rationale for the public health grant to be allocated as a ringfenced grant beyond 2015-16. Public health is a statutory duty of all unitary and upper-tier authorities and should be resourced through the local government settlement rather than being included in the allocation to the NHS and distributed as a grant to local authorities. The existence of the ringfence perpetuates the notion that public health is not a core function of local authorities, but simply an outpost of the NHS in local government. The public health grant conditions are to:

- improve significantly the health and wellbeing of local populations
- carry out health protection function delegated from the Secretary of State
- reduce health inequalities across the life course, including within hard to reach groups
- ensure the provision of population healthcare advice.

Many functions of local authorities - the provision of leisure and cultural services, the safeguarding of children, young people and vulnerable adults and environmental services - make a strong contribution to improving health. **Over time local authorities should have the flexibility to use public health resources to support mainstream services**.

10. Community Budgets maximising efficiency

The whole-place Community Budget pilots have shown the potential for a widespread adoption of the approach to transforming public services by integration and demand reduction, and delivering large savings to the taxpayer. The huge potential for delivering savings rests in the medium term but needs to begin now if it is to be realised. We therefore believe that the spending round should put the Community Budgets approach at the heart of the Government's strategy for spending and reform. This requires both direct support to places, for example through the new Transforming Public Services Network, and also mechanisms to incentivise government departments to encourage local integration and investment in prevention from the centre.

We want to see changes which:

- **enable Community Budgets to be extended nationally as the preferred local delivery mechanism for government departments, with appropriate support to local areas to ensure that the maximum benefits are felt from the change**

- **incentivise and encourage Whitehall departments to promote investment and uptake, in order to foster cultural and system change and break down inertia in the system**

- **enable clear investment agreements that set out which organisation will make what investment in early intervention, and how the subsequent savings will be shared.**

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