Local Government Association

LGA Finance Panel
27 September 2013

Item 2

Grant Consultations

Purpose of report

For discussion and decision.

Summary

This report updates Members on:

1. The technical consultation on the local government finance settlement 2014-15 and 2015-16.

2. The consultation on the use of capital receipts for one-off revenue purposes.

3. The reduction in Education Services Grant for 2015-16 announced in the Spending Round.

Recommendations

That the Finance Panel:

1. agree the LGA's final response to the Department for Communities and Local Government's (DCLG) Technical Consultation on local government finance settlement 2014-15 and 2015-16;

2. note the LGA's response to the consultation on the use of capital receipts from asset sales to invest in reforming services; and

3. agree to receive a further report once the Department for Education (DfE) consultation on the Education Services Grant has been published.

Action

As directed by Members.

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Background

1. In the Spending Round announcement on 26 June 2013 it was announced that the Local Government Departmental Expenditure Limit (DEL) would fall by 10 per cent in real terms in 2015-16. However, due to other resources going in, principally to social care, the reduction would be 2.3 per cent in real terms.

2. On 25 July 2013 the Department for Communities and Local Government (DCLG) published consultations on:

    2.1. the local government settlement for 2014-15 and 2015-16;

    2.2. the New Homes Bonus (NHB) where the key issue is the proposed £400 million transfer to LEPs in 2015-16 (this is being considered under item 6 of this agenda); and

    2.3. funding of transformation costs through capital receipts.

3. Additionally the Department for Education (DfE) has announced a later consultation on the £220 million cut to Education Services Grant.

Technical Consultation on changes to Local Government Finance Settlement 2014-15 and 2015-16

4. A response on the technical consultation on the Local Government Settlement needs to be submitted by 2 October 2013. The Executive approved the broad terms of the draft response at its meeting on the 12 September, with the final response attached at **Appendix A** for approval by the Finance Panel.

5. The technical consultation has caused widespread concern within local government. This is because the cut in 2015-16 appears to be around 5 per cent greater than the amount stated in the Spending Round announcement, meaning that there will be 15 per cent real reduction as opposed to a 10 per cent real reduction for local government as a whole and the cut to core local government funding will be some £1 billion greater than indicated by the Spending Round announcement. On closer examination this is because of various holdbacks, many of which have the effect of transferring the risks associated with Government forecasts from central to local government. The holdbacks also include funding for new burdens and it is against the spirit of the New Burdens Doctrine - which is intended to require Government departments to fund the impact on local authorities of policy decisions - that new burdens should be funded from within existing local government funding.

6. The main holdbacks in 2015-16 are:

    6.1. £335 million for social care new burdens associated with the Dilnot reforms in 2015-16; this will go to single tier and county councils.

    6.2. £100 million collaboration and efficiency fund and £30 million fire transformation fund in 2015-16. These are both likely to be bid based.

    6.3. £188 million for the Independent Living Fund replacement; this is a transfer from the Department of Work and Pensions; it will go to single tier and county councils.

    6.4. An additional £300 million for the New Homes Bonus; bringing it to a total of £1.4 billion, of which £250 million will be funded by grant and £1.15 billion by top-slice. However, this is £210 million more than the estimate from the National Audit Office.

7. The main additional holdback in 2014-15 is for an additional net £95 million to fund the business rates safety net in light of the higher figure for appeals against business rates valuation in 2010 or 2015, although due to a £50 million cut in the amount available for capitalisation the net increase is £45 million.

8. Some of the top-sliced money is expected to go to some authorities at a later stage. However, because individual councils do not know how much, if any, of that money will be released to them, they have to budget on the basis of funding that they know is allocated and not on the basis of the possible later redistribution of unspent contingencies. The reason for this is that councils are legally required to balance their budgets at the end of each financial year and therefore must make the most conservative assumptions in relation to revenue when planning their spending.

9. The technical consultation contains 6 questions. The LGA has invited its members to share their responses with us. However, following widespread concern that the DCLG questions were not covering the most important issues, we also issued a questionnaire to Directors of Finance / Treasurers in order to inform our own response containing 10 further questions. The deadline for this is Friday 6 September. As at 2 September, we have had 34 responses.

10. The draft response to the Consultation Document, which is attached as **Appendix A**, has been drafted in the light of this. It is summarised below.

11. The key themes in the response are:

11.1. **The Government should revisit its figures so that the decrease in funding for core funding (the 'Settlement Funding Assessment') is much closer to 10 per cent real cut announced in June than the 15 per cent real cut which is implied by the consultation document.** From the consultation document it appears that the cut to councils' basic allocation from central government will be 15 per cent in real terms, £1 billion deeper than signalled in June. While additional funding streams may reduce the gap in some areas, the money which closes the gap is either being held back from local government's revenue, or is new burdens funding which, by definition, should be allocated to meet additional costs brought about by changes to national policy.

11.2. **The Government should look carefully at the effect of protecting some areas rather than others.** The technical consultation document suggests that within the proposed overall cut to the Settlement Funding Assessment of 13 per cent, some elements have been protected. These are: funding for the council tax freeze in 2011-12 and learning and disability funding. This means that the cut to the basic level of upper and lower tier funding is greater than it would otherwise be. Initial evidence from our survey suggests that this approach is not supported within local government. (60 per cent do not think this is the right approach).

11.3. **The government should consider whether in allocating the cuts for 2014-15 they should take into account the fact that some authorities are more dependent on grant than others.** The government's allocation of the cut does not take into account grant dependency or ability to raise council tax. Our survey suggests that 60 per cent of those answering would prefer this approach, with most supporting an allocation on a simplified 'Spending Power' basis. However, we recognise that this will have a distributional effect and that this is an area where not all councils agree.

11.4. **The Government should look again at the additional amount set aside for the safety net in 2014-15** Because business rates appeals are taking longer to resolve than first thought, amounts which could have been set against the 2012-13 national non-domestic rates pool are instead having an effect on the local share of business rates. This does not seem fair and relates more to delays at the Valuation Office Agency (VOA). One way of resolving it would be for the Government to revisit its previous decision about appeals and instead decide that the net effect of any appeals for 2012-13 and before would be set against the 'old' national pool. Results from our survey suggest overwhelming support for this.

11.5. **The government should use the NAO figures for the New Homes Bonus top-slice in 2015-16.** This would mean that the top-slice was £890 million rather than £1.1 billion. The additional £210 million should be put back into the Settlement Funding Assessment for 2015-16. Results from our survey suggest overwhelming support for this.

11.6. **The Government should revisit its decision not to identify council tax support funding separately in 2014-15 and 2015-16.** Council tax support funding is identified separately in 2013-14 but not in 2014-15 and 2015-16. Respondents to our survey consider that it would be more transparent for it to be identified.

11.7. **The Government should allow local government to keep all the growth in the local share rather than clawing it back in a higher cut in Revenue Support Grant.** The proposed cut to Revenue Support Grant is £316 million more than it would have been due to the Government taking growth in the local share at the predicted retail price index (RPI) increase in the local share. This reduces the incentives authorities have to grow business rates and is therefore against the spirit of business rates retention.

11.8. **We do not support any adjustment to take into account changes to the Carbon Reduction Commitment scheme.** All state funded English schools will be withdrawn from the Carbon Reduction Commitment in April 2014. This is expected to result in some local authorities falling below the threshold for inclusion in the scheme. Because of this the Government proposes to make a further adjustment to the 2015-16 settlement by creating 'negative elements' for the authorities affected. The consultation says that this is in line with New Burdens Doctrine. However, no additional resources were put into the scheme under the New Burdens Doctrine when it was introduced so it is not appropriate that amendments should result in a negative effect on the New Homes Bonus.

Capital Receipts Consultation

12. The Government is consulting on the proposals for the use of capital receipts from asset sales to invest in one-off revenue expenditure to transform services. The response needs to be submitted by 24 September 2013.

13. The LGA's response, which was approved by the LGA Executive at its meeting on 12 September, is attached at **Appendix B**. In brief it notes that whilst local authorities already manage their assets well, this, and the proposal, would provide valuable limited additional flexibility to authorities in managing transformational change. We therefore support the policy in principle particularly as it provides some limited assistance to authorities struggling to cope with substantial cuts in government funding. However, we do not favour a bid-based approach which would be bureaucratic and would create timetabling difficulties for local authorities. Local authorities are competent to make these decisions based on local factors.

14. The LGA does not support the assertion that the use of capital receipts for revenue purposes negatively impacts the deficit reduction programme. It simply releases value currently residing locked on councils' balance sheets without the need for further funding from taxation; the sale of assets generates economic activity, as does the transformational revenue expenditure. Furthermore, many jurisdictions do not score local authority borrowing as part of overall government borrowing, and there is no compelling reason why the UK does not follow a similar practice.

Education Services Grant

15. In the Spending Round announcement on 26 June 2013 it was announced that the Education Services Grant (ESG) will reduce by around £200 million in 2015-16.

16. The ESG was established in April 2013 to replace the former system of LA Block LACSEG payments to academies. ESG is intended to pay for central education functions including:

    16.1. Therapies and other health related services.

    16.2. Pupil support.

    16.3. Education welfare service.

    16.4. School improvement.

    16.5. Asset management – education.

    16.6. Music services.

    16.7. Visual and performing arts (other than music).

    16.8. Outdoor education including environmental and field studies (not sports).

    16.9. Statutory / regulatory duties.

    16.10. Premature retirement costs / redundancy costs (new provisions).

    16.11. Monitoring national curriculum assessment.

17. ESG was set at £1.04 billion in 2013-14 and £1.03 billion in 2014-15. However, the new consultation suggests it will fall to around £800 million in 2015-16. Currently local authorities get £131 per pupil for pupils in maintained schools. However, for pupils in academies they get £15 per pupil, which covers education welfare services, some asset management and various statutory and regulatory duties.

18. A reduction of £200 million represents around 20 per cent of the 2014-15 ESG. This would equate to a flat per pupil rate of around £87 in 2015-16. Academies receive the same base rate ESG funding as local authorities (£116 per pupil), however most of them

are on a protected rate (£150 per pupil in 2013/14 and £140 per pupil in 2014/15). The Department for Education (DfE) say that they are committed to bringing together the local authority and academy rates over time and would anticipate covering this in the consultation.

19. DfE say that they are keen to engage with local authorities, schools and other stakeholders in order to consider how the proposed reductions to ESG might be implemented.

20. They have looked at 2012-13 s.251 data to make some assessments of current ESG-related spend in local authorities and say that 27 local authorities are currently spending less than £87 per pupil on education support services, but this is the lower end. The LGA has been very critical of the use of s.251 data and the DfE wish to look below the surface seems to indicate acceptance that s.251 data does not show the full picture.

21. One key issue is funding for school improvement. This is within the £116 per pupil and is not included in the amount for local authority duties. However, Ofsted has indicated that local authorities have a school improvement role for all schools whether maintained or academies. Academies may buy into school improvement services; in practice this happens a great deal particularly with convertor academies, but if that does not happen, it is not clear where the funding for school improvement for academies comes from. This is an issue which we will wish to develop in the forthcoming consultation.

22. Officers understand that DfE are considering consulting in two stages, starting in Autumn 2013:

    22.1. A preliminary ‘deep-dive’ investigation (likely to begin around October 2013). This will involve conversations with and visits to local authorities and academies, in order to understand the issues and gather examples of best practice in delivering existing services. LGA officers understand from contact with DfE officials that this is likely to involve around 8 councils.

    22.2. A formal written consultation (likely to begin towards the end of 2013 and last for a minimum of 12 weeks). DfE say that this will aim to disseminate the best practice identified in the ‘deep-dive’, assess likely impacts and identify the most effective solutions for implementing the reduction.

23. DfE still need to finalise these timings and agree them with Ministers, but we understand that they will be aiming to publish the Government’s response to the consultation in early summer 2014.

Implications for Wales

24. Local Government Finance and Schools and Children's Services are devolved matters so are the responsibility of the Welsh Assembly Government in Wales. The LGA keeps in close touch with WLGA on developments affecting both England and Wales.

Financial/Resource Implications

25. None specific to this report.