

## **Local Government Finance**

### **Purpose of report**

For decision.

### **Summary**

This report provides an update on major developments in local government finance and funding since the last discussion of these issues at the September meeting, summarises their overall consequences and suggests an outline of the response that the LGA should make.

Alongside this, the LGA Finance Panel is continuing to cover a range of more detailed issues, and is due to meet on 23 November.

### **Recommendations**

Members are recommended to approve the actions described at the end of this paper to articulate clearly the magnitude of the further funding cuts that the sector now faces, the inappropriateness of those cuts and the alternative approaches that could produce much better solutions without damage to the overall public finance numbers.

### **Action**

Director of Finance and Resources.

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## **Local Government Finance**

### **Background**

1. The Executive had a comprehensive discussion of issues around the Business Rates Retention scheme at its September meeting. Members approved a strategic approach that pursued improvement of the government's proposals for business rates retention whilst recognising their significance as a step towards desirable reform.
2. In particular, Members authorised a focus on immediate improvements to:
  - 2.1. give local government full access to all real terms business rates growth without compensating cuts in other funding;
  - 2.2. obtain assurance that local authorities' funding would not, because of wider economic events outside their control, fall below the amounts announced in the Spending Review;
  - 2.3. remove the entirely unjustified £345 million holdback proposed in the July consultation; and
  - 2.4. provide a greater degree of assurance and stability over the future funding of local government.
3. These points have been taken forward in the LGA response to the government's consultation, and discussions on them are continuing through both official and political channels.
4. In the meantime, there have been a number of further significant developments affecting the overall outlook for local government's funding. These are summarised below.

### **Academies Funding**

5. The government consulted in the summer on new arrangements for funding the costs of central education functions as schools convert to Academy status. The proposals, based on data relating to 2011-12 budgets, would have the effect of taking out £1.26 billion from local authorities' 2013-14 and then returning amounts pro-rata, for pupils in Local Authority maintained schools, and at a reduced rate of £8 - £15 per head, for pupils in Academy schools.
6. Many authorities considered that the proposed funding takeaway was excessive, and the proposed hand-back per Academy pupil inadequate in the light of the scale of residual responsibilities retained by the local authority. We therefore made detailed

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representations to that effect in our consultation response, which was approved by the Children & Young People's Board.

7. After the consultation closed, the government published further detailed information about local authorities' 2012-13 budgets. LGA officers have analysed this information, with the assistance of a number of specialists in member authorities, and have had discussions about it with officials from the Department for Education. The further analysis reinforced the points expressed in our original consultation response and we have submitted a supplementary response. This suggests in the light of the new evidence that the proposed funding takeaway is excessive by around £200 million, and that the proposed per pupil hand-back for Academy pupils should be increased to around £30 per pupil.
8. It is expected that decisions on this consultation will be made clear at the time the 2013-14 Local Government Finance Settlement is published.

**Local Government Finance Settlement**

9. Many authorities have expressed great concern about the likely late date of the Local Government Finance Settlement. DCLG have confirmed in a Parliamentary Written Answer that the Settlement will be announced in 'late December', as a consequence of the late timing of the Chancellor's Autumn Statement.
10. The LGA has echoed these concerns to DCLG and asked that, to the maximum extent possible, clarity on specific local government finance issues is provided in advance of the Settlement.
11. The LGA will aim to provide a clear briefing on the Local Government Finance Settlement on the day it is announced, and follow up key issues with DCLG as rapidly as possible, in order to support member authorities.

**Council tax**

12. On 8 October the Chancellor announced proposals for a council tax freeze scheme for 2013-14. Councils that freeze or reduce council tax will get a grant worth 1 per cent of their council tax in each of 2013-14 and 2014-15. This will cost the government up to £450 million in total, depending on take-up of the scheme. At the same time the government is proposing to lower the threshold for local referendums on council tax from the present 3.5 per cent allowable increase limit to a new limit of 2 per cent.
13. Commenting on these proposals at the time, the Chairman said that, "Reducing the current referendum trigger from 3.5 per cent to 2 per cent represents less flexibility for councils and even less localism with Whitehall decreeing what constitutes excessive." On the freeze grant, he added that, "Any help for councils is a good thing, but we have to be clear that this is a short-term offer. It doesn't address the huge long term pressures councils are facing including bigger cuts than any other part of the public

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sector and an immediate and growing crisis in funding care for the elderly. Councils could now have to budget for a further future shortfall.”

**Localised council tax support**

14. The Local Government Finance Bill, which provides the underlying statutory backing for both Business Rates retention and for the new localised council tax support, became law on 31 October 2012.
15. In the final Parliamentary stages of the Bill, there was considerable debate over the council tax support provisions. The LGA sponsored amendments that would have allowed greater flexibility over the single person discount, but these were not carried. An amendment requiring an independent review of council tax reduction schemes within three years, and consideration of whether such schemes should be brought within Universal Credit, was passed. The LGA put on record, in a letter signed by the Chairman and Group Leaders, that we do not support this amendment.
16. LGA officers have, supported by a number of specialists in member authorities, continued dialogue with DCLG and DWP officials about a wide range of issues related to the introduction of the new localised support schemes. There are a large number of practical issues that raise real challenges for member authorities in fully understanding what needs to be done to implement the legislation, and supporting Regulations on a wide range of detailed issues are, we understand, planned to emerge over the next 3 months.
17. The funding for the new scheme will be settled on the basis of a revised forecast that the Office of Budget Responsibility will review, as part of the Autumn Statement, setting out what the cost of council tax benefit would have been in 2013-14, less the 10 per cent funding cut. LGA officers have, aided by some very helpful information from a number of member authorities, compared the DWP methodology for the forecast with local experience. This work is due to be discussed with government officials shortly and it is hoped that it will enhance the accuracy of the forecast. Many authorities have expressed concerns that the initial funding allocations, based on an earlier forecast, are too low in the light of current CTB claims experience.
18. Finally, the government made a surprise announcement on 15 October that funding of up to £100 million in total would be made available by way of a transition grant to support those authorities introducing council tax support schemes that, broadly speaking, ensure that those currently on full council tax benefit retain support for all but a maximum of 8.5 per cent of council tax liability, and that benefit tapers are not too steep. The potential funding allocations that each authority might receive under this scheme have now been published. In response, the LGA made clear that we did not consider this to be the most effective way to help councils; that the government's package substantially underfunds the 8.5 per cent cap; that, even with the grant in prospect, a substantial number of councils will need to make cuts in other areas in order to afford an 8.5 per cent limit on benefit claimants' losses; and that the funding

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does not address the key issue that localisation of council tax support has to be accompanied by greater flexibility over council tax reliefs. In short, the LGA's clear message has been that the most effective way to reconcile reduced funding and constant, if not mounting, demand is to give councils more levers to manage the system in a sustainable way.

**Early Intervention Grant**

19. Reflecting the view of many member authorities, the LGA has continued to express its concern at the unexpected announcement in the summer that the Department for Education now intended to hold back £150 million of Early Intervention Grant in each of 2013-14 and 2014-15. A number of member authorities are also potentially significantly affected by the Department's plan to transfer £534 million of Early Intervention Grant into ring-fenced Dedicated Schools Grant for 2013-14. This money, ostensibly to fund the cost of new responsibilities for education of disadvantaged two year old children, is in some places insufficient to cover the costs of the new local authority responsibilities.

**Overall impact**

20. The combined effect of all these changes, and the uncertainty still surrounding the detailed implementation of many of them, is extremely significant. Many authorities have contacted us about the scale of difficulty that the combination of further cuts, delay in the settlement and uncertainty over detail produces.
21. In Spending Review 2010, the impression originally given was that 2013-14 would be a year where the overall level of funding from government might be expected to be reasonably stable. The original level of cut was only 0.8 per cent of 2012-13 core funding, considerably lower than that in either of the previous two years or in 2014-15. What we are now seeing is the prospect of potential funding reductions that, with the retrospective change to Spending Review decisions to claw back for the Treasury the benefit of pay restraint, amount to a total funding reduction of up to a further £1 billion or more. In some authorities it appears possible that the new cuts could amount to more than 10 per cent of core funding from government.
22. In the light of the work that the LGA published in the early summer, showing that councils faced a potential gap of £16.5 billion by 2019-20, the further changes and uncertainties reinforce the conclusion we have already expressed – that without money and reform, there is no solution.

**What next?**

23. The LGA is here to be the voice of local government, nationally. These are, therefore, issues that should be articulated clearly on behalf of the sector as a whole.

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24. It is suggested that effort should be redoubled around getting across a number of key messages. These include:
- 24.1. **Upholding local government's excellent track record.** Managing the cuts has involved not just cutting out waste and making service delivery more efficient. It has also involved very difficult decisions on what front line services councils provide, and how they are provided. Councils have been resolute in taking the necessary decisions.
  - 24.2. **Making clear that the government has made some very big cuts over and beyond what we saw in the Spending Review.** What we have seen since are a number of further proposals from the government that, together, could take away up to a further £1 billion from councils in 2013-14.
  - 24.3. **Being realistic about the wider fiscal position but clear that this is not the right way to do business.** We acknowledge that the Treasury has to take its own difficult decisions to ensure that the deficit reduces as we would all want. But the proposals for further cuts to local government are ill-judged. They seem to us to be based on an unreasonable view that the local government should bear all the risk, and the Treasury little or no risk, around the major changes from the new Business Rates retention arrangements. Some of them appear to be based on an inaccurate assessment of local authorities' current spending. Some also envisage taking away flexibility for local decision making over spending that was promised at the time of the 2010 Spending Review.
  - 24.4. **Offering some positive solutions.** For now, what we want is for the consequences of the £1 billion additional shortfall to be reduced. We think there are some obvious ways in which this could be done without damaging the overall public finance numbers. For example the holdbacks and centralisation of grant funding affect council budgets but don't really affect the overall public finance numbers, and part of the reason the academies funding takeaway is excessive is that out of date data has been used to calculate it.
25. If Members are attracted to this kind of approach, officers will develop appropriate communications and other strategies to ensure that these messages are clearly heard ahead of the Autumn Statement and Local Government Finance Settlement.
26. Alongside this, it is recommended that further work to update our longer term financial modelling continues, so that we can articulate clearly the overall impact of the many detailed changes to funding that are in the pipeline.

**Recommendation**

27. The Executive is recommended to approve the development of further focused lobbying along the lines set out in **paragraphs 24-26** above.

**Financial implications**

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