

## **Local Government Finance Settlement 2014-15 and 2015-16 Technical Consultation**

Date: 2<sup>nd</sup> October 2013



The Local Government Association (LGA) is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.

This response has been agreed by the LGA's Finance Panel, following consideration by the LGA Executive.

### **Key points**

The technical consultation has caused widespread concern within local government. This is because the cut in 2015-16 appears to be around 5% greater than the amount stated in the Spending Round announcement, meaning that there will be a 15% real reduction for most local authorities as opposed to a 10% 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 shifting risk from central to local government.

It is highly regrettable that the Government's announcement in the Spending Review was in practice so different from the true position that has emerged. Authorities are required to plan on the basis of funding they know they will receive, not on the promise of the possible redistribution of unspent contingencies in the future. In addition, for those authorities and services which will not receive a share of the holdback amounts, which in practice applies to most local authorities, the funding reduction is likely to be 15% in real terms and not 10%. We are ready to work with officials to ensure that future announcements of this nature give a clearer and much less misleading indication of the level of funding local authorities can expect.

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. This has informed this response.

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- **The Government should revisit its figures so that the decrease in funding for core funding (the 'Settlement Funding Assessment') is much closer the 10% real cut announced in June than the 15% real cut which is implied by the consultation document.** From the consultation document it appears that the cut to council's 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 in some areas the overall size of the cut to 10 per cent, 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.

It is not in the spirit of the New Burdens Doctrine that additional funding for the implementation of Dilnot reforms should be found by top-slicing the local government settlement. This funding should be found from other Government budgets.

- **The Government should look carefully at the effect of protecting some grant streams rather than others.** The technical consultation document suggests that within the proposed overall cut to the Settlement Funding Assessment of 13% 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% don't think this is the right approach).
- **The government should consider whether in allocating the cuts for 14-15 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% 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.
- **The Government should look again at the additional amount set aside for the safety net in 14-15.** 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 is unfair and relates more to delays at the Valuation Office Agency (VOA) than to any factor within the control of local authorities. One way of resolving this 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. In addition the DCLG should review the VOA appeals system so that

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appeals are progressed much more quickly, which would introduce greater certainty into the business rates retention system. In the meantime the Government should fund the risk of safety nets exceeding projected levels and not top-slice additional amounts from the local government settlement.

- **The government should use the National Audit Office figures for the New Homes Bonus top-slice in 2015-16.** This would mean that the top-slice was £890m rather than £1.1bn. The additional £210m should be put back into the Settlement Funding Assessment for 2015-16. Results from our survey suggest overwhelming support for this.
- **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. Until 2013-14, the Council Tax Benefit system was 100% funded by Government. Respondents to our survey consider that it would be more transparent for Council Tax Support grant to be identified separately, which would enable authorities and the public to see clearly what proportion of local Council Tax support schemes are now funded by the Government. .
- **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 £316m 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.
- **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, even though the New Burdens Doctrine does not recognise the principle of a 'negative new burden'. However since no additional resources were put into the scheme under the New Burdens Doctrine when it was introduced it is not valid that funding should now be removed in this way.

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The detailed responses to the DCLG questions are:

**Question 1: Do you agree with the Government's proposal on how to implement the 1% reduction to the Local Government Expenditure Limit (LG DEL)?**

The 1% reduction in LG DEL was announced in the 2012 Budget. We note that due to this the Government has not been able to keep the 2014-15 settlement as originally announced. Announcing further reductions in local government funding does nothing to support local government planning. In responding to the Secretary of State's recent comments on the level of local authority reserves, the LGA pointed out that such further cuts required authorities to plan for risk and uncertainty.

**Question 2: Do you agree with the proposal for reducing the funding available for capitalisation for 2014-15 by £50m and using this revenue to reduce the amount required to be held back from Revenue Support Grant to fund the safety net?**

As indicated above we do not agree with this proposal. Instead we think that the government should set all appeals up to 31 March 2012 against the 'old' NNDR pool. The Government should reform the appeals process operated by the VOA so that appeals are resolved more quickly providing greater stability and certainty to the business rates retention system and in the meantime should fund the risk of greater safety net payments from Treasury funds not by top-slicing the local government settlement.

**Question 3: Do you agree with the way the Government proposes to hold back the funding that is necessary for New Homes Bonus and safety net support, and to return any surplus to authorities?**

As indicated above we think that the Government should top-slice £890m rather than £1.1bn for the New Homes Bonus, in line with National Audit Office estimates. Even though any unused top-slice should be returned to authorities this will make planning more difficult and may lead to reductions in council spending being higher than they would otherwise have had to be. We note that the Government's commitment to return unspent allocations to local authorities is dependent upon their being no further cuts in the 2015/16 settlement beyond those already announced and we trust the Government will be able to honour this commitment.

**Question 4: Do you agree with the proposed methodology for calculating control totals for each of the elements within the Settlement Funding Assessment?**

As indicated above the LGA has heard serious concern from authorities about the proposals to protect some elements but not others. We call on the Government to revisit this proposal.

**Question 5: Do you agree with the proposed methodology for transferring in the 2013-14 Council Tax Freeze Compensation?**

We note that this will be a way of ensuring that the authorities which accepted the freeze grant should continue to receive it.

**Question 6: Do you agree with the proposed methodology for adjusting the 2015-16 settlement to take account of the loss of tax revenue due to the Exchequer from the local authorities who are too small to participate in the Carbon Reduction Commitment Energy Efficiency Scheme?**

No. The consultation says that this is in line with New Burdens Doctrine, even though the New Burdens Doctrine does not provide for this kind of adjustment. No additional resources were put into the scheme under the New Burdens Doctrine when it was introduced so it is completely invalid for negative adjustments to be made now.