

## **Local Government Finance update**

### **Purpose of report**

For direction

### **Summary**

This report provides an update on four important local government finance issues where there have been significant recent developments. It seeks the Board's general direction on these issues as there is no LG Group Executive meeting this month.

### **Recommendations**

Members are asked to:

- note this report; and
- provide any general directions on the manner in which the matters discussed in it are to be progressed.

### **Action**

Group Finance Director

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## **Local Government Finance update**

### **Background**

- 1 The LG Group Executive has at recent meetings discussed a number of important local government finance issues where the pace of development has been rapid. As on four of these issues there have been significant recent developments, the opportunity is being taken to update the Board and seek general direction on the way in which these issues are to be progressed.

### **Local Government Resource Review**

- 2 The long awaited terms of reference for the review were published just after the last LG Group Executive meeting and are **annexed** to this report. As expected, and despite the delay in issuing the terms of reference, the intention is that the part of the review dealing with reform of business rates, including implications for the future formula grant system and equalisation of grant to reflect underlying needs, will conclude in July. This represents a very rapid timetable for looking at some extremely complex issues. However, the fast timetable reflects the lead time needed to put in place legislation, and proper consultation on the detail, to allow for the reforms to take effect from April 2013.
- 3 The terms of reference have been carefully constructed and, in officers' view, are very much to be welcomed. The agenda that has been set for the review makes clear that all the following issues are within its scope:
  - 3.1 incentivising economic growth by allowing authorities to retain business rates;
  - 3.2 ensuring that in any new system authorities retain adequate resources to meet the needs of their communities;
  - 3.3 ensuring that the positions both of authorities that currently raise much higher levels of business rates than they spend, and of authorities where business rates, council tax and fees and charges would be insufficient to fund the budget, are properly considered;
  - 3.4 considering ways to make the current grant distribution mechanisms more transparent, including the possibility that these mechanisms might be 'sector led';
  - 3.5 the delivery of Tax Increment Finance schemes; and
  - 3.6 interactions with other policies, such as the new homes bonus and the localisation of council tax benefit.

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- 4 The government has also announced a second phase of the Resource Review, focusing on continued roll out of Community Budgets, to be launched in April.
- 5 The LG Group will ensure that our response to the review reflects wide consultation with LGA member authorities and as full engagement on these important issues as we can manage in the time available. To start this engagement, officers have prepared a consultation paper explaining the key issues in more detail. We think this will be helpful to member authorities, as the government has not issued its own detailed consultation document but simply sought engagement on the basis of the terms of reference. A draft of the paper will be circulated separately to members for comment.
- 6 In the meantime, officers are engaged in what has been helpful dialogue with CLG officials and officials are also carrying out a wide range of informal consultation with groups of people drawn from a substantial cross section of local authorities.
- 7 Further reports will be submitted to the May and June meetings of the LG Group Executive. In the meantime, members' steer on the development of the consultation process and on any particular issues raised by the review's terms of reference would be welcomed.

**Academies funding transfer**

- 8 The March meeting of the LG Group Executive discussed the unsatisfactory position reached on the treatment of the academies funding transfer in the 2011-12 local government finance settlement, and called for urgent further work to be done. This has been progressed and an oral report will be made to the meeting. In the meantime, a reply has been received from the Department for Education on the detailed basis of calculation of the funding transfer. The department has asked for the contents of the reply to be treated as confidential.

**Standards Fund**

- 9 Towards the end of last month, single tier and county councils received a letter from the Department for Education informing them that a standards fund payment that had previously been allocated for the 2010-11 financial year, but which was not payable until April 2011, would not now be made. Instead, it was indicated that this payment would form part of the 2011-12 Dedicated Schools Grant. An equivalent proportion of the 2011-12 DSG, amounting to around £155m would be paid in arrears after the end of the 2011-12 financial year, probably in April 2012.
- 10 This news was not anticipated by authorities and the late announcement makes it impossible for most to revise their 2011-12 plans without material amendment to schools budgets that have already been agreed locally. Authorities, entirely

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reasonably, had regarded the April 2011 payment that has now been cancelled as a legitimate part of their 2010-11 funding settlement. The effect is in practical terms equivalent to an unannounced cut in funding of £155m.

- 11 The LGA, along with SOLACE and ADCS, has written to the Secretary of State for Education to make representations about this decision and to urge that the position as understood prior to the department's 22 March letter be restored.

**Icelandic banks**

- 12 On 1 April the Reykjavik District Court announced its decision on test cases relating to the status of local authorities in the administrations of the Icelandic Banks Landsbanki and Glitnir. The Court decided that UK local authorities' claims should be recognised as deposits with priority status over other creditors' claims. Authorities' claims will be at the front of the queue for distributions from the insolvencies of these two banks.

- 13 It is very likely that other parties will appeal the District Court's decisions to the Icelandic Supreme Court, but the initial decisions in local authorities' favour are very welcome. The LGA's efforts in co-ordinating the legal action on member authorities' behalf have been widely commended and one of the benefits of this work is that costs have been kept to a minimum – less than 1% of the total amount at stake.

**Recommendation**

- 14 Members are asked to:
- 14.1 note this report; and
  - 14.2 provide any general directions on the manner in which the matters discussed in it are to be progressed.

## **ANNEX**

### **LOCAL GOVERNMENT RESOURCE REVIEW: TERMS OF REFERENCE**

#### Phase 1

The first phase of the Review will consider the way in which local authorities are funded, with a view to giving local authorities greater financial autonomy and strengthening the incentives to support growth in the private sector and regeneration of local economies.

It will look at ways to reduce the reliance of local government on central government funding, increase local accountability and ensure that the benefits of economic growth are reflected in the resources authorities have.

The review will include consideration of changes to the business rates system, and focus in particular on:

- a) the optimum model for incentivising local authorities to promote growth by retaining business rates, whilst ensuring that all authorities have adequate resources to meet the needs of their communities and to deliver the commitments set out in the Spending Review;
- b) the extent to which these proposals can set local authorities free from dependency on central funding;
- c) considering how to fund authorities where locally raised funding would be insufficient to meet budget requirements and control council tax levels, as well as councils who do not collect business rates, such as upper tier authorities, recognising that some parts of the country are currently more dependent on government funding;
- d) reviewing the scope for greater transparency and localisation of the equalisation process;
- e) the position of councils whose business rate yield would be significantly higher than their current spending;
- f) how to ensure appropriate protections are in place for business, within a framework of devolving power to the lowest level possible;
- g) how to deliver Tax Increment Financing proposals against a context of greater retention of business rate revenues;
- h) how various aspects of the business rate system, including business rate revaluation and reliefs, should be treated;

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- i) examining the scope for further financial freedoms for local authorities, while standing up for and protecting the interests of local taxpayers, and
- j) the wider implications of rates retention for related policies, including the work of the Commission on the Funding of Care and Support and the Government's other incentive schemes (the New Homes Bonus and the commitment to allow communities to keep the business rates for renewable energy projects).

The Review will take account of the responses made to the questions in "*Local growth: realising every place's potential*". It will also conduct extensive engagement with interested parties, including businesses of all sizes, to ensure that all views and perspectives are taken into account.

Following the announcements at the Spending Review and through introduction of the Welfare Reform Bill that Government will localise Council Tax Benefit, the Review will also consider the design of the new scheme (to be launched in 2013-14) and what flexibilities local authorities should have to help keep overall council tax levels down.

The first phase of the Review will conclude by July 2011, followed by the necessary steps to implement the concluded reforms.

Phase 2

The second phase of the Local Government Resource Review will commence in April 2011 and will focus on Community Budgets. It will be taken forward in parallel with the continued roll out of these Budgets. Detailed Terms of Reference will be published shortly.