Local Government Association

Agenda

LGA Executive: Supplement Agenda

Thursday 21 January 2016

1.45 pm

Westminster Suite, 8th Floor, Local Government House, Smith Square, London, SW1P 3HZ

Local Government Finance Settlement 2016-17 Consultation and an offer to councils for future years

15th January 2016

Submission

1. 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.
2. This response has been agreed by the LGA's Chairman, lead members and resources portfolio holders.

Key points

3. Despite receiving a 'flat-cash' settlement over the next four years, there are still very significant challenges ahead for councils who, will have to make savings sufficient enough to compensate for any additional cost pressures they face. In addition the reductions are front loaded, with higher reductions in earlier years, so that there is a 'u shaped funding curve. These pressures fall differentially on councils as do the proposals for the distribution of the reduction in Revenue Support Grant which now takes into account councils' ability to raise council tax based on 2015-16 levels. Some councils are facing reductions in 2016-17 that are significantly higher than they had been planning for as a result of the change in the way that the funding reduction has been allocated. The LGA will not take a formal position on these changes but acknowledges the difficulty of adjusting budget plans at this stage in the annual budget cycle and asks the Secretary of State to consider providing some transitional support to reduce the depth of the "u-shaped" funding curve.

4. The LGA welcomes the offer of a four year settlement. We have long called for local government to have the same planning horizon as government itself. This is a step towards financial certainty. However it has got to be put into the context of a rebalancing of funding with both council tax and localised business rates playing a more important role than the centrally allocated Revenue Support Grant. Uncertainty about the impact of 100 per cent business rates retention and outcomes of the New Homes Bonus and Improved Better Care Fund consultations means councils will still have to estimate total available resources in future years. This brings both opportunities and risks which relate to both council tax and business rates. Specifically the risks relate to the council tax base buoyancy, the impact of business rates revaluation and the accuracy of projections of housing numbers and business growth.

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5. The maintenance of a broadly “flat cash” position for local government in the context of significant grant reductions, is achieved largely through an assumption that councils will take up the option to raise council tax by nearly 1.99% as a general increase and an additional 2% for social care where relevant. We welcome the flexibility offered by the 2% social care precept. However assumptions on taxbase increase seem to be very ambitious. The LGA would expect that the Government’s messaging will support councils that take up the option to raise council tax to the maximum permitted without a referendum and they would not seek to blame councils for raising council tax after a long period where it has been stable.
6. The social care levy will impact differently of households in unitary as opposed to 2 tier areas and in areas with fire authorities as opposed to those where fire is a council service. We call for all councils to be able to raise the total local government and fire precepts falling on a household by 2 percent. This will provide an improvement in potential income for social care in two tier areas particularly in the first two years.
7. We call for all district councils and fire authorities to be allowed to raise their Band D council tax by £5 – not just the 51 with the lowest council taxes in 2015-16. In addition the rules on referendums should be set so that levies such as IDB levies should not count against councils’ own referendum limits.
8. We call for the government to reform the appeals system to reduce substantially the risk to authorities and the need for provisions. This is vital in the move to 100% business rates retention.
9. We look forward to the government actively involving the LGA and the sector on the move to 100% business rates retention. It is essential that a fundamental review of the needs basis is included in any new system and that the system includes equalisation as well as incentivisation. We will engage in discussions with the Government about the proposals to give more responsibility to councils to support older people with care needs and on other options for transferring responsibilities to local government. We believe that councils and businesses paying rates would like some of this extra local income to be invested in services that support local economies and drive local growth.
10. The LGA will be responding in due course to the Government’s consultation on the distribution of the additional money for social care through the Better Care Fund. We note that there is no additional BCF funding for social care in 2016/2017 and only £105 million in 2017/2018. This, together with the incremental nature of the council tax precept policy, means a further two years of significant pressures on a system that is already under strain. The Government has been clear in its intention to address social care pressures yet in 2016-17 the spending power of councils with social care responsibilities falls by 3.2 per cent at a time when they are facing significant pressures in adult social care including rising need and demand and the cost of the national living wage. The government should bring forward the £700 million of new funding for the Better Care Fund to 2016-17 in order to help alleviate these pressures.
11. There is a small group of councils which are close to the edge of financial sustainability. The LGA asks that consideration be given to how to manage the situation where a council has insufficient resources to operate.
12. Finally we look forward to discussing with government further details of the four year offer to councils, including any further information on

efficiency plans. The government ought to accept councils' medium term financial plans, which will set this out, rather than requiring a new document. The provision that will allow councils to use capital receipts from the sale of assets to support revenue spending on reform projects will assist councils in reshaping services. Given the particular challenges in the early years of the settlement, it would be of more immediate assistance to councils if they were able to use existing or at least recent receipts in this way rather than just new receipts as proposed. We also note that the government has stated in the consultation that councils should 'make strategic use of reserves in the interests of residents'. We would comment that not all councils have reserves which they can use in this way.

Detail

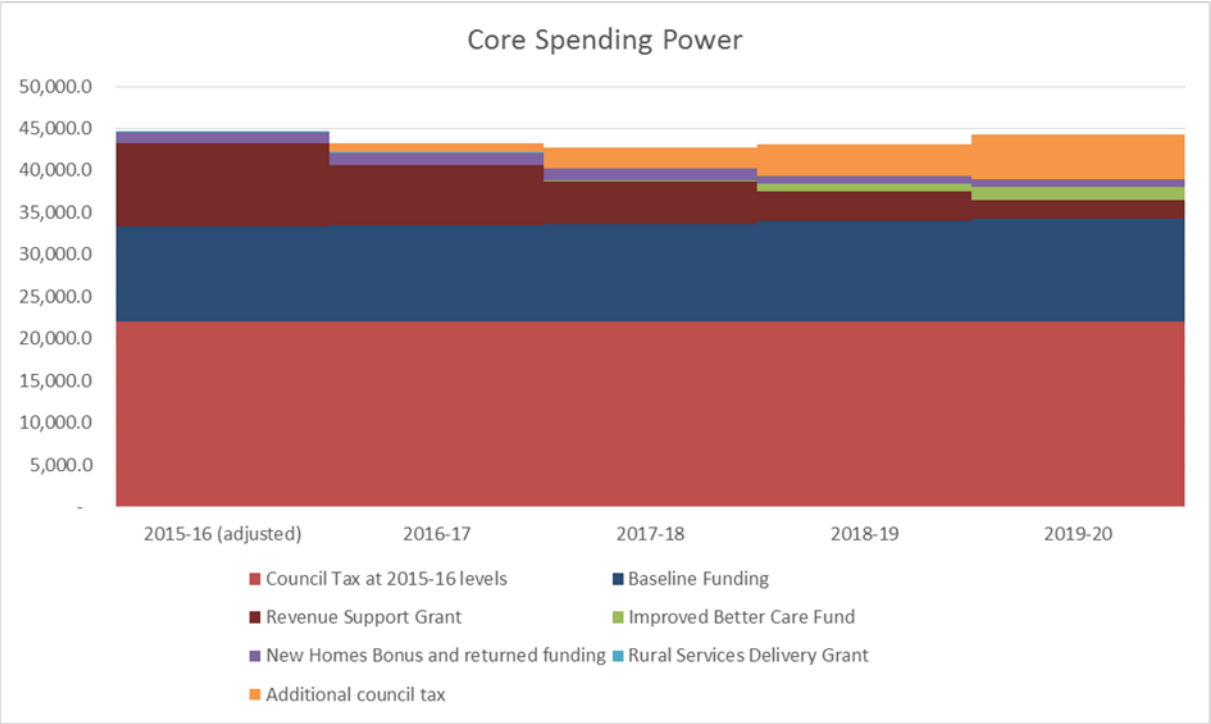
The overall settlement

13. The LGA welcomes the offer of a four-year settlement albeit dependent on the business rates multiplier, the effects on top-ups and tariffs of business rates revaluation in 2017-18, the outcomes of the consultations on New Homes Bonus and the Better Care Fund, progress towards 100% business rates retention and local authorities publishing efficiency plans. The LGA has heard from some member councils that they found the fact that the settlement consultation was once again late this year particularly challenging as there had not been a previous technical consultation on the proposed changes .

14. It would be helpful if Government sets our as soon as possible details on what should be included in an efficiency plan and provides clarity on the process involved.

15. Given uncertainties about several aspects of future funding and in the absence of clarity about the requirements for efficiency plans, authorities may be wary of signing up to a four year settlement and will want to be clear that they could not end up worse off by so doing. They also would also like more detail on what the effect of not signing up is.

16. In this settlement the government has introduced a new definition of core spending power. The LGA supports the removal of ring-fenced funding and the existing better care fund from this new spending power calculation. Its inclusion in previous years meant that the government figures for revenue spending power lacked credibility for many councils. The chart overleaf shows the change in spending mix in the provisional settlement.



17. The Local Government Finance Settlement for 2016-17 and the government's offer to councils for future years confirms that councils' Core Spending Power, according to the Government's definition, will fall by 0.5% over the Spending Review Period. Using the government's definition of settlement core funding; which is the settlement funding assessment (SFA), which itself consists of baseline funding from business rates retention and revenue support grant, plus council tax at 2015-16 levels; this shows a decrease of £6.75 billion over the Spending Review period, a reduction of 15.6% of settlement core funding and 31.8% of Settlement Funding Assessment.

18. This reduction excludes the £600 million fall in Education Services Grant over the period which has been announced by the Department for Education. Although we recognise that some of this fall will be borne by academies, we would expect the majority of it to come from council budgets. We will be responding to the consultation on local authority education duties when it is issued by the Government.

Pressures on councils and distribution

19. There are still very significant challenges ahead for councils who will have to make savings overall, sufficient enough to compensate for any additional cost pressures they face, given the flat-cash settlement over the next four years.

20. These include those arising from:

    a. general inflation

    b. cost pressures in the care sector

c. increases in the number of adults and children needing support and rising levels of need

d. increases in demand for everyday services as the population grows

e. pressure on homelessness budgets; and

f. increases in core costs such as national insurance, the National Living Wage and pension contributions.

21. These pressures are not equally distributed. This year the Government has changed the distribution method for Revenue Support Grant to take account of council tax at 2015-16 levels so that councils delivering the same set of services have the same or similar percentage change in 'settlement core funding'. Some councils are facing reductions in 2016/17 that are significantly higher than they had been planning for as a result of the change in the way that the funding reduction has been allocated.

22. The LGA will not take a formal position on these changes. Some members will see it as fairer whilst pointing out that it does not take into account council tax beyond 2015-16 or income from sources such as the new homes bonus. Others will be concerned that they will lose revenue support grant at a faster rate than would otherwise be the case.

23. The LGA acknowledges the difficulty of adjusting budget plans at this stage in the annual budget cycle and asks the Secretary of State to consider providing some transitional support to reduce the depth of the "u-shaped" funding curve.

24. There is a small group of councils which are close to the edge of financial sustainability. The LGA asks that consideration be given to how to manage the situation where a council has insufficient resources to operate.

Council tax

25. The maintenance of a broadly "flat cash" position for local government in the context of significant grant reductions, is achieved largely through an assumption that councils will take up the option to raise council tax by nearly 1.99% as a general increase and an additional 2% for social care where relevant. Whilst the LGA is in principle against council tax referendums, as we consider that councils should be held accountable through the normal mechanism of the ballot box, we have long been calling for increased flexibility. We therefore welcome the flexibility offered by the 2% social care precept. However it comes with increased risks, particularly concerning the taxbase assumptions.

26. The Government assumption is that the council tax base will continue to grow at the same rate as it did from 13-14 to 15-16. This means that for England as a whole the rise in the council tax base accounts for almost £1.8 billion over the four years and assumes that the council taxbase rises by an average of 1.9% annually. These figures seem very optimistic. They may incorporate rises in taxbase due to decisions on council tax support or discounts which would not be expected to be repeated over the period. If they fall short in practice, councils will not receive their full core spending power even if they take full advantage of

the flexibilities offered by the government. One alternative would be for the government to consider longer term trends in the taxbase, whilst adjusting for the effect of council tax benefit / council tax support.

27. The LGA has long raised concerns about the underfunding of adult social care and the impact this inevitably has on the quality and quantity of commissioned care. We therefore welcome the increased flexibility that will allow social care authorities to put up council tax by an additional 2 per cent on top of the current referendum threshold. This, and the additional funding through the Better Care Fund, will help to address the funding gap facing social care. The Government should ensure the administrative burden of assurance on councils regarding the social care flexibility is kept to a minimum. The LGA seeks assurances that the ability of councils to determine how reductions in budgets should be managed not be compromised.

28. Despite the recognition of social care pressures in the settlement the context of an already severely challenged sector together with the overall position on councils' budgets means that a lot of the pressures will have to be met by savings. Therefore significant challenges remain to ensuring the delivery of sufficient services to appropriate quality standards. In addition it is worrying that social care councils will experience a 3.2 percent reduction in their core spending power in the first year of the settlement at a time when pressures such as the living wage and national insurance increases, together with expectations of support for NHS services, are increasing. We call for the start of the improved BCF to be brought forward to start from 2016-17.

29. The decision whether to raise council tax is of course one that each council will have to take. Some councils have in place manifesto commitments to freeze council tax for a given period and they will be in a difficult position. The LGA would expect that the Government's messaging will support councils that take up the option to raise council tax to the maximum permitted without a referendum and they would not seek to blame councils for raising council tax after a long period where it has been stable.. We note that the Government will not be paying a council tax freeze grant in 2016-17 or for any year of the settlement; this should also be reflected in Government messaging.

30. The social care precept will impact differently on households in unitary as opposed to 2 tier areas and in areas with fire authorities as opposed to those where fire is a council service. We call for all councils to be able to raise the total local government and fire precepts falling on a household by 2 percent. This will provide an improvement in potential income for social care in two tier areas especially in the first two years before the improved BCF scales up

31. Only 51 districts, those who are in the lowest quartile of district council taxes in 2015-16, will have access to the £5 at Band D. We call for this to be available to all district councils irrespective of their 2015-16 council tax; this would add additional spending power to districts with a net 15-16 council tax up to £250 at Band D; the current cut-off point in the Government's proposals is £142. This flexibility should also be available to fire authorities.

32. We note that council tax freeze grant for 2015-16 has been baselined within settlement funding so that councils which took up the offer have the guarantee that the money will be in their baseline. This will give

assurance to councils which took the offer of the freeze grant up. This has been the practice for all years since 2010-11 with the exception of 2012-13. Some councils would urge that these resources be provided outside RSG.

Business Rates

33. The LGA notes that the government's methodology of reducing settlement core funding by the same percentage for each service will lead to a situation where some authorities would be in a situation of negative Revenue Support Grant in 2017-18 and future years. Adjusting top-ups and tariffs is a technical solution to this, although it is contrary to the principles of the business rates retention scheme whereby top-ups and tariffs should only change by the relevant multiplier each year (between resets). This may change the level of incentivisation within the scheme. The 100% scheme should be designed in a way that this does not occur.

34. The settlement confirms that the safety net will be £50 million in 2016-17. This means that total top-sliced funding for the safety net since 2013-14 has been £245 million. This should be returned to the settlement as soon as possible.

35. Councils are continuing to express concern about the effect of business rates appeal decisions. Ultimately the problem will only be solved by a substantial diminution in both the number of appeals and the time they take to be resolved. This is vital as we move to full business rates retention. We have responded separately to the Government's consultation on 'check challenge appeal'. The proposed new system will be seen as a success by local government if it leads to a substantial decrease in the need to make provisions to cover business rates appeals.

36. The LGA has also made proposals for business ratepayers themselves to self-assess their own rateable value. We would like to see the Valuation Office Agency and the Department of Communities and Local Government to explore this proposal as part of increasing digitalisation and individual ratepayer accounts, with a view to be able to introduce it at the time of the next revaluation in 2022.

37. We look forward to the outcome of the review of the structure of business rates at budget 2016. We also look forward to further work on business rates administration, digitalisation and business rates avoidance. We will be responding to the further consultations in due course.

100% business rates retention

38. We note that there was more information in the settlement on the introduction of full business rates retention, which the Government has said will happen by the end of the current Parliament. The Government will be consulting on giving more responsibility to councils to support older people with care needs, including people who, under the current system, would be supported through Attendance Allowance. There will be protection for existing claimants and new responsibilities will be matched by the transfer of equivalent spending power.

39. We look forward to the government actively involving the LGA and the sector on the move to 100% business rates retention, including what

the consultation describes as the right model of devolution and level of flexibility. We will engage in discussions with the Government about the proposals to give more responsibility to councils to support older people with care needs. We believe that councils and businesses paying rates would like some of this extra local income to be invested in services that support local economies and drive local growth. Handing over responsibility for skills and transport services would allow local areas to close skills gaps and improve public transport.

40. We welcome that councils will continue to be fully compensated for the loss of income from the small business rate measures. However, this reduces the buoyancy of the taxbase. This is one of the issues to discuss with the government as we move to 100 per cent business rates retention. It is essential that the system includes equalisation as well as incentivisation. We look forward to full engagement of the LGA and the sector in the detailed design of the new system, including a fundamental review of the needs basis.

Specific grants and the settlement

41. The settlement announced that the funding earmarked for preparation for implementation of the **Care Act** 2014 would be included in the baseline for calculating Revenue Support Grant. The element is worth £308 million in 2016/17, growing to £514 million in 2019/2020.

42. The continuation of adult social care funding for the Care Act reforms is welcome and adds much needed resources to take forward this important legislation, including moving towards the cap on care by 2020.

43. The LGA has consistently called for the money saved from delaying Care Act implementation to be reinvested into the social care system; this was central to our call for a delay to phase two of the legislation in the first place. This announcement, the additional council tax flexibility, along with the increases to the Better Care Fund, goes some way to meeting our proposal. However this means that the additional pressures from implementation of the non-delayed parts of the Care Act, which according to the Government's own figures will increase by £206m by 2019-20 over the baseline figure of £308m will have to be met from within core spending power as opposed to being funded separately.

44. The LGA also notes that the element for **local welfare schemes** has been incorporated into the settlement without incorporating the additional £74million which was included in the 2015-16 final settlement. Councils continue to be at the front line of supporting and enabling households to adjust to a significant and ongoing programme of welfare reform. Councils run a number of highly efficient and effective local schemes to prevent households from falling into crisis and to build capacity. The LGA calls for this £74 million to be returned to the settlement baseline.

45. The LGA notes that no announcement was made about continuing specific grant funding for the **Independent Living Fund** which became the responsibility of councils on 1 July 2015. We look forward to the announcement of grant funding in due course. £191 million was provided to councils for the period from July 2015 to April 2016; there should therefore be funding of around £255 million for the full years of the settlement if there is not be a further cut to funding.

46. The LGA also looks forward to announcements of specific grant funding from the Department for Education including support for home to school

transport, adoption and SEN reform, and from the Department of Health on Public Health allocations.

The Improved Better Care Fund

47. The Settlement confirms the continuation of the Better Care Fund (BCF) and additional funding for adult social care through the BCF worth £1.5 billion by 2019/2020. In the interim years, the additional funding through the BCF will be worth £105 million in 2017/2018 and £825 million in 2018/2019. This funding will be allocated as a specific grant.

48. We note that the Government will consult on how the additional funding is distributed. As a default option it has proposed that the BCF grant should act as a method of equalising the relative needs for social care services and the maximum possible impact of the social care council tax precept. This would lead to some social care councils receiving no additional BCF money.

49. The introduction of the BCF has marked an important change in how care and health interact within a place. The fact that the nationally mandated £3.8 billion BCF in 2015/2016 was increased by an additional £1.5 billion from local care and health budgets demonstrates that local areas are ambitious about integration. We welcome the continuation of the BCF and the additional money within it for adult social care.

50. The settlement confirms that there is no additional BCF funding for social care in 2016/2017 and only £105 million in 2017/2018. This, together with the incremental nature of the council tax precept policy, means a further two years of significant pressures on a system that is already under strain. As mentioned above, there is a reduction of core spending power of 3.2% for social care authorities in 2016-17. We therefore call for the Improved Better Care Fund allocation of £700m to be brought forward to 2016-17.

51. As with any conditions attached to the council tax precept, any conditions attached to the use of additional funding through the BCF should be kept to an absolute minimum. Councils will face a completely different mix of council tax and BCF income within the overall support package. Those with a higher proportion of BCF funding should not face tighter constraints.

52. The LGA will be responding in due course to the Government's consultation on the distribution of the additional money for social care through the BCF.

New Homes Bonus

53. The LGA notes that the methodology for the New Homes bonus will remain unchanged in 2016-17 and that the total top-slice for new homes bonus will be £1,275 billion in 2016-17. London boroughs will want clarity that the same arrangements for funding the LEP programme as previously existed will continue. The LGA has always considered that New Homes bonus should be funded from outside the settlement. The LGA will be submitting a separate response to the technical consultation on reforms to the New Homes Bonus.

Use of capital receipts

54. The provision that will allow councils to use capital receipts from the sale of assets to support revenue spending on reform projects will

assist councils in reshaping services. Given the particular challenges in the early years of the settlement, it would be of more immediate assistance to councils if they were able to use existing or at least recent receipts in this way rather than just new receipts as proposed.

Local Government Association
January 2016

Annex

The detailed responses to the DCLG questions in the consultation are:

Question 1: Do you agree with the methodology for allocating central funding in 2016-17, as set out in paragraphs 2.6 to 2.8?

This is a new methodology which takes into account council tax at 2015-16 levels so that councils delivering the same set of services have the same or similar percentage change in 'settlement core funding'. As stated above, the LGA will not take a formal view on this. Some members will see it as fairer whilst pointing out that it does not take into account council tax beyond 2015-16 or income from sources such as the new homes bonus. Others will be concerned that they will lose revenue support grant at a faster rate than would otherwise be the case and that the late announcement of the change poses a challenge.

Question 2: Do you agree with the proposed methodology for calculation of the council tax requirement for 2016-17, as set out in paragraphs 2.10 and 2.11?

The decision to use the October 2014 council tax base for the 2016-17 settlement and for the indicative settlements up until 2019-20 means that taxbase growth is not taken into account. This will favour authorities with higher taxbase growth. The government argues that it acts to incentivise growth. Others may see it as less fair as it accounts for why they may have a higher decrease in core spending power. The high taxbase assumptions may be open to question, as indicated in the main settlement response.

Question 3: Do you agree with the proposed methodology in paragraph 2.12 for splitting the council tax requirement between sets of services?

The methodology for splitting sets of services enables settlement core funding for each service to be reduced by the same percentage for every authority which delivers that service. The LGA does not have a view on this.

Question 4: Do you wish to propose any transitional measures to be used?

As said in the main response, The LGA acknowledges the difficulty of adjusting budget plans at this stage in the annual budget cycle and asks the Secretary of State to consider providing some transitional support to reduce the depth of the 'U-shaped' funding curve and to bring forward the Improved Better Care Fund resources to 2016-17.

Question 5: Do you agree with the Government's proposal to fund the New Homes Bonus in 2016-17 with £1.275 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.15?

The LGA has always considered that New Homes Bonus should be funded from outside the settlement. We recognise that the methodology used is unchanged from last year.

The LGA will be submitting a separate response to the technical consultation on reforms to the New Homes Bonus.

Question 6: Do you agree with the Government's proposal to hold back £50 million to fund the business rates safety net in 2016-17, on the basis of the methodology described in paragraph 2.19?

The LGA agrees with the principle of the safety net but considers that it should be funded from outside the system. With the £50m top-slice for 2016-17; the total amount top-sliced since 2013-14 is £245m. The LGA considers that the government should return this money to the local government finance system.

The main reason for the safety net is business rates appeals; the LGA looks forward to progress on reducing the number of speculative appeals either through the 'Check Challenge Appeal' system or through the adoption of more digitalisation as proposed by the LGA in its Spending Review submission 'Spending Smarter'.

Consideration needs to be given how to deal with the safety net in the context of 100 per cent business rates retention.

Question 7: Do you agree with the Government's proposed approach in paragraph 2.24 to paying £20 million additional funding to the most rural areas in 2016-17, distributed to the upper quartile of local authorities based on the super-sparsity indicator?

Authorities with additional costs due to sparsity will welcome this funding.

Question 8: Do you agree with the Government's proposal that local welfare provision funding of £129.6 million and other funding elements should be identified within core spending power in 2016-17, as described in paragraph 2.28?

The LGA agrees that local welfare provision should be incorporated within core spending power. However we are concerned that the £74 million additional resources which were put in for the 2015-16 final settlement have not been incorporated. We call for this £74 million to be returned to the baseline.

Question 9: Do you agree with the Government's proposal to include all of the grant funding for the Care Act 2014 (apart from that funded through the Better Care Fund) in the settlement, using the methodology set out in paragraph 3.2?

The LGA agrees that the methodology used is technically correct. However this means that the additional pressures from the Care Act 2014, which according to the Government's own figures will increase by £206m by 2019-20 over the baseline figure of £307m will have to be met from within core spending power as opposed to being funded separately, meaning that they will be set alongside other pressures caused by the 'flat cash' settlement.

Question 10: Do you agree with the Government's proposal to include all 2015-16 Council Tax Freeze Grant in the 2016-17 settlement, using the methodology set out in paragraph 3.3?

The LGA agrees that the methodology used to incorporate council tax freeze grants in the settlement is technically correct and this will mean that authorities that froze their council taxes in the relevant year will continue to get the funding provided through the freeze grant in their baselines. Some councils would like to this funding included in the 'visible lines' information or for the grant to be paid outside RSG. We note that the government does not propose to pay a freeze grant in 2016-17.

Question 11: Do you agree with the Government's proposal to include all 2015-16 Efficiency Support Grant funding in the settlement and with the methodology set out in paragraph 3.5?

We agree that the methodology used to incorporate efficiency support grants in the settlement is technically correct. This will ensure that the funding up to 2015-16 is baselined and forms part of authorities' settlement core funding and core spending power. We note that the government does not propose to pay efficiency support grant in 2016-17.

Question 12: Do you agree with the Government's proposal to include funding for lead local flood authorities in the 2016-17 settlement, as described in paragraphs 3.6 and 3.7?

We agree with the proposal to incorporate existing funding for lead local flood authorities in the baseline

Question 13: Do you agree with the Government's proposal to pay a separate section 31 grant to lead local flood authorities to ensure funding for these activities increases in real terms in each year of the Parliament?

Please see answer to question 14 below.

Question 14: Do you have any views on whether the grant for lead local flood authorities described in paragraph 3.8 should be ring-fenced for the Spending Review period?

The LGA is opposed to ring-fenced funding except in particular circumstances. Ring-fencing adds to administrative costs and complexity and can lead to misallocation of funding. We welcome additional money for lead local flood authorities and consider that this should be added to the settlement funding of the authorities concerned.

Question 15: Do you agree with the Government's proposal to adjust councils' tariffs / top ups where required to ensure that councils delivering the same set of services receive the same percentage change in settlement core funding for those sets of services?

We note that the government's methodology of reducing settlement core funding by the same percentage for each service will lead to a situation where some authorities would be in a situation of negative Revenue Support Grant in 2017-18 and future years. Adjusting top-ups and tariffs is a technical solution to this, although it is contrary to the principles of the business rates retention scheme whereby top-ups and tariffs should only change by the relevant multiplier each year between resets and has an effect on the incentivisation which the scheme provides. The 100% scheme should be designed in a way that this does not occur.

Question 16: Do you have an alternative suggestion for how to secure the required overall level of spending reductions to settlement core funding over the Parliament?

The LGA does not wish to propose an alternative methodology at this time.

Question 17: Do you have any comments on the impact of the 2016-17 settlement on persons who share a protected characteristic, and on the draft equality statement published alongside this consultation?

The Government's Equality Assessment notes the measures that have been taken to build in protection in the settlement but also noted that the reductions are likely to have had a disproportionate effect on the most deprived authorities and that there could be correlation with protected groups. The methodology adopted this year reduces settlement core funding by the same or a similar percentage for authorities delivering the same services. The LGA is aware that some authorities

would urge the Government to take future council tax increases into account to protect spending on council tax support and resource equalisation in a similar way to the council tax freeze grant. Other authorities would sympathise with this in principle but would be concerned if they were to lose more RSG as a consequence.

LGA Executive

21 January 2016

Housing Update

Purpose

For discussion and direction.

Summary

This paper provides an update on the progress that has been made by Group Leaders in discussions with government on the measures outlined in the Housing and Planning Bill. A verbal update will be provided at the meeting.

Recommendation

That the LGA Executive provides a further steer on Parliamentary and campaigning activity; the development of the evidence base; and on building press and public support for the LGA's position.

Action

To be taken forward as directed by Members.

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Local Government Association

LGA Executive

21 January 2016

Housing Update

Background

1. The Local Government Association (LGA) has a shared ambition with Government to build more homes and support home ownership. The LGA also supports the case for an increase in all tenures in response to different housing markets and local assessments of need.

2. The LGA Leadership Board and Environment, Economy, Housing and Transport Board (EEHT) have sought to work with the Government to influence proposals set out in the Housing and Planning Bill, with a view to mitigating any negative impacts on councils and the unintended consequences to ensure proposals support councils to meet the local needs of their communities.

3. This paper briefly updates on policy developments and LGA activity and seeks steer on next steps.

Summary of legislation and policy

4. The Housing and Planning Bill moves to the House of Lords shortly. It will have wide-ranging implications for councils and communities.

5. The Welfare Reform and Work Bill is also currently being debated in the House of Lords, and includes proposals to reduce social rents by 1 per cent a year for 4 years.

6. Beyond legislation, the Government has also announced intentions to regenerate 100 council estates, initiated by £140 million investment, and to directly commission house-building.

7. The LGA's position on the Government's proposals are set out in its briefing on the Housing and Planning Bill which is available on the website here, alongside briefings on the Welfare Reform and Work Bill and associated amendments.

The LGA approach to date

8. A number of the proposals contained in the Housing and Planning Bill are manifesto commitments, most notably the extension of Right to Buy to all Registered Social Landlord (RSL) tenants, the sale of high value council homes, and the expansion of the Starter Home Scheme. The LGA has not opposed these as individual measures, but there are some negative consequences associated with the way in which the Government is seeking to implement them. Linking the sale of high value homes to the extension of Right to Buy will take money from stock holding councils' HRA accounts. The expansion of the Starter homes for sale initiative will come at the expense of other tenures.

9. The LGA has sought to mitigate the negative impacts (see **Appendix A**). Group Leaders agreed to take a measured approach through discussions with Ministers and officials in the period up to the end of 2015. Some progress has been made through these discussions. For example:

9.1. To help manage the uptake of the extended Right to Buy it has introduced into the pilots a minimum tenure of 10 years, which is something that the LGA has asked for.

9.2. The Government has also recognised the potential need for exemptions to the base line of the formula that determines how much councils have to pay to Government in respect of sales of high value council homes.

9.3. The Government is also keen to discuss with councils the proportion of capital receipts from the sale of high value homes that is retained in any given area for the provision of additional homes, as well as greater flexibilities in the use of existing Right to Buy receipts.

10. Ministers have also used the recent Third Reading and Report stage debates to reiterate the existing flexibilities contained in the Bill which allow for variation in how measures such as the sale of high value council homes are applied across the country. The Government is currently working with the Greater London Authority and the London Boroughs on a specific approach for London and Brandon Lewis MP has reiterated that the Government is keen to discuss bespoke approach to delivery with other areas.

11. Overall however, the Government is not open to negotiating on the headline policies which are also ‘red lines’ for local government. These include: linking the sale of high value assets to the extension of Right to Buy; separating the provision of starter homes from the assessment of local need; and accrual to the Treasury of additional income from the implementation of the pay to stay provisions.

Recent developments

12. Since the last meeting of the LGA Leadership Board, the Government has added amendments to the Bill that potentially will impact further on the capacity of councils to meet local housing need. In particular the government has introduced amendments that:

12.1. Phase out lifetime tenancies: A secure tenant can currently live in a property for life. This amendment phases out lifetime tenancies. In future secure tenancies will generally have to be for a fixed term of 2 to 5 years and will not automatically be renewed. Towards the end of the term, the landlord will have to do a review to decide whether to grant a new tenancy or recover possession.

12.2. Enable Government to direct the sale of surplus council land: the Bill had already required public bodies to prepare reports on surplus land, but a new measure will mean that the Secretary of State may in specified circumstances direct the body to take steps for the disposal of the body’s freehold or leasehold interest in any land or any lesser interest in the land.

12.3. Introduce competition to the processing of planning applications: the measure does not affect a local planning authority’s responsibility for determining planning applications.

Projected impact of legislation

13. Group Leaders have requested an assessment of the evidence base on the impact and unintended consequences of the key measures in the Bill. Group Leaders are particularly interested in understanding the impact on:

    13.1. The provision of social housing;
    13.2. Housing benefits costs;
    13.3. Homelessness costs; and
    13.4. How councils will fund the sale of high value homes.

14. The LGA is surveying councils to understand these issues in more detail and to understand the local variations.

15. The LGA has already commissioned independent research from Savills on the impact of the measures in the Bill on the housing market nationally. A final report will be returned later in January. The LGA has also undertaken its own projections on the impact of different policies.

16. In terms of the 'red-line' areas some headline findings from the research we have already undertaken include:

Impact on social housing

17. The Government's stated purpose in requiring the **sale of high value council homes** is: to fund the extension of Right to Buy to Registered Social Landlords; to provide for the provision of additional homes by councils; and to contribute to the Brownfield Regeneration Fund. Savills project a minimum 24,000 housing association tenants per annum will take up the Right to Buy offer at an average £63,000 discount, costing £1.5 billion a year. Based on defining high value as top third of regional values, it is projected that at least **11,000 high value council homes would be sold up to 2020**, that is 2,750 each year with a value of £1.6 billion a year. This analysis indicates that the receipts from the sale of high value council homes will be insufficient to meet all purposes set out by the Government. At risk will be the councils capacity tom replace homes that have been sold.

18. **The social rent cuts** of 1% a year over 4 years make it significantly more difficult for councils to finance the replacement of council homes sold through Right to Buy. **This puts at risk the replacement of the 66,000 homes** that will be sold up to 2020. In addition the OBR has forecast that **Registered Social Landlords will build 14,000 fewer affordable homes in the same period** as a result of the rent reduction. We have heard that councils and RSLs are reconsidering their long term investment plans as a result of the rent reductions and the long-term impact on housebuilding could be significant.

19. The Government has an explicit policy of providing homes for home ownership and has acknowledged that **the provision of Starter homes will reduce the provision of sub-market rented homes** (a reduction of 56 and 71 sub-market rented homes for every 100 starter homes built).

Impact on Housing Benefit

20. A drop in social and affordable rented homes will mean more people housed in the private rented sector, applying upward pressure on housing benefit. For instance, should

the projected sales of 66,00 council homes be replaced at their current rate (around 1 in 9), there would be an upward pressure of around £156 million housing benefit spending up to 2020.

21. Officers will continue to gather evidence on the impact of the measure in the Bill through the survey of councils.

Next steps

22. The Housing and Planning Bill has now moved to the House of Lords and this presents a significant opportunity to consider whether the LGA should take a more overt opposition to the more difficult aspects of the Bill given the demands from councils? To do this effectively would require a change of pace and tone in our engagement and communications around the key red line areas. It is also important that we understand the learning from the more measured approach and that lines of communications remain open to Ministers and senior officials.

23. The LGA needs to target those aspects of the Bill which are of most concern to councils rather than the whole Bill. Which contains proposals, such as those on rogue landlords and compulsory purchase orders that councils broadly support.

24. Members are asked to consider how we inject greater urgency and focus as the LGA continues its:

    24.1. Parliamentary and campaigning activity proposing and supporting amendments mitigating the impact on communities and council capacity to meet local community need, based on research and evidence.

    24.2. Development of the evidence base on the impact of housing and planning reforms, including: analysis of currently held information on the housing market and need for appropriate mix of housing to meet need; future work with the final Savills report due before the end of January; a survey of councils with stock to understand the impact on their Housing Revenue Account, the local housing market, and the associated knock-on costs (for example in temporary accommodation).

    24.3. Building press and public support on the need for councils to have the powers and flexibilities to meet local housing needs, making the case to Government, to the public and to the LGA membership on the challenges in the housing market on the role councils can play in resolving it.

Local Government Association

LGA Executive

21 January 2016

Appendix A: LGA Activity

1. LGA activity has included:

    1.1. Group Leaders have meet with Ministers and senior civil servants to mitigate the impact of housing policies on councils.
    1.2. Further research has been commissioned from Savills on the circumstances in the housing market and repercussions of national housing policy reforms.
    1.3. Officers have engaged with government on policy detail through technical working groups, such as the starter homes working group and sale of high value assets technical working group.
    1.4. Officers have arranged and hosted seminars between councils and government officials, such as Chief Executive sounding board, starter homes seminar, and high value assets seminar.
    1.5. The LGA has responded to formal consultations such as on implementing Pay to Stay proposals.

2. The LGA has published research through press releases that have drawn a wide range of press and public attention to key housing and planning asks, for instance:

    2.1. Objections to the forced sale of council homes and offer to bring forward development on the wider public estate in the Guardian.
    2.2. Calls for councils to retain a 100 per cent of receipts from all council home sales on the BBC.
    2.3. Research demonstrating that the planning system is not a barrier to building, through research highlighting 475,000 homes with planning permission not yet fully built out across BBC, Financial Times, Mail, Guardian, Independent, Telegraph
    2.4. Evidence on the cost impact of proposed social rent reductions in the Financial Times.
    2.5. Calls for councils to be able to locally determine the mix of affordable homes in the Financial Times.
    2.6. Analysis of the costs of nationally set planning fees, and calls for locally set fees in the Financial Times.
    2.7. Calls for tougher sentences for rogue landlords covered across BBC news.

3. The LGA has increased parliamentary activity as the Housing and Planning Bill and the Welfare Reform and Work Bill progresses through parliament, including:

    3.1. Giving evidence to the CLG Committee, Housing and Planning Bill Committee, and Welfare Reform and Work Bill Committee.
    3.2. Publishing and sharing regular parliamentary briefings, included in official Houses of Parliament briefings for MPs and Lords.
    3.3. Regular meetings with MPs and Lords, including hosting parliamentary briefing sessions hosted by LGA Vice Presidents.
    3.4. Drafting amendments that have been tabled by opposition.
    3.5. Support and briefings for individual amendments.