

Making the Case – Local Government Finance

Purpose of report

For discussion and direction.

Summary

The report outlines a number of recent successes resulting from the LGA's local government finance campaigning. Members of the Leadership Board are invited to discuss how to take the LGA's campaigning on local government finance forward to feed into our submissions to key government announcements such as the Autumn Statement 2014, Budget 2015 and a potential Spending Review following the general election in 2015.

Recommendation

That Leadership Board notes the progress to date on local government finance campaigning and discusses how to develop the case further.

Action

Officers to proceed as directed.

Contact officer: Nicola Morton
Position: Head of Programmes: Local Government Finance
Phone no: 020 7664 3197
E-mail: nicola.morton@local.gov.uk

Making the Case – Local Government Finance

Background

1. One of the key roles of the LGA is to campaign on behalf of our members on the issues that councils have identified as their priorities. Local Government Finance is one of those priorities. Half way through the savings that local government needs to make, and in advance of a potential spending review in 2015, now is a good time to review our approach. This paper summarises what we currently do, some of our most recent successes in local government finance and asks Leadership Board to agree an approach to local government finance campaigning, and the key areas to focus on, for the period ahead.

Our Priorities: Funding for Local Government

2. The LGA's business plan for 2014/15 identifies 7 areas for the Local Government Finance Work Programme under the overarching aim of 'reform of the finance system so councils have confidence their financing is sustainable and fair, opportunities to raise more funds locally and greater ability to promote collective working across local public services':
 - 2.1 There is a transparent system of local government finance at national and local level.
 - 2.2 Future spending reviews deliver fair, timely and flexible local government finance settlements.
 - 2.3 People have a meaningful vote on a wide range of tax and spending decisions including council tax, business rates, fees and charges and access to new local taxes.
 - 2.4 Local services and decisions are together in one place, for each place, for issues ranging from economic development, to health, to law and order.
 - 2.5 Councils are effective in dealing with the impact of reduced funding, taking steps to ensure that they will continue to be financially sustainable.
 - 2.6 Councils have access to alternative sources of finance to encourage investment and create jobs through freedom on the restrictions of borrowing and the Municipal Bonds Agency.
 - 2.7 There are robust and proportionate audit arrangements for councils.
 - 2.8 A range of projects and pieces of work, sit underneath of each of these areas including supporting the LGA and CIPFA Independent Finance Commission to

develop a case for financial reform that would lead to improvements in issues communities are facing in housing supply, growth, welfare, early intervention and social care

Our Recent Successes

3. The LGA has run major campaigns which have been successful in receiving significant media coverage including the **Future Funding Outlook** series which in 2014 shows the funding gap growing at an average of £2.1 billion a year, reaching £12.4 billion by the end of the decade. Earlier this year, the LGA published **Under Pressure** reporting that sixty per cent of authorities would not be able to cover their budget gap with future efficiencies alone in 2015/16, with a further 21 per cent identifying this as a possibility.
4. More importantly, our campaigns and lobbying have influenced central government policy and spending decisions. Some of our recent successes include:
 - 4.1 Since its inception the LGA has been campaigning for more local financial autonomy. Local authorities should be able to raise their own revenue, have access to a secure and growing taxbase and have genuine financial accountability. The introduction of the new **business rates retention** system in 2013/14 went some way towards this but did not go far enough in the proportion of business rates being kept by the sector. This needs to be increased whilst also ensuring there is equalisation.
 - 4.2 Following extensive campaigning by the LGA, the government has committed to creating the minimum £3.8 billion **Better Care Fund** from 2015 to pool NHS and care services budgets. Although negotiations over how the fund will work remain difficult, it is potentially a major step forward and reflects a long-held view in local government that money can be much more effectively spent by shared resources and responsibilities between health and local government.
 - 4.3 In March 2014, following a competitive bidding process, the LGA was appointed to create a new independent company to act as a transitional body when the Audit Commission closes. It will be responsible for managing the Commission's £85 million **audit contracts** as well as the **Value for Money profiles** when it closes at the end of March 2015. National procurement will be offered which is estimated to save the public purse between £205 and £250 million over a five year period when compared against local appointment.
5. Other examples of financial gains secured by the LGA, amounting to over £2 billion of extra funding excluding those above, can be found in **Annex 1**.

Developing the Case Further

6. There are encouraging and welcoming signs that the economy is improving. However, local government is only half way through the £20 billion of savings that need to be made in this Parliament. By April 2016 local government will have dealt with a 40% reduction in core funding from central government. In contrast, some other parts of the

public sector have largely been protected from the cuts. Local government has responded well to the funding cuts so far but with total managed expenditure on public services currently expected to decrease on the same trajectory in 2015/16 and 2016/17, and with limited scope for further efficiencies, there are significant challenges ahead.

7. In this context, the LGA's campaigning on local government finance is increasingly important. In advance of the Autumn Statement 2014, Budget 2015 and a generally expected Spending Review in 2015 now is a good time to take stock and review our approach. Leadership Board is invited to consider the LGA's local government finance campaigning and whether the LGA should strengthen its response to proposals put forward by central government, be stronger in approach to campaigning and whether the LGA should be more focussed in the issues it campaigns on.
8. In particular members are asked to discuss whether the LGA should be stronger in response to announcements such as further funding reductions and / or focus on solutions to dealing with further cuts. Leadership Board is also invited to discuss whether the LGA should be more focussed in future local government finance campaigns and in particular in our submission to the key government announcements culminating in the next spending review. Some of the key areas could include:
 - 8.1 Building and improving on the test case of the Better Care Fund, develop proposals for a flexible approach to **place-based budgets** that central government is willing to adopt and roll out to all areas of the country. The LGA is currently developing proposals for a system which will allow each local authority to choose the parameters that are included in a place-based approach so that local challenges and priorities can be addressed. Leadership board will be updated on this as the work develops.
 - 8.2 Increased certainty for local government through **multi-year settlements** for the lifetime of a parliament. The recent trend for the late announcements of the local government finance settlement, some key specific grant information even later still, and the level of council tax increase that would trigger a referendum has seriously hindered local authorities' ability to plan. The LGA is currently working on proposals for how multi-year revenue and capital settlements could work in practice
 - 8.3 Improve the **business rates retention system** arguing for much greater local retention of the business rate whilst also equalising for need. There are also improvements that could be made to the business rates system such as the basis of valuation, the risk of appeals and administrative streamlining, and business rates avoidance.
 - 8.4 Making the case to increase the pace and scale of councils' fiscal autonomy to help drive economic growth and increase local skill levels, replacing over 124 separate **local growth initiatives** across 20 Whitehall departments and agencies.

- 8.5 Further develop the case that the **Barnett formula** should be abolished and replaced by a more up to date needs based assessment.
 - 8.6 A range of other **freedoms, flexibilities and reforms** that would improve the financial sustainability of local authorities such as greater local control over council tax, business rates, fees and charges, financing and funding options and access to new local taxes.
9. Members of the Leadership Board are invited to discuss the above and agree a way forward

Financial Implications

10. The local government finance work programme will be met through existing budgets and resources.

Making the Case – Local Government Finance: Annex 1

Recent Financial Successes

1. In the last year this includes:

- 1.1 an extra £400 million for local government's new public health responsibilities;
- 1.2 an extra £215 million for local roads maintenance split between 2013/14 and 2014/15, plus £183.5 million to help local authorities repair damage to roads caused by the severe weather experienced from October 2013 and February 2014
- 1.3 Recovery of an extra £100 million from the failed Icelandic Banks, bringing the total amount to over £800 million, more than half the amount owing
- 1.4 An additional £94 million to schools' central services
- 1.5 An extra £47 million for post-16 high needs students
- 1.6 An additional £100 million of capital funding to support councils to deliver extended free early education for 2 year olds from 2013
- 1.7 £50 million of Youth Contract underspend devolved to some councils to fund local schemes to develop local approaches to help young people towards work.

2. Further financial wins secured in future years include:

- 2.1 Following extensive LGA lobbying in 2013, local government was protected from further cuts in the Autumn Statement for the period up to 2015/16
- 2.2 The reinstatement outside London of £330 million in New Homes Bonus which was to have been top-sliced and given to LEPs
- 2.3 A partial lifting of the housing borrowing cap by £300 million
- 2.4 Additional NHS funding of up to £1.9 billion as part of the Better Care Fund in 2015/16
- 2.5 a commitment to move towards allocating local government settlements for the period of the Spending Review, something councils have asked for to provide more financial stability
- 2.6 a more clearly presented funding settlement in 2014/15 including full breakdowns of spending power figures for 2014/15 and 2015/16
- 2.7 £200 million to allow capitalisation of the revenue costs of service reform in 2015/16 and 2016/17

- 2.8 a commitment that the Government will fully fund its proposals to cap or otherwise limit business rates in 2014/15 and 2015/16
- 2.9 full funding of the Government's free school meals proposal for infants
- 2.10 the return of £123 million of holdbacks to Revenue Support Grants in 2014/15. It is estimated that Brent Council will receive £925,487 based upon the current distribution of RSG funding
- 2.11 Efficiency Support Grant in 2014/15 and 2015/16 to councils which would otherwise have a revenue spending power reduction of more than 6.9%
- 2.12 an additional £2.35 billion of basic needs funding for councils to plan and create new school places that will be needed by 2017
- 2.13 an additional two-year schools capital allocation to give councils certainty over central funding between 2014 and 2017
- 2.14 changes to the Audit Bill providing councils with the flexibility to procure audit nationally should they wish to do so, potentially saving more than £200 million over the next five years.