

## **Local Government Finance and EU Funding Update**

### **Purpose of report**

For information.

### **Summary**

This report updates the Board on activity and policy developments in local government finance and EU Funding since the last Board meeting. It excludes matters covered elsewhere in the agenda.

### **Recommendation**

That the Resources Board notes the content of the report.

### **Action**

LGA Officers to proceed as directed by Members.

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### **July Budget**

1. The Chancellor presented the Budget on 8 July. It was accompanied by revised fiscal and economic forecasts by the Office of Budget Responsibility. As usual, the LGA provide an on-the-day briefing.
2. A report for the 15 July meeting of Leadership Board which describes the announcements and the LGA's activity and plans for next steps will be circulated on a supplemental agenda.
3. Prior to the Budget, the Chancellor announced in-year reductions to spending by government departments of roughly 3 per cent. This was a mix of one-off measures, such as sales of assets, and management of underspends.
4. This announcement included a reduction to the public health grant received by councils worth £200 million. The Department of Health will consult on how this reduction will be implemented, and on what basis. At the time of writing, the consultation had not been published – officers will update members of the Board should such an announcement be made prior to 17 July.

### **Interim Future Funding Outlook 2015**

5. The LGA launched an interim update to its Future Funding Outlook analysis in late June. It concludes that councils will face a funding gap of £9.5 billion by 2019/20. It was cleared by Lead Members of the Board and is attached available on the LGA website here: <http://www.local.gov.uk/documents/10180/11531/Future+Funding+Outlook+interim/39ad19fb-e5d8-4a2b-81a8-bf139497782d>.
6. This forecast was based on estimates of public spending put forward by the Office for Budget Responsibility and the Institute of Fiscal Studies at the time of the March 2015 Budget. Since then, the political context has been altered significantly by the result of the general election.
7. As a result, the figures are provisional and will be revised following decisions made by the government in the July Budget and the autumn Spending Review. For example, should the government decide to include an equivalent to the in-year reductions to government departments as an add-on to reductions expected for 2016/17, this would increase the funding gap by 2019/20 to £10.3 billion.

### **LGA annual conference and the Spending Review**

8. The LGA held its annual conference in Harrogate from 30 June to 2 July. The event included various local government finance-related sessions and was accompanied by the launch of 'A Shared Commitment: Local Government and the Spending Review' (abbreviated as 'A Shared Commitment'). It is the LGA's position statement in advance of the upcoming Spending Review.

9. This report has been prepared in the context of:
  - 9.1. Previous LGA campaigning documents, such as 'Rewiring public services' and 'Investing in our nation's future' (100 days);
  - 9.2. Reports by the Cities Commission, Non-Metropolitan Commission and the Independent Finance Commission;
  - 9.3. Ongoing discussions with LGA Board members and officials in various government departments on emergent policy issues.
10. The central idea of the report is that smarter spending is equally as important as the level of spending, with local authorities at the heart of the changes that need to be made to deliver the plans of the new government related to public services, economic growth and the fiscal landscape.
11. The submission proposes three aspects which need to be addressed in order to tackle these challenges:
  - 11.1. We need more freedom and flexibility over raising resources to ensure the burden of local taxation is spread fairly and sustainably. Adult social care funding pressures in particular need to be met adequately in order to avoid issues across the public sector, such as within the NHS, as well as within local government budgets.
  - 11.2. We need to be able to do things differently through public service reform, such as further integration of health and care services, smarter planning of meeting the demand of school places and managing the driving factors behind the welfare bill.
  - 11.3. We need to have a more significant influence over how funding on skills, employment, infrastructure and other facets of economic growth is spent locally to ensure that places form prosperous local economies.
12. It covers a variety of policy areas, such as social care, health, economic growth, infrastructure, employment, housing and fiscal devolution. It was seen by Lead Members of the Board in draft form, with final clearance provided by the Executive in June.
13. While for all intents in purposes this is intended to be the LGA's definitive Spending Review position, officers will continue to track developments in the policy agenda and in case of pressing need will recommend any required amendment to the proposals set out in the paper.
14. The report is attached in available on the LGA website here:  
[http://www.local.gov.uk/documents/10180/6869714/L15-252+Spending+Review\\_WEB\\_new.pdf/3101e509-1e22-4c26-91ac-8fd8a953aba5](http://www.local.gov.uk/documents/10180/6869714/L15-252+Spending+Review_WEB_new.pdf/3101e509-1e22-4c26-91ac-8fd8a953aba5).

### **Business rates reform**

15. The LGA has responded to the government's call for evidence on its business rate review, expected to report by Budget 2016. It was prepared in consultation with cleared by Lead Members of the Board and is available on the LGA website here:  
<http://134.213.15.24/documents/10180/11411/Business+rates+review+response/29cb938c-2616-46a2-bd00-86f718790263>.
16. In the response, we have called for:
- 16.1. Retention of the property basis of business rates, but a revision of the definition of 'rateable occupation' in order to minimise the scope for avoidance when it comes to determining whether the property is occupied for chargeable reasons.
  - 16.2. Reform of the appeals system to minimise the risk and uncertainty to local government.
  - 16.3. The ability to locally set business rates, exemptions, discounts and reliefs.
  - 16.4. Movement to full retention of business rate income, with a corresponding adjustment to the funding mechanism to ensure no council is worse off as a result.
  - 16.5. Reversal of the safety net topslices which are unnecessary based on forecast business rate income in 2014/15 and 2015/16.
17. The scope of the review is wide-ranging and various stakeholders are likely to have competing opinions on the future of the system. We will continue to engage with government and other stakeholders in the run-up to the announcement of reforms to ensure we get the best deal for local government.

### **EU Funding**

18. Cllrs Sparks and Porter met the new Minister responsible for EU funding, James Wharton MP, Parliamentary Under Secretary of State at CLG on 13 June. They reiterated the disappointing decision made previously not to give local areas (39 LEP EU funding committees) strategic oversight over how when and on what EU investment is deployed locally. They suggested that the time was right to revisit the decision and look at ways in which devolved powers could be offered to local areas. They agreed to work together over the next year on ways in which that could be done, with a view to the twelve month review being an opportunity to assess current arrangements.
19. LGA and Local Enterprise Partnership (LEP) representatives attended the Growth Programme Board (GPB) on Monday 15 June. The Minister stressed the importance of positive central and local relationships within the European programme, and expressed his strong intention to keep under review practical devolution of powers and responsibilities from central government to local partners (which in principle can include looking at Intermediate Bodies). He added that he did not wish to raise unrealistic expectations, and wanted to ensure there were appropriate protections for the tax payer and the Department.

20. LGA and LEP representatives raised a number of matters including:
- 20.1. local partners' concerns over central Government's failure to provide clarity on match for the areas eligible for the £160 million Youth Employment Initiative (YEI);
  - 20.2. the risk that partners on local ESIF sub-committees would "walk away" if they feel their input was disregarded;
  - 20.3. Pushing for greater clarity and coordination between government departments on project call activity planned after July 2015; and
  - 20.4. the issue of local Co-Financing Organisations (CFOs) - LGA submitted a position paper to DWP and DCLG which challenged their rationale for not enabling councils to apply for CFO status in the 2014-20 programme. DWP will follow this up with a separate discussion.
21. In an interview with the LGA First Magazine the Rt Hon Greg Clark MP Secretary of State for the Department for Communities and Local Government (DCLG) gave a very clear indication that the current arrangements were not a permanent solution and that he would push for greater local management of ESIF funding. See [http://issuu.com/lgapublications/docs/new\\_first/17?e=16807299/13783391](http://issuu.com/lgapublications/docs/new_first/17?e=16807299/13783391)
22. There may be announcements in the Budget 2015 (8 July 2015) on local areas being awarded enhanced freedoms and flexibilities over their EU spend as part of a wider devolution package. A verbal update will be provided.
23. Cllr Sue Murphy (LGA Resources Board Lead Member for EU Funding) chaired a workshop at the LGA Annual Conference in Harrogate. The session Access to EU funding opportunities 2014-20: Experiences from the ground, included speakers Chris Pomfret (Cornwall and Isles of Scilly Local Enterprise Partnership LEP), Andrew Lewer MBE MEP (European Parliament - Brussels) and Adri Hartkoorn, Programme Manager, City of Rotterdam.
24. Key themes discussed included local operational experience of the first few months of the European Growth Programme, the extent of local partners' influence on project funding determinations and the state of relations between local and national stakeholders. There was general agreement amongst delegates and speakers that local partners need to confidently demonstrate their capacities to take on greater roles in deciding how EU funding is spent, in advance of any formal review of governance arrangements. This would provide a much greater rationale to insist that the European funding programme was brought into line with devolution discussions happening in other parts of government. Speaker presentations will be available to download from: [www.local.gov.uk/european-and-international](http://www.local.gov.uk/european-and-international).

25. This workshop also formally launched the LGA publication “2014 – 2020: A guide to EU funding for councils - July 2015”; developed in conjunction with local authority practitioners, the guide details over 30 EU funds and loan schemes worth over €20bn to local areas in England. It also includes case studies and useful tips to help councils demystify the wide range of EU funding opportunities now available. 2014-20: A guide to EU funding for councils (July 2015) can be downloaded from:  
[www.local.gov.uk/european-and-international](http://www.local.gov.uk/european-and-international).