

Local Government Association Briefing

Debate on the future availability of resources for the provision of district council services in two-tier areas

House of Lords

Thursday 19 October 2017



Key messages

- **Funding pressures:** English councils will have had to deal with £16 billion of reductions to Government grant funding by the end of this decade. By 2019/20, more than half of all English councils, including three quarters of district councils, will no longer receive the revenue support grant.
- **The Budget:** Local services will face a funding gap of at least £5.8 billion by 2019/20. It is vital that the Budget recognises that councils cannot continue without sufficient and sustainable resources. The Government should ensure fair funding for local government, take forward the further devolution of business rates and remove the significant central controls on council tax.
- **Housing:** Dealing with the housing crisis is an urgent priority for both national and local government. We are calling on the Government to provide a stable policy environment to allow councils to invest in housing. We need to re-establish self-financing, lift the housing borrowing cap and allow councils to use 100 per cent of the receipt from Right to Buy sales to invest in new homes. There should also be no further increases in the New Homes Bonus threshold.
- **Homelessness:** The pressures facing homelessness and temporary accommodation means local government faces a £200 million funding gap by 2019/20. The Government should make cheaper finance available to councils seeking to acquire homes for the use of homeless households at scale. The Local Housing Allowance freeze should be lifted and temporary accommodation should be exempted from the overall benefit cap.
- **Transport:** A simplified and longer term approach to funding for local transport would support the Government's industrial strategy. We are calling on the Government to fully fund the statutory concessionary fares scheme, simplify and give local authorities the same long-term certainty in funding as enjoyed by Highways England and Network Rail, and to invest the equivalent of 2p per litre of existing fuel duty per year to tackle the £12 billion potholes backlog.

Our [submission to the Autumn Budget](#) details the unfunded cost pressures facing local government and makes positive recommendations which will empower all councils to deliver economic growth and high quality public services. Below are some recommendations from policy areas which will make a particular difference to the resourcing of district councils.

Briefing

Background

Funding pressures

English councils will have had to deal with £16 billion of reductions to Government grant funding by the end of this decade. District councils in two-tier areas will have had a reduction in external income of almost 64 per cent in real terms in the period from 2010 to 2020.¹ This is partly mitigated by council tax income in the period since 2016. However, even if councils take advantage of the full flexibility allowed by Government rules the reduction in real terms is 38 per cent.

Over the current Spending Review Period (2015/16 to 2019/20) the total Revenue Support Grant (RSG) to district councils in two-tier areas will fall by almost 96 per cent.² By 2019/20, more than half of all English councils, including three quarters of district councils, will no longer receive RSG. These councils will have to contribute funding to the Government instead, which fundamentally changes the relationship between local and national government. 97 per cent of councils have signed up to the four-year deal. However, economic and political circumstances have changed with the Local Government Finance Bill no longer going through Parliament and inflation higher than forecast.

Local services face a funding gap of at least £5.8 billion by 2019/20. In our submission to the Autumn Budget we detail the unfunded cost pressures facing local government.³ Many local services are facing significant funding gaps and it is vital that the Budget recognises that councils cannot continue without sufficient and sustainable resources. Our submission makes positive recommendations on a range of policy areas with the intention of empowering all parts of local government – combined authorities, counties, districts, London boroughs, metropolitan and unitary authorities – to deliver economic growth and high quality public services.

We would like to continue working with the Government on further retention of business rates, and the extra income should go towards meeting the funding gap facing local government. However, further business rates retention may not be sufficient as the only measure to achieve sustainable funding for local services. Growth in business rates is unlikely to be enough to meet future inflation and demand pressures, in particular in demand-driven services such as homelessness; this will continue to need to be addressed going forward.

Ensuring fair funding for local government and removing the significant central controls on council tax will also be important if councils are to be able to support their residents, local businesses and the Government's ambitions for our country.

Housing and planning

Dealing with the housing crisis is an urgent priority for both national and local government. The country needs to build many more homes to keep up with demand. New homes must be in the right locations, genuinely affordable for local residents, of a good quality and of the right type. They must be supported by adequate infrastructure and services and delivered quickly.

¹ LGA analysis of [DCLG Core Spending Power figures](#)

² Ibid

³ [LGA Autumn Budget submission 2017](#)

Councils need to be able to source capital funding free from external restrictions. This includes being able to invest locally by accessing prudentially assessed borrowing easily. Any changes to the guidance on local authority capital and borrowing should not alter this fundamental point. The Housing Revenue Account (HRA) borrowing cap should be lifted and HRA borrowing removed entirely from contributing to the national public debt, to free councils from restrictions on borrowing to build homes. Councils should also be allowed to use 100 per cent of the receipts from Right to Buy sales to invest in new homes. Local authorities with no HRA should be able to access borrowing to develop housing if that would help meet local housing need. The flexible use of other capital receipts for revenue projects should be extended beyond 2020. There should also be no further increases in the New Homes Bonus threshold.

Planning departments are severely under-resourced, while local taxpayers are subsidising planning services by 30 per cent because nationally set planning fees do not cover the full costs. The Government should rapidly progress the commitment to allow councils to increase planning fees by 20 per cent. They should also go further by committing to allow every council the flexibility to increase them up to 40 per cent while testing a fair and transparent scheme of local fee setting.

Homelessness

The last six years have seen a 44 per cent increase in the number of homeless households needing accommodation and a 102 per cent increase in rough sleeping. Councils are currently housing 77,240 families including 120,540 children in temporary accommodation, at a net cost that has tripled in the last three years.⁴ Non-payment of rent now triggers a third of all new homelessness. This is due to rents rising and reduced welfare assistance meaning that landlords struggle to provide for low-income households. In high cost areas, even working families are being impacted.

The pressures facing homelessness and temporary accommodation means local government faces a £200 million funding gap by 2019/20. Alongside a strategy to build more affordable and sustainable homes, the Government must act now to end homelessness. The Government should make cheaper finance available to councils seeking to acquire homes for the use of homeless households at scale. The Local Housing Allowance (LHA) freeze should be lifted and temporary accommodation should be exempted from the overall benefit cap.

Transport

A simplified and longer term approach to funding for local transport would support the Government's industrial strategy through greater scope for efficiencies, innovation and business investment. We are calling on the Government to fully fund the statutory concessionary fares scheme, which councils subsidise by at least £200 million each year. We would also like to see the Government simplify and give local authorities the same long-term certainty in funding as enjoyed by Highways England and Network Rail and to invest the equivalent of 2p per litre of existing fuel duty per year to tackle the £12 billion potholes backlog.

⁴ [Live tables on homelessness](#), DCLG, 2017