# Local Government Association briefing, Westminster Hall debate, changes to the level of local government funding
# 3 February 2016

Briefing

For more information, please contact:
Aneeas Tole, Public Affairs Advisor, Local Government Association
aeneas.tole@local.gov.uk 020 7664 3236

## KEY MESSAGES

- The Government forecasts the total funding available for council services to be broadly similar in 2019/20 as it is today. In the first year according to the provisional Local Government Finance Settlement there is a fall in 'core spending power' of 2.8 per cent. Without any increase in council tax there is a fall of 5.3 percent. The reforms to the allocation of central government grant and the rising cost pressures on local government will impact on the delivery of local public services. Being allocated the same amount of money to spend in four years' time means that any pressure on spending will have to be funded by councils finding savings elsewhere in their budgets.

- The 2016/17 provisional Local Government Finance Settlement confirmed that core government funding ('Revenue Support Grant') to councils would reduce by 27 per cent (£2.6 billion) in 2016/17.

- Transitional support is needed for councils over the next two years or the impact of government funding changes risk leaving many local authorities at financial breaking point and the existence of some local services under threat.

- Some councils are already in financial difficulties after years of funding reductions. Many more could face a financial 'tipping point' as a result of changes to the way councils will receive central government funding over the course of the Parliament.

- Proposals to provide local government with longer term financial settlements, devolve powers on business rates and give councils more flexibility in setting their council tax shows Government has listened to calls from the LGA and councils. Recent announcements also confirm that devolution of power from central to local government is an important part of public service reform for this administration. The ultimate goal must be to continue to recognise the important role of councils in creating growth and to secure further fiscal devolution and the localisation of revenue from existing national taxes.

- Adult social care is critical to the health and wellbeing of people with a range of often complex needs, their carers and families, and our communities more generally. However, there is a continuing lack of proportionality between additional funding for the NHS and adult social care. While much of the funding for the NHS is frontloaded, additional resources from the Better Care Fund will not be available until 2017 and only £100 million will be available in 2017/18. Some councils will receive none of this money in any of the years.

- In its response to the changes proposed in the Spending Review and the provisional Local Government Finance Settlement consultation[i], the LGA is calling for:

- All councils (not just the 51 district councils with the lowest council taxes in 2015/16) should be allowed to raise their Band D council tax by £5 or 2 per cent, whichever is higher.

- Councils strongly support the offer of four-year funding settlements – a reform local government has long called for. Uncertainty in respect of the outcomes of reviews into the New Homes Bonus and the improved Better Care Fund must be tackled promptly.

- The LGA and councils will work with the Government to ensure the proposal to move to 100 per cent business rates retention works effectively.

- With almost all of the extra £1.5 billion social care investment promised by the Government unavailable until 2019/20, the LGA has said the planned £700 million of new funding for the Better Care Fund must be also brought forward to 2016/17. This is vital in order to help alleviate social care funding pressures, to be exacerbated by the introduction of the National Living Wage in April 2016, and with services supporting our elderly and vulnerable at breaking point now.

- Local authorities should be able to use existing or recent capital receipts from the sale of assets to support revenue spending, rather than just new receipts as is being proposed by government.

## BACKGROUND INFORMATION

### Local government funding

On December 17 2015, the Department for Communities and Local Government published its provisional Local Government Finance Settlement. It confirmed that core government funding ('Revenue Support Grant') to councils would reduce by 27 per cent (£2.6 billion) in 2016/17. It also proposed a new methodology for allocating this grant funding which will operate as follows:

- For the previous three years, every council received the same or similar in-year percentage reduction to their own grant funding (in this case 27 per cent). This meant those receiving more government funding received a larger cash funding reduction.

- Councils of the same type and providing the same services will lose the same or similar percentage of funding to their 'core settlement funding' (council tax at 2015-16 levels, business rates, Revenue Support Grant) under the new method.

- In effect, the new system now accounts for the differing extent to which councils rely on grants, locally retained business rates and council tax, making reductions smaller to those that rely a lot more on the grant as a proportion of their total income.

- As a result, local authorities able to raise more of their own revenue from council tax and business rates will receive bigger grant funding reductions than they would have planned for under the previous methodology. Councils will see their grant funding phased out much earlier than expected. For some, the reduction to their core government funding in

2016/17 is higher than the 27 per cent average they would have planned for.

**Council tax referendum limits**

The council tax referendum limit for all councils will remain at 1.99 per cent while social care authorities will be able to increase council tax by a further 2 per cent (3.99 per cent in total). Income from this additional precept must be spent on adult social care.

- LGA analysis suggests that if all 152 social care authorities used the precept in full they would raise £400 million in 2016/17 and the average Band D taxpayer would see an average rise of £24 in their bill (or £47 if core council tax is also increased by 1.99 per cent).

- The LGA has previously estimated that the social care funding gap would grow, on average, by at least £700 million a year over the Spending Review period – before the cost of the National Living Wage is taken into account in full.

- Included in this figure, the National Living Wage will cost councils at least £340 million in 2016/17 to lift pay for staff but primarily to cover increased contract costs to home care and residential providers.

**Business rates**

The LGA and councils will work with the Government to ensure that the proposal to move to 100 per cent business rates retention works effectively. The key issues for local government are:

- Ensuring there is an effective system of equalisation between local authorities following the move to full retention and that this is transparent. Local government is keen to work with the Government on this issue at pace. Any solution must take into account decisions on which grants and responsibilities will be funded from business rates.

- A consideration of a situation where demand for services over time outstrips the rate at which business rates can grow.

- Ensuring clarity on the additional responsibilities local government will take on with 100 per cent retention. This has to be taken in the context of the reductions that have already been confirmed to the Revenue Support Grant.

- Creating a new regime of appeals to ensure more financial certainty for councils.

- Consideration of a sub-national risk sharing arrangement as well as how safety nets can be funded.

- Giving councils the powers to vary business rates.

**Social care funding**

Ahead of the Provisional Local Government Finance Settlement, we drew attention to the varying impact of the council tax measures across the country. The Government has proposed to allocate the Better Care Fund monies in such a way as to ensure that those councils with a smaller council tax base still receive adequate shares of the total additional funding. Whilst these new flexibilities will help councils raise additional funds, we want to ensure the administrative burden on councils is kept to a minimum. In particular, not all councils will be able to, or will want to, use the council tax flexibility. And even if all councils did use it in each of the four years, the Government estimates that raising council tax would only raise £1.8 billion by 2019/20.

We called for a delay to phase two of the Care Act reforms and called for the earmarked money to be reinvested into the system to deal with the ongoing social care pressures. The provisions to increase the Better Care Fund go some way to meeting our proposals, but it is less than the £6 billion earmarked which we wanted to see retained in the system.

**The Better Care Fund**

There is no increase in Better Care Fund funding until 2017 and the additional £1.5 billion will not be available in full until 2019/20, with only £105 million allocated in 2017/18. This is not all new funding as this is part-funded by an expected £800 million saving from New Homes Bonus reform. Due to the proposed distribution methodology, a handful of councils will receive no additional Better Care Fund cash through this route, and some others will also lose more in their forecast New Homes Bonus income than they gain back in Better Care Fund contributions. It is also unclear if the full £1.5 billion would still be allocated if the Government does not achieve the intended New Homes Bonus savings.

As with any conditions attached to the council tax precept, we are calling for any conditions attached to the use of additional funding through the Better Care Fund to be kept to an absolute minimum.

**Distribution of funding across the public sector**

The Spending Review announced a 56 per cent cumulative real terms reduction in government grant funding for local government. When taking into account OBR forecasts of income raised locally by councils (council tax and business rates) the overall position is a 6.7 per cent real terms reduction in local government spending. This has translated into the provisional Local Government Finance Settlement offer for future years, which set a reduction in core spending power (similar to local government spending above) of 0.5 per cent before inflation by 2019/20.

This contrasts sharply with funding for the NHS, which will receive £10 billion more in real terms by 2020/21 than in 2014/15. A majority of this will be frontloaded, with £6 billion available by the first year of the Spending Review period. NHS spending will increase from £101 billion in 2015/16 to £120 billion by 2020/21.

It's clear that despite the rhetoric of integration and a 'single' or 'whole' system of care, the two component parts of that system face dramatically different funding outlooks.

[i] To read the LGA's full consultation response please visit: http://www.local.gov.uk/documents/10180/7632544/Local+Government+Finance+Settlement+1617++LGA+response+final.pdf/5275a802-d985-4a43-8491-0a4017f515f8