

The 2019-20 Local Government Finance Settlement

Technical Consultation

A Submission by:

**The Chartered Institute of Public
Finance and Accountancy**

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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1. Executive Summary

- 1.1 Within this submission, CIPFA will consider the proposals being put forward for consultation by central government. We will consider the detail of those proposal within the context of the Spending Review package announced in 2015 but make clear that CIPFA considers that there is inadequate funding to support the local government sector and urgent action must be taken by central government to address this funding crisis.
- 1.2 The current method of funding local government is through a combination of reducing grants, council tax and business rates. CIPFA considers these funding mechanism to be insufficient for the long term funding of local government services and is working with other senior stakeholders to influence long term funding solutions, greater fiscal devolution¹ and improved financial resilience.²
- 1.3 The multiyear settlement³ was accepted by CIPFA along with the majority of councils as it provided longer term stability. CIPFA continues to believe longer term funding stability offers a better environment for financial resilience and decision making.
- 1.4 While it is welcomed that MHCLG have listened to local authorities concerns and allocated some more funds to support social care provision through the continuation of the Adult social care precept, CIPFA are concerned that this provision will not be enough to meet the challenges that many councils are facing in caring for their most vulnerable citizens.
- 1.5 We urge the Government to come forward with a longer term solution and look forward to the publication of the Social Care Green paper. We also raise concerns about the rising costs the consultation paper.
- 1.6 Local people have a right to hold those responsible for public services to account⁴. However, we remain unconvinced that the council tax referendum approach can be practically implemented. For example the 2015 experience of Bedfordshire Police would serve as a case study where the 48p rise on a Band D property was not supported.
- 1.7 CIPFA welcomes the fact that government has acknowledged the need to review Negative Revenue Support Grant. However the approach suggested in the consultation, while being a working solution for 2019/20, does not support the sectors ambitions for fairer distribution according to need.

¹ Independent Commission on Local Government Finance 2015

² CIPFA Financial Management Code and resilience Index consultation

³ Final Local Government Finance Settlement England 2016- 2017

⁴ CIPFA manifesto 2015

2 Multi Year Settlement Offer

2.1 In December 2015, the Government published indicative funding levels for the following four financial years (2016-20). Local authorities were given the opportunity to 'sign up' to a four-year settlement and the majority supported this approach.

2.2 CIPFA supports the longer term certainty provided by the introduction of the four year budget but does not consider that there is sufficient funding to support the sector's ambitions for sustainable financial resilience.

2.3 CIPFA is currently engaged with government on both the fair funding and business rates review but would like to take this opportunity to reiterate the call for the decentralisation of local government funding allocation. There is a spending review in the spring of 2019 and this would be an opportunity for the independent funding body to advise the government on the distribution of funding.

2.4 We repeat the call of the Independent Commission on Local Government Finance for an independent funding body

"appointed by the sector and government together, whose role would be to advise government as it carries out this task and to report to Parliament on the reasonableness of the government's decisions."⁵

3. New Home Bonus

3.1 While the consultation does not ask a specific question regarding New Homes Bonus, CIPFA welcomes the government's commitment to continue to return to Local Government any New Homes Bonus funding that is not used for the intended purpose. CIPFA would request that further details should be provided when available. ⁶

3.2 While it is unsurprising given the state of public finances that the government expects to increase the New Homes Bonus baseline in 2019 – 20 it should be remembered that some councils may have included this in their growth strategies and will not welcome this change.

3.3 CIPFA acknowledges the distributional inequalities that have been a cause of concern⁷ for some time as a result of New Home Bonus. The consultation makes reference to the "inability to reward those who are the most open to growth"⁸. But CIPFA would not support any reforms that result in additional money being removed from the Local Government quantum.

⁵ Independent Finance commission 2015

⁶ £240M allocation to Adult Social care

⁷ National Audit Office New Home Bonus March 2013

https://www.nao.org.uk/wp-content/uploads/2013/03/10122-001-New-Homes-Bonus_HC-1047.pdf

⁸ The 2019- 20 Local government settlement

4. Council Tax Referendums Principles

- 4.1 Each year the Secretary of State must set thresholds relating to council tax rises. Local authorities wishing to raise council tax by more than the stated threshold must have the rise approved in a local referendum.
- 4.2 Our research shows us that the inequalities of council tax increase every year. Last year's CIPFA's annual Council Tax survey revealed that households in England would see the highest council tax increases for 14 years. The average rise was 5.1%, or double the rate of pay and pension increases – and that came on top of a rise of 4% for the previous year.
- 4.4 Due to the historic nature of council tax policy decisions and the fact that there has been no revaluation since 1991, there is a wide variation in charges across the country. The average band D equivalent in the north-east is now £1,799; in inner London it is £1,194.
- 4.5 While CIPFA appreciates the importance played by council tax within the public sector finance system there is increasing concern on the reliance of this income to fund public services. Any additional charge requiring a referendum has little chance of success and the voluntary option as adopted by Westminster is not a sustainable proposal for the majority of councils. In 2015 the rejected Bedfordshire Police referendum requiring 48p on a Band D property is an example of the challenges faced in a referendum.
- 4.6 Authorities need local freedoms and flexibilities with regard to council tax and CIPFA encourages central government to review some of the options around this tax. A forthcoming IFS study into council tax due in the autumn may prove a catalyst for this conversation.
- 4.7 When the social care precept was first introduced the statement from the MHCLG confirmed that the net increase of the social care precept would need to remain at 6% over the three financial years, meaning if councils chose to levy 3% in both 2017/18 and in 2018/19, they would not be able to raise a precept in 2019/20.
- 4.8 CIPFA research shows that 55 Local Authorities have no scope to raise additional income through the Adult Social care precept in 2019/ 20.⁹
- 4.9 This would suggest that there are a number of Councils that will be unable to raise additional funds this year to supplement their adult social care budgets. Is there an intention to make additional funding available for these Councils?

⁹ CIPFA Statistical Analysis Council Tax 2018

5 **Negative Revenue Support Grant**

- 5.1 In 2016 97% of Local Authorities agreed to the four year offer¹⁰ which included negative Revenue Support Grant (RSG). The four-year offer introduced a reduction calculation which included council tax income, which meant RSG share fell below zero for authorities with the highest levels of business rates and council tax income.
- 5.2 It is well documented that RSG has been reducing since 2010. In 2015 it was £15.2bn and by 2019 it will have reduced to £2.3bn. Negative RSG is £152m in 2019/20.
- 5.3 CIPFA welcomes the fact that the consultation proposes to continue the policy of eliminating the impact of negative RSG. Whilst CIPFA understands why the approach that has been suggested by central government is favourable in light of funding restrictions and complexity, CIPFA is concerned that this should be seen in the context of the discussion on redistribution and need.
- 5.4 The £152m of negative RSG would, under the proposal be negated by foregone business rates receipts to Government. In a time when there is acute austerity within the local government system it is possible to argue that this additional "payment" is not necessarily following need.
- 5.5 CIPFA welcomes the fact that government has acknowledge the need to review this approach but while this approach is a working solution for 2019/20 it does not support the sectors ambitions for fairer distribution.

¹⁰ Final Local Government Finance Settlement England 2016-17