DISTRICT COUNCILS' NETWORK
Innovative and collaborative solutions for people and places

District Councils' Network Budget Representation - Spring Budget 2017

About the District Councils' Network

The District Councils' Network (DCN) is a cross-party member led network of all 201 district councils. We are a Special Interest Group of the Local Government Association (LGA), and provide a single voice for district councils within the Local Government Association.

District councils in England deliver 86 out of 137 essential local government services to nearly 22 million people - 40% of the population - and cover 68% of the country.

General comments

The DCN welcomes the opportunity to input into the Spring Budget 2017, we have set out below our key issues and policy suggestions, but would like to draw your attention to the following points.

Reforms to the New Homes Bonus outlined in the provisional local government finance settlement will have a disproportionate and adverse impact on the communities we serve and remove both the incentive for growth and the funding to support it - despite the fact that district councils currently site more than one-in-two of all new house builds nationwide. In some cases these changes will destabilise the ability of district councils to deliver their core functions as housing and planning authorities.

The funding crisis for social care is significant and a durable solution to it needs to be found and we realise that the purpose of the changes to New Homes Bonus was to provide funding to support social care. However the changes to New Homes Bonus do not constitute such a solution. The statement that "£240 million has been reallocated from further savings to the New Homes Bonus, to support social care in 2017-18" fails to recognise that £165 million of the savings are being taken from Councils with social care responsibilities. The net funding increase for these Councils from these reforms is therefore only £75 million, which is clearly insufficient in the context of the £1.3 billion funding gap up to 2020 outlined by the LGA in its "Adult social care funding: 2016 state of the nation report." The application of these temporary solutions, which only recycle existing local government funding, does not tackle the wider need for a sustainable and long-term funding solution, alongside a far greater focus on prevention to reduce demand. The changes therefore have failed to achieve their policy objective of financing adult social care. Shire districts play a huge role in prevention, especially in helping families with children which saves much in the wider operational social care, far wider than adult social care where the greatest cost pressures lie.

The ambitious challenge of building 200,000 new homes a year remains. Districts Councils are - and will continue to be - at the forefront of delivering the country's housing needs since they already enable one out of every two new homes built nationwide. District Councils will need to take up the challenge of providing the new types of housing needed for older people if we are to provide a comprehensive response to the social care crisis but the reduction in the reward for delivery of more new homes changes, alongside the 1% rent reductions, the very tight rules around the treatment of

Right to Buy receipts and the refusal to consider lifting the housing borrowing cap will frustrate our desire to deliver housing growth. The increasing pressures of homelessness will also impact directly on district councils and taken together with the reductions to the New Homes Bonus create a perfect storm for district councils. We would call on the Chancellor to use the Spring Budget to outline a changed approach that will tackle the problems outlined.

The DCN supports the move to 100% retention of business rates growth from 2020. However, Government should be clear about the direction of travel, so the system can be introduced in a way that avoids unintended consequences but which also rewards those councils that prioritise business rates growth. Local government needs clarity and certainty to enable good financial planning over the medium term when 100% retained business rates replaces other funding streams from 2020. Central decisions on national business rates relief are a concern to local authorities and the financial impacts could be significant but there is no local control over these decisions. We would therefore call on the Chancellor to carry out an impact assessment on the amount of money available overall for business rates, which would include compensation to local authorities for the lost income relating to national reliefs.

The DCN and Association of Drainage Authorities (ADA) have discussed the impact and viability of the Internal Drainage Boards' (IDB) Special Levy which currently forms a part of the overall council tax bill. The two bodies have agreed to request that government works with us to take forward and implement proposed changes to the treatment and funding of Special Levies as set out in this budget submission (and previously submitted as a response to the Autumn Statement).

We believe there is a need for the Government to change its timetable for local government finance announcements. Whilst 15 December this year was slightly earlier than some previous years, it is still far too late to support good financial planning. If there is going to be an autumn budget from now on, DCLG should set itself the aspiration of publishing the Settlement at the same time or no more than a day or two later.

New Homes Bonus

It is clear from the figures published in the *Provisional 2017-18 Local Government Finance Settlement* that District Councils are taking the largest reduction in spending power in 2017-18 compared to other classes of authorities. Based on the provisional settlement figures, shire districts core spending power has reduced by 5.2%, which is more than twice as much as the next closest reduction of 2.4% (for metropolitan fire authorities) and far higher than the average reduction of 1.1%. District Councils are therefore disproportionately impacted by these proposals, leading to further financial instability and pressure on Districts coupled with the reduced benefit of the delivery of growth/houses from the proposed new homes bonus changes.

The provisional 2017-18 local government finance settlement consultation included the introduction of a seemingly arbitrary 'deadweight' baseline level of 0.4%. This level was not included in the original consultation and does not appear to form part of the consultation responses and could not have been predicted by authorities. Councils have been hit hard by the baseline (the principle of which was opposed in the consultation by 80% of respondents) and as a result of this many Councils will receive no additional new homes bonus funding for 2017-18. Most Councils will have reasonably assumed that the worst case scenario would be that the Government would proceed with a baseline of 0.25%. As the 0.4% level is far higher than the 0.25% originally consulted on, it will therefore be much more difficult for councils to transition effectively, particularly as there is already a move to five years then four years (from the original six years award).

New homes bonus funding has already reduced by £40m for this financial year and there is now a proposal to reassign a further £117m in 2017-18. This is surely far higher than the difference between a 0.25% baseline for housing growth and a 0.4% baseline. Therefore the cost of the transitional arrangements we are proposing could be met by the DCLG not reducing their contributions to new hones bonus if 2017-18 and the following year.

At this high level of 0.4% the baseline will have reduced, if not all but removed, for many councils the incentive that was trumpeted when the scheme was introduced in 2011. The Secretary of State is clear that housing is his number one priority, yet this late and unjustified change will hinder planning authorities in supporting housing growth.
Therefore we propose that the 'deadweight' baseline level should be fixed at 0.25% for two years, to assist councils through a transition stage which helps to mitigate the longer term effect of the 0.4% 'deadweight' level.

A further concern is within paragraph 2.5.3 of the consultation where it states:
"….The Government will retain the option of making adjustments to the baseline in future years in the event of a significant increase in housing growth."
This proposal creates added uncertainty for councils in time of increasing un-certainty in other areas.
We would therefore propose that the baseline level is fixed for the period of the four year settlement, i.e.

- **0.25% 2017-18 and 2018-19 (for transition purposes)**
- **0.4% maximum for the remainder of the settlement term (to provide some certainty for councils)**

This is our preferred option, however we would be prepared to explore other avenues which deliver alternative proposals which give a similar outcome.

The New Homes Bonus (NHB) was originally allocated to authorities for a six year period, however the provisional finance settlement consultation proposes a retrospective reduction to 5 years of NHB in 2017/18 and fours year from 2018/19. Those District Councils that were able to deliver growth from 2012/13 and who have made financial decisions on the basis of 6 year allocations are now facing a retrospective cut for new bonus allocations covering a significant period. Added to this the proposed 'baseline' introduction of 0.4%, simply undermines the stability that the concept of multi-year financial allocations planning was supposed to provide and creates confusion around the incentive rather than sharpening it.

Even accepting that a 'deadweight' baseline should be in place, we are concerned that the New Homes Bonus funding has been reduced, due to the scaling back of payments from six years to five years in 2017-18 to contribute to the funding gap for adult social care. The scale of this reduction from the 2017-18 figures provided in the February final settlement to the figures in the December provisional settlement is considerable (from an illustrative £488 million back in February to £413 million in December). The figures back in February will have been the basis for Councils' efficiency plans which were agreed by DCLG in November 2016, so to change them so significantly barely two months before Councils have to set their Council Tax, is not consistent with the government's stated intention to give Councils greater financial certainty. This has particularly impacted District Councils, especially those who had been delivering the growth.

While a continued focus on rewarding those councils that deliver the most housing growth is welcomed, the DCN is very concerned that these substantial reductions in funding for New Homes Bonus for all councils, will blunt its positive impact, rather than sharpen its focus - at a time when housing growth is a priority for the Department for Communities and Local Government. Previous

Government reviews have concluded that the New Homes Bonus scheme is working well and making a difference to the delivery of housing, these changes will undermine those results in future. Loss of New Homes Bonus funding to councils will inevitably reduce the number of projects that promote housing and economic growth and improve the health and wellbeing of residents, and which, furthermore, reduce the burden of demand on Adult Social Care

Sustainable Funding Solution for Social Care

The DCN recognises the difficulties facing councils responsible for social care and recognises the need for additional adult social care funding to meet ever-increasing demand. The funding crisis for social care is indeed significant and a durable solution to it needs to be found and we realise that the purpose of the changes to New Homes Bonus was to provide funding to support social care.

However the changes to New Homes Bonus do not constitute such a solution. The statement that *"£240 million has been reallocated from further savings to the New Homes Bonus, to support social care in 2017-18"* fails to recognise that £165 million of the savings are being taken from Councils with social care responsibilities. The net funding increase for these Councils from these reforms is therefore only £75 million, which is clearly insufficient in the context of the £1.3 billion funding gap up to 2020 outlined by the LGA in its "Adult social care funding: 2016 state of the nation report."

The application of these temporary solutions, which only recycle existing local government funding, does not tackle the wider need for a sustainable and long-term funding solution, alongside a far greater focus on prevention to reduce demand. In our view, the Government needs to find new money for social care, for example by re-profiling the funding within the Better Care Fund (there is some growth in later years that could be brought forward). It seems unlikely that many county councils, which have elections in May, will take advantage of the greater flexibility to increase council tax for social care by 3% instead of 2%.

Previous Government reviews have concluded that the New Homes Bonus scheme is working well and making a difference to the delivery of housing. Councils across the country are utilising new homes bonus funding to provide innovative projects which support both the delivery of housing and economic growth, which lead to associated economic and health benefits.

We would like to re-emphasise a suggestion the DCN have raised previously, which is the relevance and importance of a prevention council tax precept - a 2% prevention levy for district councils - to reflect the key role that districts play in prevention and demand-reduction for the wider public sector across the country.

Housing Growth

Districts Councils are solutions focused and we are keen to deliver one of the key priorities of the Government to deliver more housing. We welcome the recent Government announcements relating to Community Housing Fund, CPO sites, installing infrastructure and selling the serviced plots to self-builders and SME builders. We look forward to contributing to the Housing White paper in due course.

DCN is very keen to build on its good track record, to provide solutions to expand growth and help the Government deliver on its target of one million new homes during the current Parliament. As Gavin Barwell, Minister for Housing and Planning, identified in his recent speech there is no 'silver bullet' solution to housing growth, instead there needs to be a focus on a variety of housing solutions from a variety of housing providers The DCN has identified a number of issues which would enable districts councils to build on the good record they have in delivering extra homes. These include

- the expansion of private and social housebuilding by local authorities,
- enhanced powers for local authorities to take over stalled sites and build them out,
- retaining and enhancing the new homes bonus
- unlocking planning permissions

The potential solutions to these issues are set out below. The DCN would urge the Government to consider making a commitment in the Spring Budget to some of these proposals (we have provided considerable detail to the DCLG on some of these issues already) which would help further unlock the potential for districts councils to be in the vanguard of delivering extra housing. The DCN would also urge the Government to consider a range of housing products, be they to buy or rent, to ensure access to appropriate accommodation for those on lower incomes or those not yet in a position to buy.

<u>New Homes Bonus</u>
The New Homes Bonus scheme has acted as a powerful incentive to deliver increased housing growth across the country, please see previous section of this document relating to New Homes Bonus.

<u>Expansion of private and social housebuilding by local authorities</u>
It is currently not cost-effective for districts to deliver additional social housing due to the **limitations on borrowing imposed by the Housing Revenue Account system**. As recommended by the House of Lords Select Committee on Economic Affairs in their report titled Building More Homes “allowing LAs to borrow under the prudential regime to build all types of housing” would be a significant step forward and would potentially help increase delivery of housing.

<u>Enhanced powers for LA’s to take over stalled sites and build them out</u>
The DCN would **welcome an extension of the compulsory purchase regime** to enable councils to take over stalled sites at market value more quickly that the current CPO regime allows for. Such sites could either be built out either directly by the local authority (or arm’s length company, or JV further detail below), or could be parcelled out for sale and delivery to SME builders, or for custom/self-build increasing choice and competition in the local housing market.

Additionally, a **more pragmatic approach to financing and “enabling infrastructure”** nationally to unlock sites for delivery of new homes. For example by allowing local authorities to pool CIL income and being able to borrow against future CIL income to forward-fund infrastructure which can be a key barrier to delivering some larger sites. It would appear irrational that authorities can borrow against expected s106 receipts but are prohibited from borrowing against CIL even when charging notices have been issued.

<u>Unlocking existing planning permissions</u>
The DCN proposes that in order to minimise the risks of slow delivery on sites with planning permission, the current arrangements for Planning Performance Agreements could be expanded into Planning Delivery Agreements, with the PDA setting out arrangements to secure actual delivery of new homes. For PDAs to work effectively, they would need to be binding on all parties, including the developer/housebuilders, statutory consultees and utility companies. A further option would be for the levy of Council Tax on unbuilt units if they do not build out to time agreed in the PDA. There should also be more freedoms to establish development corporations across LA geographies.

<u>Right to buy receipts</u>
It would be helpful if the Spring Budget could consider relaxing the very tight rules around the treatment of Right to Buy receipts. Currently these receipts have to be spent within a three year period and with every property only able to be funded 30% from these receipts, new homes require

match funding of 70% by the Housing Revenue Account in order to use them to build new homes. Most housing authorities with their own stock have taken a hit on their 30 year housing business plans because of the unexpected 1% cut to rents and this leaves them short of funds with which to match fund their Right to Buy receipts. It would be helpful if those authorities that can demonstrate they have clear plans for using the receipts to build homes, for example in regeneration schemes, could have an extension of the three years in which to use them. It would also be helpful if these receipts could be used at cash-value rather than the insistence on match funding.

Internal Drainage Board Levies

The current levy system of funding of Internal Drainage is not transparent for the local taxpayer. The costs of local drainage measures are managed and controlled by the Internal Drainage Boards (IDBs) and under legislation these costs are levied on the local authority. Where Special Levy payments form over 50% of an IDB's income, then the Local Council appointed Board members are able to democratically hold 51% of the voting rights on that Board. For many years 87% of the sum levied was reimbursed through the Revenue Support Grant. The significant reductions in Revenue Support Grant in recent years are perceived to substantially erode the proportion of the cost of drainage levies reimbursed to local authorities. As a consequence, local authorities now find it necessary to raise their council tax or make savings against their own services to meet increases in the drainage levies voted for by the Board Members of IDBs.

The Special Levy is not separately identified within the council tax bill and consequently there is no awareness or visibility to the council taxpayer that a part of their council tax payment contributes towards the vital work of the IDBs locally in terms of drainage, water management and flood defences.

The DCN and the Association of Drainage Authorities (ADA) advocate the following principles:
(1) Councils should neither gain nor lose any money from their budgets in the payments of Special Levies – it is simply the most efficient way of collecting rates when larger numbers of small Levy payments are involved.
(2) The legal framework for setting such a precept regime must be as robust as the existing Land Drainage Act to ensure long-term continuity of financing for IDBs and should not be included in any rate-capping doctrines.
(3) Any system of funding for IDB's should enable local authorities' and the IDB's to operate and make decisions in the best interests of their separate organisations to deliver their corporate priorities. Future funding systems for IDBs should remain a collaborative process between local authorities (representing household and business ratepayers) and agricultural ratepayers, with due regard by each party for the best interests of the local communities involved.
(4) The implementation of the proposal should be financially neutral to both the local authorities and IDBs involved at the point of change over.

The DCN and the Association of Drainage Authorities (ADA) have worked together to put forward these joint proposals:

- That the Special Levy is 'decoupled' from the relevant local authorities' council tax
- That the Special Levy is established as a precept in the same way as other precepts are levied and shown as separate entries on council tax charges
- That the DCN and ADA work with DCLG to address the technical details of the implementation of the proposal

Devolution

District Councils will continue to play a central role in generating the economic growth required in localities to ensure that the national economy can continue to grow. The DCN welcomes increased devolution across the country and is clear that when it comes to devolution it should be for local areas to determine what works best for their locality with need at the centre of any devolution developments.

Devolved arrangements should be firmly rooted in the principle of subsidiarity, ensuring that decisions are made at the level closest to those people affected by them and incentivised so the benefits of growth can be at least partially retained in the areas that host them.

The DCN has welcomed the devolution deals agreed in district/county areas and has been supportive of the ongoing negotiations. The DCN recognises that a number of these deals have struggled to 'make it over the line' in their original form, and we would welcome the ongoing commitment from DCLG to continue to drive devolution in district/county areas and support these areas to keep momentum.

The All Party Parliamentary Group (APPG) for District Councils aims to promote the interests of district councils, support closer working with parliamentarians and to raise awareness of the opportunities for districts in shaping the evolving local government agenda. The APPG will until the end of March take oral and written evidence on collaboration and devolution. As part of this enquiry evidence will consider the models and patterns of collaboration with other councils, models and patterns of collaboration with other organisations and wider devolution.

100% Business Rates Retention

The DCN has previously responded in detail to both the 100% business rate retention consultation and the future funding call for evidence. The DCN supports the move to 100% retention of business rates growth. This shift will allow district councils to generate economic growth and reinvest within their localities.

The 100% retention of business rates is an important decision, but Government should be clear about the direction of travel, so the system can be introduced in a way that avoids unintended consequences but which also rewards those councils that prioritise business rates growth. For example although the scheme is badged as 100% retention to councils, will there be any devolving of decision making to councils locally for areas such as national discounts (i.e. Small business Rates Relief), if these decisions remain with central government, can the scheme really be independent?

The DCN together with the rest of the local government community would like to make the point in the strongest possible terms **that the transfer of any new responsibilities must not only be fiscally neutral to each local authority at the point of transfer, it must remain fiscally neutral in the medium to long term**. It is also important that the funding for new responsibilities over the medium to long term is not confused with any growth incentive and the retention of business rates growth proceeds.

From the work that the needs working group are undertaking, it is clear that a new needs formula is required which properly identifies the current elements of major need based upon the 'now' rather than the 'past'. Although historic spending information is always a useful reference point, it should not be taken as a reliable measure of current need – many local authority budgets have changed significantly in recent years as they match revised priorities to reduced resource levels (and no doubt this will continue into the future).

The DCN would also emphasise the following principles (agreed with the County Councils Network and the Rural Services Network) which it would urge the Government to act upon, specifically that the system should

- be fair, transparent and evidence based and avoid unnecessarily complexity
- enable real and lasting self-sufficiency for local government
- be needs-led, account for changing pressures over time and adequately fund statutory demand-led services now and in the future
- meaningfully incentivise and enable the delivery of economic growth, infrastructure, skills and housing
- properly account for the demographic make-up of resident populations and additional costs of deprivation, sparsity and rurality
- take a whole public service approach, enable financial and service reform and recognising council services can reduce costs in other areas
- allow flexibility for local priorities and innovation

Valuation Office (VOA) Resourcing and the Impact on Retained Business Rates

Local authorities are wholly reliant on the VOA to determine valuations of business premises and to consider and resolve appeals from businesses. Since the beginning of the retained business rates scheme authorities have been left holding large levels of provisions for appeals, as a result of the incredible length of time taken for these appeals to be turned around. This was previously recognised by Government when the Chancellor announced a commitment in the 2013 Autumn Statement to resolve 95% of all appeals outstanding at September 2013 by July 2015. Since this time, the VOA resources have been prioritised to deliver the 2017 revaluation, leading to appeals being left for even lengthier periods of time. The inability of the VOA to deal with appeals in a reasonable time frame is not only locking up useful public funds in appeals provisions, but also creating further uncertainty for local authorities for future income levels.

It is clear that the VOA is not adequately resourced to deal with the demand and therefore we would propose that one off additional funding is provided to the VOA to enable them to deal with the backlog of appeals, leading to more certainty for local authorities and businesses and reduced levels of provisions for appeals.

Fees and Charges Freedoms

The majority of fees and charges levied for public services are set locally, by the relevant authority, to reflect local costs. However two fee regimes continue to be set nationally – planning and licensing. **In the majority of cases the centrally set fees do not cover the costs of delivering the service and the DCN would emphasise the importance of receiving income which reflects the cost of the service provided in order to ensure districts can continue to invest and deliver high quality services.** The gap between income and the cost of provision is also increasing despite efforts to keep costs to a minimum, meaning in affect that council tax payers are subsidising commercial activity. The DCN has responded to the detail of the alternative provider model and urges the Government to provide clarity on the localisation of planning fees and this model going forward.

The DCN fully supported the LPEG report and recommendations and views speeding up the local plan process as vital to the delivery of more homes. DCN welcomes the report and recommendations and reiterates its offer of assistance in its implementation.

In a similar vein, DCN would also urge Government to consider allowing councils to cover the full cost of development control and licensing by being able to set the level of fees for the various applications, licences and permits. The current arrangements, whose prime beneficiaries are those who wish to have their applications, licences or permits approved, has to be subsidised by council tax payers and business rate payers in general. Matching income with expenditure would give councils security in meeting the staffing and other operating costs of regulatory work, and protect other resources that support housing growth and economic regeneration.

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