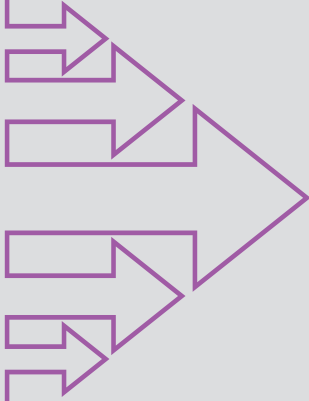




all party parliamentary group for
district councils



Delivering the District Difference

**Report of APPG Inquiry into
district council finances**

July 2018

This report has been supported and funded by the District Councils' Network. Connect is the secretariat of the District Council's All-Party Parliamentary Group. This is not an official publication of the House of Commons or the House of Lords. It has not been approved by either House or its committees. All-Party Parliamentary Groups are informal groups of members of both Houses with a common interest in particular issues. The views expressed in this report are those of the Group.

THE FOLLOWING PARLIAMENTARIANS PARTICIPATED IN THE INQUIRY PANEL

- Mark Pawsey MP
- David Drew MP
- Gillian Keegan MP
- Nigel Mills MP
- Baroness Thornhill

WITNESS

- Cllr John Fuller, Chairman, District Councils' Network
- Cllr Sharon Taylor, Leader, Stevenage Borough Council
- Cllr Tom Beattie, Leader, Corby Borough Council
- Paul Smith, who at the time was Leader of Colchester Borough Council
- Ian Miller, Chief Executive, Wyre Forest District Council
- David Hagg, Chief Executive, Stroud District Council
- Mannie Grewal Ketley, Head of Service & Chief Financial Officer, Rugby Borough Council

Chair's Introduction

District authorities are home to 22 million people. They will play a vital role over the next five years in delivering key government policy objectives of growing the economy and implementing the modern industrial strategy, enabling more homes to be built and easing pressure on the NHS through their role in health prevention and reducing the burden on the social care system. As the District Councils' Network have highlighted, they help to build better lives and stronger economies.

This is why I wanted to establish an All-Party Parliamentary Group for District Councils. To give districts a permanent voice within Parliament, and for Members of Parliament that represent districts areas to have a forum to hear about issues of concern and press the government in a constructive and positive manner for change.

According to the National Audit Office, in the current spending review period *"district councils will see a 13.9% real-terms reduction...the majority of district councils... will stop receiving the revenue support grant by 2019-2020."*¹ The financial position facing district councils is highly challenging, however the APPG received significant amounts of evidence that showed how districts have responded to lower funds through innovation and generating growth. Indeed, a recent LGA report found that district councils have saved £224 million through sharing services, far more than any other type of council.²

There is nothing more important to enable district authorities to deliver for their residents and businesses than ensuring they have suitable and sustainable levels of funding. However, it is clear from discussions the APPG has had at previous meetings that districts are now facing a position where a new funding approach is required in the forthcoming spending review. This is why we decided to undertake a formal inquiry into district finances, and to investigate what measures central and local government can take to support local growth in localities going forward.

I would like to thank the 60 authorities that submitted written evidence to the Group, as well as those who also provided oral evidence to the APPG. Whilst the original focus of this report was on the financial scenarios facing district councils, we also heard compelling evidence of how districts can support the delivery of more homes through incentives, such as the new homes bonus. We also heard evidence on the savings and efficiencies that could be made available in social care by increasing the capacity of district councils to deliver preventative services. Due to the strength of our findings, both issues are explored in detail in the report.

This short report sets out our key findings from the evidence we received and makes a series of constructive recommendations to the government that, we believe, can help district authorities and their local community to thrive over the coming years.

Mark Pawsey MP

Chair, APPG for District Councils | Member of Parliament for Rugby

¹ <https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

² <https://www.local.gov.uk/our-support/efficiency-and-income-generation/shared-services>

Recommendations

- 1 No district council should find themselves in a position of negative Revenue Support Grant (RSG):** The APPG found that by 2019-20, 146 out of 201 district councils (72%) will be in negative RSG, effectively meaning that they will be giving HM Treasury more money than what they receive back from MHCLG to deliver services for their community. This is, as LGA Chairman Lord Porter has said, a “tax” on local areas³. This creates an unsustainable, unjust and unfair dynamic in district areas and the government must take the required steps to ensure no district authority is in negative RSG.
- 2 The Fair Funding Review must reverse the decline in district council spending power:** District councils have seen the biggest reduction in core spending power since 2015 compared to other types of council. This steady decline must be reversed through the fair funding review and by giving greater flexibilities for districts to generate more freedoms. This should be coupled with an increase in spending power for district councils in the next spending review period from 2020.
- 3 Districts must be allowed freedom to introduce greater local freedoms and incentives:** Measures to increase district spending power should include greater flexibilities to raise revenue and maintain incentives to support local growth. At the same time, the government must ensure a suitable safety net remains for areas where growth is more challenging. District councils themselves must continue to be innovative in generating sustainable finances through local initiatives.
- 4 The government should remove the New Homes Bonus (NHB) baseline threshold and commit to the NHB in the next spending review period:** The introduction of the 0.4% baseline threshold for the New Homes Bonus (under which no new homes bonus is received) removed funding of over £70 million from district councils in 2017-18, and was passed to adult social care authorities. Despite this, 57 adult social care authorities were worse off as a result, since they also lost the New Homes Bonus. The government should remove the ‘baseline’ from the New Homes Bonus funding to ensure that all areas are incentivised to build more homes. The New Homes Bonus is a vital incentive in ensuring community support to deliver the homes this country needs. Since its introduction, the number of people supporting new housing in their local area has almost doubled. This is why we believe a commitment should also be given to continue New Homes Bonus, in its current form, throughout the next spending review period to ensure that district councils can support the delivery of the government’s housebuilding targets.

5

District councils should be given greater financial flexibilities to deliver more homes:

The government should increase the time available to local authorities to spend Right to Buy receipts, and 100% of these receipts must be retained by districts. Additionally, local authorities with no Housing Revenue Account should have greater access to borrowing and the borrowing cap must be lifted in its entirety on the housing revenue account of district councils who are stockholding authorities.

6

Districts role in prevention must be recognised:

The government's forthcoming consultation on future funding of adult social care must recognise the important role that district authorities play in delivering preventative services. Districts are Housing and Planning authorities, which means they are responsible for a range of services critical to health - both directly and through their influence on the wider factors that affect public health. Through the provision of leisure and recreational services, installing home adaptations, tackling homelessness, offering debt advice and delivering social prescription, districts are reducing demand on acute end care. The APPG welcomes the new money that the government has made available to local authorities that deliver adult social care through the social care precept on council tax, and we urge the government to enable districts to introduce a 'prevention precept' of up to 2% on council tax. The District Councils' Network forecast this would yield up to £26 million per year in 2019/20 and could generate significant long term savings many more times that amount for the NHS and social care authorities.

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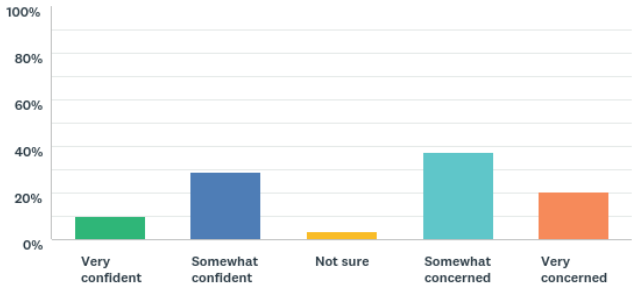
A health prevention fund should be established: The government should commit to establishing a new health prevention fund which districts, alongside other councils and public bodies, can bid for to support projects that deliver preventative services and can reduce the financial burden on adult social care.

Section 1

District finances over the next five years

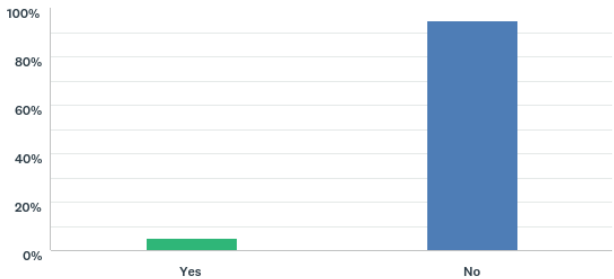
The APPG received views from district councils on the confidence they have of the funding arrangements for their authorities for the coming five years.

How confident do you feel about your current financial position over the next five years?



We found that **57% of districts are concerned about their financial situation** over the next five years. This demonstrates the timeliness and necessity for the Fair Funding review being undertaken by the government. Additionally, we found that **only 5% of district authorities believe the current funding system to be fair**. Of the majority who believe the system is not fair, there were common views that it **does not truly, or fairly, reflect the demands of delivering services in rural areas, it does not account for some very particular local issues**, that the current system was **outdated** and “**backward looking**” and that it was **not transparent** enough.

Do you believe the current funding system across local government in England is fair?



The APPG would like to see the local government funding formula become a more active and enabling device. Rather than responding, it should look ahead to societal, economic and demographic needs and demands and give districts more incentives to address and support these.

As Cllr John Fuller said in his oral evidence “*There need to be incentives to reduce demand and incentives to innovate*”.

Negative RGS and district council spending power

One major issue of financial concern for the majority of district authorities was the prospect of facing 'negative Revenue Support Grant adjustment' (known as negative RSG) in 2019/20. Through written evidence, the APPG asked councils to outline the impact this would have on their authority:



We lose £360k per annum.

At £198k in 2019/20, this has increased the savings requirement we need to make in order to balance our budget and continue to deliver core services.

£250k per annum from 2019/20.

This will increase our funding gap in 19/20 by £500,000.

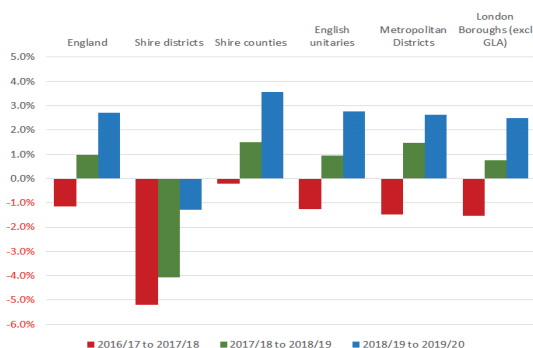
It will require us to look for other income streams / business rates growth.

It makes it difficult to balance the budget putting services at risk if replacement funding cannot be found.

Paul Smith, then leader of Colchester said "When I first became a councillor, which was only 19 years ago, we were getting £12 million a year from the government in Revenue Support Grant. As I said, next year it will be negative £400,000. Those are huge swings for any authority to take".

Negative RSG is particularly concerning for district authorities as they have faced the largest cut in spending power compared to other councils in the current spending review period.

Year-on-year changes in core spending power in the Local Government Finance Settlement from 2016/17-19/2020⁴



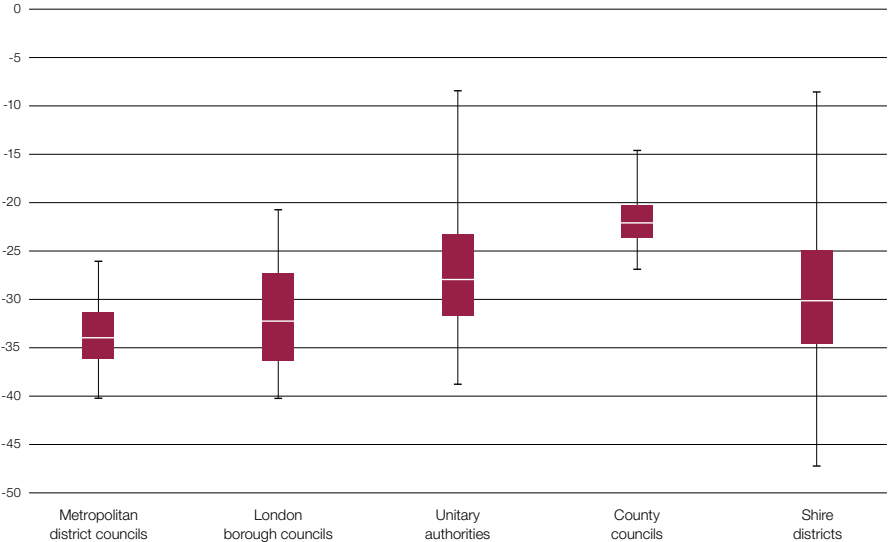
As the National Audit office has found, districts will see a 13.9% real-terms reduction in spending during this period, and a 30% median reduction since 2011. **This steady decline must be reversed with an increase in spending power for district councils in the next spending review period from 2020.**

⁴ <http://districtcouncils.info/wp-content/uploads/2017/09/DCN-Final-Representation-to-Autumn-Budget-2017.pdf>

Change in spending power by type of local authority in England, 2010-11 to 2017-18

There is variation in the level of reductions in spending power both between and within different local authority types

Change in spending power 2010-11 to 2017-18 (%) (real terms)



Note

1 The white line in the centre of each block shows the median. The top and bottom of each block show the upper and lower quartiles respectively. The top and bottom error bars show minimum and maximum values respectively.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data. See standalone methodology

In the context of having already dealt with such significant funding reductions, **the APPG believes no district authority should be put into a position of negative Revenue Support Grant.**

If it is to place 146 district authorities into negative RSG, the government must explain this to the public. In his oral evidence, David Hagg, Chief Executive of Stroud District Council, explained that *“We are moving from a position of £7 million coming in from central government four years ago to £1 million disappearing out of Gloucestershire. As a Chief Executive I think it is reasonable for me to say I am not sure that is understood by people”*.

The APPG is encouraged by reports coming out of MHCLG that it is aware of concerns about negative RSG. The APPG understands, at the time of publication of this report, that a consultation on this issue is imminent. We would encourage the government to bring this forward as soon as possible and set out how the issue of negative RSG will be tackled to ensure district councils do not lose out.

Supporting growth

The APPG welcomes the government's ambition to give local authorities more tools and capabilities to grow their economies. However, we want to see the pace of this increase. District councils have demonstrated that they can find innovative ways to generate increased income and local growth, but greater freedoms are required.

The APPG believe that the government should work in partnerships with local authorities to identify measures that will enable councils to raise revenue, whilst continuing to provide and protect services.

As the chart on page 9 illustrates, local authorities in other countries have the power to choose from a range of levies, charges and incentives to tailor their approach to raising funds locally, which they can then spend locally.

The evidence the APPG received demonstrated widespread support among district authorities for the introduction of greater financial flexibilities and revenue raising powers:



I would levy outline permissions to pay for infrastructure and Affordable Housing.

Levies to support and enable prevention activities linked to health and social care.

There is a potential to raise levies for non-use of vacant land to encourage regeneration or housing construction. Also, the possibility of using levies to support the recycling of plastics.

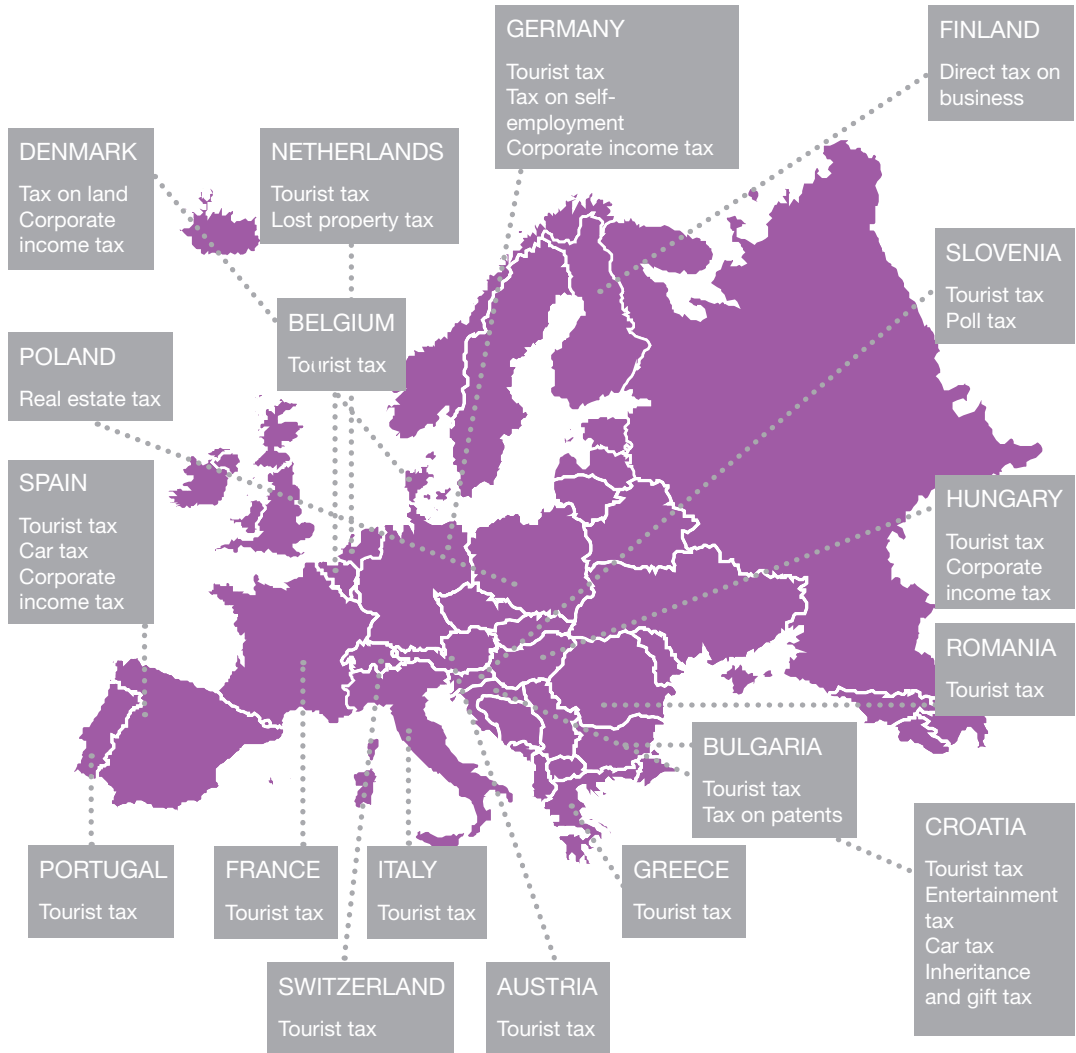
Flexibility around fee setting.

Expand housing developer levies to cover the ongoing revenue costs of servicing a new development or increase in housing e.g. additional costs of collecting domestic waste from the new properties.

Licencing of restaurants, pubs and betting offices.

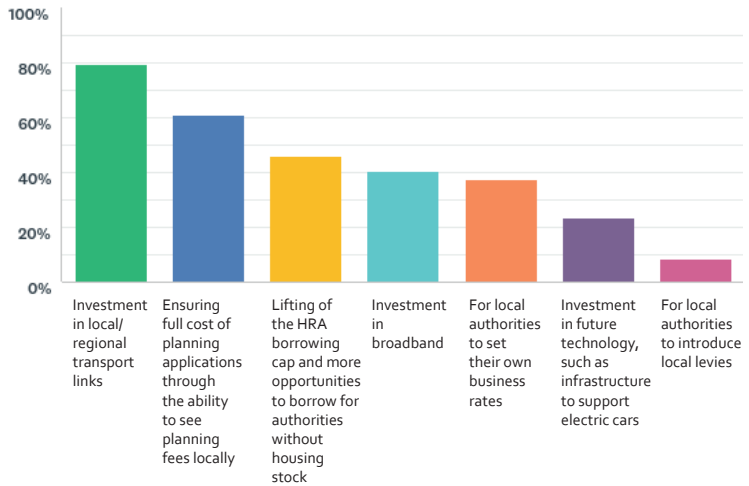
Ability to vary Council Tax on long-term empty properties.

Local revenue raising powers available



These recommendations from district authorities are not universally supported, as some proposals are more suitable for some areas than others. **Rather, a range of initiatives must be made available – there is no one-size-fits-all solution for all district authorities.**

Which three of the incentives listed below would you most like to see introduced?



The APPG sought ideas from districts about other incentives that they would like to see made available:



Let us keep our Right to Buy receipts as we are an area of high housing need and we could use these to provide social housing.

I would like aggressive measures to reduce the stock of unbuilt permissions. Perhaps permission should expire at 18 months, and all new permissions have to meet the current development plan (no precedent/"grandfather rights").

Changes to the apprenticeship levy to ensure that businesses engage with the scheme to maximise the number of apprenticeships.

Review of the licencing fee structure for large pop festivals.

Removal of restrictions around Right to Buy receipts.

Local retention of stamp duty.

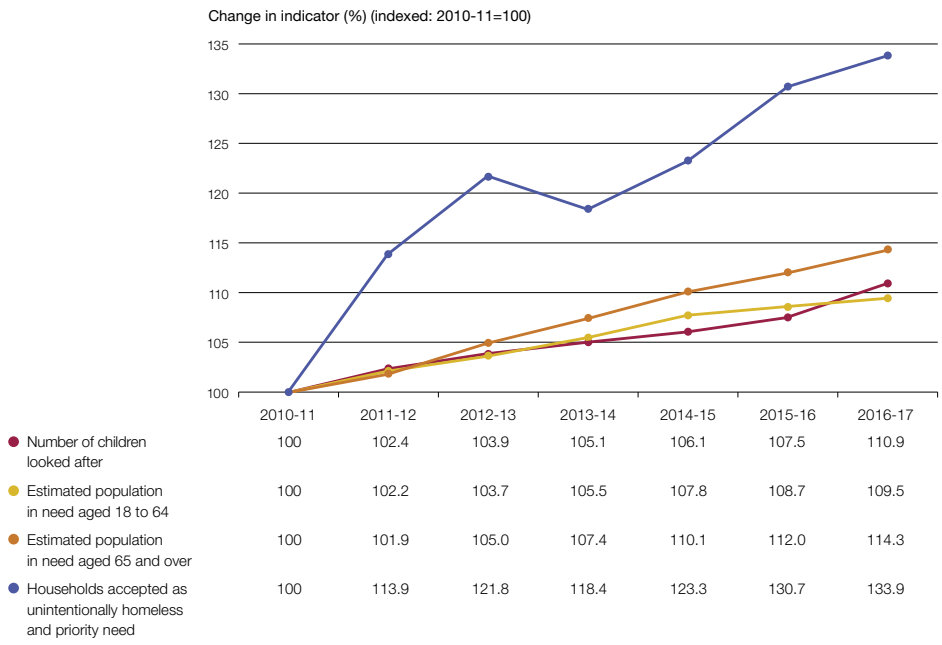
The APPG believes that the government, as part of its Fair Funding review, **must give districts the capability and freedom to introduce suitable and relevant local freedoms to raise further revenue, and provide suitable incentives for growth.** We are not prescriptive over what these freedoms must be, but the government must be prepared to be innovative and give districts options to identify the best solution for the needs and opportunities in their area.

This is made even more important due to the increasing pressures on districts, such as from homelessness. The APPG received evidence from several authorities about rising levels of homelessness in their authority, and the challenges this poses. As Cllr Sharon Taylor, Leader of Stevenage Borough Council stated *"We have new pressures on our budgets as well, including an increase in homelessness"*.

The graph below demonstrates that demand for homelessness services in England has risen by 34% over the last seven years.

Change in demand in key local authority service areas in England

There has been growth in actual or potential demand in a range of core service areas



Source: National Audit Office analysis of departmental data. See standalone methodology

More spending power and new freedoms are therefore vital to ensuring districts have the available tools to meet rising demand on key issues, such as homelessness.

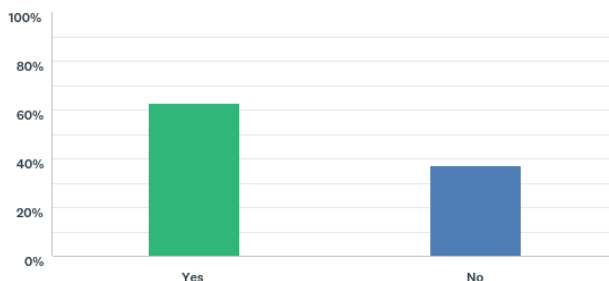
Section 2

Districts can deliver more homes if incentives remain

District councils are Housing and Planning authorities, approving almost 90% of all planning applications and enabling over 91,000 additional homes⁵ to be delivered in district areas in 2017. However, if these levels of growth are to continue, the incentives that are currently, and successfully, supporting districts to deliver new homes must remain.

The APPG sought views from districts about the effectiveness of the New Homes Bonus (at its current level) in providing an incentive to build more homes, with nearly two-thirds (63%) saying it does. A recent British Attitude Survey (2017) showed that since 2010 “the percentage of people who were supportive of new homes being built in their local area” has almost doubled from 28% to 55%.⁶ The APPG notes that this shift coincides with the introduction of the New Homes Bonus in 2011.

Does the New Homes Bonus at its current level continue to provide incentives to build more homes?



CLLr John Fuller, Leader, South Norfolk District Council described the New Homes Bonus as “the most responsive way of funding increases in population”. He said:

It is very important that we recognise the incentives and the responsiveness of the New Homes Bonus. You build a house and it is occupied. You get a New Homes Bonus for that because people consume services and there is increased demand. NHB is therefore a very responsive mechanism - you are not relying on historic census data that might be five or ten years out of date.

⁵ <https://www.gov.uk/government/statistical-data-sets/live-tables-on-net-supply-of-housing>

⁶ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/714160/Public_attitudes_to_house_building_BSA_2017.pdf

The APPG asked districts to set out what impact the introduction of a 0.4% threshold under which the New Homes Bonus is not paid has had on their financial situation since 2017/18:



The council has lost £340,000 of NHB in 2018/19 which combined with the reduction from 6 to 4 years has seen a reduction in funding of 48% compared to the original scheme.

Devastating. A huge source of income for us meaning a reduction in our capital programme funding and we're having to resort to borrowing where possible.

Significant impact which has resulted in excess of £0.5m less over last 2 years. We have to build in excess of 204 new homes before we qualify for NHB - a difficult target for an urban authority with closely drawn boundaries with our rural neighbours.

A 4% threshold compounded with a move to a 4-year NHB cycle has reduced the Council's income by about 40%. This is a significant loss of income in a slow growing economic area.

We have lost around £1m.

It has reduced funding by around £500k in 2017-18.

It has caused a reduction in funding of £213,000 compared to what we would have received.

Mannie Grewal Ketley, Head of Service & Chief Financial Officer, Rugby Borough Council described Rugby Borough Council concerns over recent, and potential future, changes to the New Homes Bonus:

"It is the New Homes Bonus that creates a huge amount of uncertainty, not knowing whether it is here to stay or whether it is likely to be reformed. That is the biggest single factor that, at the moment, makes it difficult to model with any degree of certainty".

Moving forward, the main concerns for Rugby are around that incentive based funding position and what will happen to it. As I have said, the £2 million reduction in New Homes Bonus has been significant for the authority."

The introduction of the 0.4% baseline threshold for the New Homes Bonus removed funding of over £70 million from district councils to adult social care authorities in 2017-18. Despite this, 57 adult social care authorities were worse off as a result, because they were also negatively affected by the reforms to New Homes Bonus.

The APPG believes that the government should remove the 'baseline' from the New Homes Bonus funding to ensure that district councils areas are incentivised to build more homes. A commitment should also be given to continue the New Homes Bonus, in its current form, throughout the next spending review period.

We found that district councils can and want to do more to deliver housing locally. However they need more fiscal freedoms to unlock their potential to deliver more housing. For example, Cllr Tom Beattie, Leader, Corby Borough Council said *"The ability to borrow against the Housing Revenue Account, so a lifting of the cap to allow us to build more social housing, is also important"*.

The APPG recommends that further financial flexibilities should be extended to district councils by lifting the borrowing cap for the housing revenue account for those districts with housing stock, and by introducing greater borrowing powers for non-stock holding authorities. In addition, district councils could do more to deliver housing locally, especially the genuinely affordable homes that their communities need. Changes that are required to achieve these should include; amendments to the Right to Buy receipts, increasing the time available to spend them and allowing councils to retain the receipts; and the sale of high value assets.

Section 3

Districts can play a bigger role in prevention

Building a sustainable model for the funding of adult social care is one of the biggest domestic public policy challenges faced by the government. The APPG is pleased to see the government over recent years providing greater freedom to raise revenues to authorities that deliver adult social care through the social care precept on council tax.

However, it is vital that any future funding model places a bigger emphasis on prevention. The combination of funding pressures and rising need - driven by an ageing population, health inequalities and increasing levels of multi-morbidity - means that demands on public services are unsustainable. The government must urgently invest in prevention in order to reduce the burden on adult social care and improve long term outcomes.

Here, districts authorities can play a leading role. As the Housing and Planning authorities, districts are responsible for a range of services critical to health both directly and through influence of the wider determinants. District councils have a central and fundamental role in providing leisure and recreational services, tackling homelessness, supporting troubled families, joined-up help services, improving air quality and improving and adapting housing. The scale districts operate at provides them with in-depth knowledge and close connections to their communities, volunteer groups and business. This local leadership leaves districts best-placed to implement and coordinate locally-driven initiatives, build community capacity and work with residents to deliver the services they need. **For these reasons, the APPG believes that districts should be given a more prominent role in delivering prevention services.**

District councils' core responsibilities and innovation in discretionary service areas reduce the burden on county councils and the NHS by preventing residents needing to access services both in the short and long term. With an increasingly ageing population, the work district councils do keeping people well, safe and happy within their homes and communities is critical. However, the district council role in adult social care is not formally recognised by government and district councils are not funded for public health. In addition, districts have no statutory representation on Health and Wellbeing boards and only 2 district councils are referenced in Sustainability and Transformation Partnerships (STPs).

A separate funding stream for prevention would ensure key interventions are viable and is essential in tackling the currently unsustainable costs of adult social care. Providing this funding directly to districts, who are ideally placed to lead on preventative action by virtue of their services areas and unique local insight, would ensure money is targeted effectively to those who need it most.

Mannie Grewal Ketley, Head of Service & Chief Financial Officer, Rugby Borough Council **set out the crucial role that districts can play in prevention services:**

"What the districts have shown, working in conjunction with the county council, is that a very much joined up approach has been of huge benefit, so I am confident that as groups of authorities come together, districts are well placed to support in the delivery of social care.

"Something for districts to consider, or certainly for government to consider, is our role from a prevention perspective and the ability to allow district councils to levy a prevention precept much like upper tier authorities are able to levy that social care precept. There is a huge amount of recognition of the role district councils play at the prevention end of the spectrum".

The APPG also calls on the government to enable districts to introduce a 'prevention precept' of up to 2% on council tax. This revenue must be ring-fenced by authorities and used to fund the adaption of homes to prevent falls, improvements to home insulation and heating or to provide and improve recreational and leisure services. The District Councils' Network forecast this would raise up to £25 million and the independent King's Fund has stated that for every £1 spent on prevention (for example preventing falls), district councils can save the NHS up to £70.

Conclusion

This inquiry found that districts have experienced significant reductions in their funding over recent years, and this is set to continue to the point that 72% may soon be giving more money to HM Treasury than they receive back to deliver local services through the revenue support grant. We call on the government to take steps to prevent this.

Beyond this immediate concern over district finances, we call on the government to trust districts and other local authorities and provide a framework for them to introduce suitable local flexibilities and incentives for growth. These should be introduced as part of the Fair Funding Review, which itself must set a path for revived district council spending power from 2020 onwards underpinned by a spending review which reverses the decline in district council spending power.

Districts can also play key roles in supporting the government to meet its housebuilding targets, and in creating a sustainable future for social care and health services. For housebuilding, the available incentives must remain to provide that vital financial boost to district budgets. In social care, more energy must focus on prevention, rather than simply treatment. As the Housing and Planning authorities, districts have the skills, local knowledge and closeness to their communities to deliver effective prevention services that could generate significant cost-savings.



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