Budget 2021: Representation from the District Councils' Network

Date: 14 January 2021

Contact: DCN@Local.gov.uk

About the District Councils' Network

The District Councils' Network (DCN) is a cross-party member led network of 187 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 over 22 million people - 40% of the population - and cover 68% of the country by area.

District councils have a proven track record of building better lives and stronger economies in the areas that they serve. Districts protect and enhance quality of life by safeguarding our environment, promoting public health and leisure, whilst creating attractive places to live, raise families and build a stronger economy. By tackling homelessness and promoting wellbeing, district councils ensure no one gets left behind by addressing the complex needs of today whilst attempting to prevent the social problems of tomorrow.

Introductory remarks:

Shire district councils represent the best of local government – they are pivotal to the areas they support their local knowledge and community engagement is second to none. They are innovative and collaborative, they are strategic leaders and trusted deliverers, they are rooted in community and connected into every business, they drive growth and support some of the most vulnerable, they are pragmatic focusing on outcomes, and they are deeply embedded in the fabric of the communities, towns and cities serving 20 million people across the country.

Across the country, district councils have stepped up to the challenges posed by the Covid-19 pandemic – providing leadership in the community, keeping all essential services such as refuse collection and planning going throughout, taking on new responsibilities, and supporting the national effort to protect the shielded and vulnerable. Using their local knowledge and data to respond effectively, districts have tapped into local networks to provide for vulnerable residents and support rough sleepers. They have delivered food parcels for shielded individuals and set up buddy systems where food parcels are delivered to those who fall through the provisions set by the Government.

Districts have pivoted their whole council effort towards reopening and recovery, while continuing efforts to beat the virus. Engaging with a wide range of partners and businesses locally to understand their needs and opportunities, using their environmental health functions to ensure Covid-19 safe premises and public spaces, and bringing forward adaptations and longer-term investment strategies for regenerating high streets and increasing footfall to their town centres. And as the authorities responsible for families facing particularly difficult times in their income and finances - a critical element of the local safety net and health landscape - districts are working hard to support and spread opportunity to everyone in their villages, towns and cities. As the billing, planning, and licensing authorities, districts know their local economies and communities like no one else. As a result, districts can respond at pace. This has been evidenced through the delivery of the plethora of grant schemes to support businesses, keeping businesses going during this crisis.

As we move into the mass vaccination programme, many of our districts are now providing staff to support our NHS teams in the vaccination centres and, as ever, we stand ready to support the vaccination and testing programmes in a way that continues to demonstrate the flexibility and commitment to the community of our staff.

Our newly published 'Transformation in Localities Toolkit' from Grant Thornton further demonstrates the role of District Councils as practical collaborators, delivery agents and system leaders, and illustrates what this has meant in practice as they respond to the most significant challenges facing our country today. The report also shows that where big government and centralised control have struggled under exceptionally challenging circumstances, shire district councils have continued to be the first line of local accountability, support and protection for the communities and businesses they serve. The many examples in this report highlight how shire district councils continue to work across organisational and geographical boundaries making innovative use of their key statutory, regulatory, licensing and benefits levers to protect and support local communities.

In Summary: Our Asks

- Recognise the ongoing impact of Covid-19 and commit to meeting all Covid-related costs, in both 2020-21, and 2021-22.
- Urgently review and increase the support for leisure services, addressing the inequities and inadequacy of the current competitive support package, and extending the scheme into 2021-22.
- Ensure districts are provided with the funds they need to deliver on the government's expectations for compliance and enforcement of covid-19 regulations through the Contain Outbreak Management Fund. At a minimum, we feel that districts should receive a quarter of COMF funding.
- Provide districts with flexibility to determine local council tax levels, with the ability to increase by up to £10, if they choose to do so. A £10 a year increase is less than 20p a week per household at Band D and equates to just 0.63% of the Council Tax Requirement for shire counties, (including adult social care but excluding local precepts).
- Continue to fund a housing incentive, bringing forward proposals for the reform of New Homes Bonus. DCN asks Government to temporarily remove the threshold before which payments are made in respect of housing growth in 2019/20. The threshold of 0.4% reflects historic average growth, pre-pandemic, and will not reflect the actual growth in 2019/20. As an alternative, the threshold needs to be reduced from 0.4% to the average housing growth achieved in England for the 12-month period relating to the 2021 award of NHB.
- Consider carefully and properly how to respond to the new ways of working while ensuring that business contributes to the local services that enable it to flourish. If government pursues a business rates reset for 2022-23, transitional measures should be put in place to support councils negatively affected – ensuring that those who have worked tirelessly to grow their local economies are not penalised.
- Close the current business rates tax loophole which allows second homeowners to avoid paying any council tax or business rates on their properties

- Explore freedoms and flexibilities that will enable district councils to generate income locally.
- Work with districts to identify the unintended consequences that may result from the introduction of the new lending restrictions to the PWLB.
- Reduce the plethora of short-term and one-off bidding pots, moving instead to long-term, locally determined, and sustainable funding.
- Invest in councils, reducing the reliance on council tax to fund key services, and setting out a clear and urgent plan for reform of Adult Social Care funding.
- Ensure that the 2021 Spending Review later this year is a multi-year review, with a multi-year settlement, providing districts with the ability to plan effectively.

The financial impact of Covid-19:

The Covid-19 pandemic has intensified and accelerated the financial pressures faced by district councils following a decade of austerity. The pandemic has created a perfect storm– with districts facing additional cost pressures, the collapse of income streams, and the impact of the wider economic challenges in their area.

The impact of the January 2021 lockdown will put even more pressure on already stretched budgets. Government must quickly commit to a further package of grant funding to address remaining shortfalls felt in January to March 2021, in recognition of the significant additional pressures that this further lockdown will bring across the full range of district services.

The financial consequences of responding to the COVID-19 crisis have been especially acute for district councils. Between March and October:

- Shire Districts incurred total additional expenditure of £209m (and this excludes expenditure incurred in relation to districts with their own council housing stock). While additional expenditure peaked in April 2020, at £36m for that month, it is clear that shire districts are continuing to incur significant additional costs – with additional expenditure remaining around £24m in each of the last 3 months.
- Shire district income losses from sales, fees, and charges now total £394m. Shire districts' income has been particularly hard hit. While income losses peaked between April and June 2020, income losses remained high even with the easing of restrictions over the summer.
- Of concern for their communities and recovery, income losses due to residential rent arrears for those districts with a Housing Revenue Account now totals £36m, and districts are seeing significant additional costs for their Independent Living Teams, covering the costs of PPE and additional staffing.
- Shire district losses from commercial income total £87m, which is 20% of the total lost commercial income across all English local authorities.

In addition, analysis from the Local Government Association shows a 9% increase in the number of people claiming a discount on their council tax in the first quarter in 2020/21 against the same quarter in 2019/20. This figure will inevitably rise when the job retention scheme (furlough) ends at the end of April 2021.

Financial support provided by the Government to date

We recognise that the overall package of financial support provided by the Government for districts so far has been substantial, but there's a long road ahead, and districts are particularly severely impacted. Confirmation that the government will underwrite 75% of irrecoverable business rate and council tax losses for 2020/21 is good news, but we are concerned the scheme's definition of 'irrecoverable losses' may not cover councils' losses to the extent needed. For example, on council tax, the irrecoverable losses covered actually only relate to expected council tax liability at budget that did not materialise over the year (e.g. as a result of increased council tax reduction scheme costs or unachieved council tax base growth).

We are pleased that the income guarantee will be extended into the first quarter of 2021/22, and that the government proposes to calculate support based on 2020/21 budgets, which is the right approach. The lack of certainty and clarity around Covid grant funding has been a key frustration, so the upfront confirmation of additional Covid funding for part of 2021/22 is a positive step that will help districts to plan, although the uncertainties around their funding for 2021/22 remain challenging.

We ask that MHCLG keeps listening to districts in the months ahead, as our path out of the pandemic becomes clearer, and commits to extending the income guarantee past the first quarter of 2021-22.

Additional cost pressures arising

Housing and homelessness

Our members tell us their housing and homelessness case numbers are soaring – one council for example has seen caseloads more than double compared to this time last year, to 86 cases per officer. Tenancy teams are also seeing huge pressures in relation to the additional issues being faced by tenants – such as increases in domestic abuse, financial and mental health issues, and rising evictions from privately-rented properties. So far there has been no dedicated financial support at all for councils with their own housing stock.

Leisure services

Analysis from a survey of our members forecasts a financial hit to outsourced district council leisure centres of around £324 million this year – which will send many out of business – just as we need them for our nation's health recovery. The £100m leisure package is a good step but entails too much bureaucracy at a time when district resources are fully stretched: cost-recovery is needed, not bidding processes. The fund will go only to some leisure services and will cover only the period from December 2020 to March 2021, leaving operators and district councils to absorb the heavy losses incurred this year.

Compliance and enforcement

It is shire district councils who are the "boots on the ground" leading on compliance with business and retail. Funding should follow function, and shire districts should be properly funded to deliver compliance, and a proportion of the Contain Outbreak Management Fund should therefore be passported directly to districts to fund this work. The Secretary of State has directly requested that shire districts step up this work, in support of the national efforts to tackle the virus. At a minimum, we feel that this should be set at a quarter of COMF funding.

Managing the financial support for business

Managing the complex plethora of business grants is adding increased pressure on district finance and revenues teams, with new burdens funding forthcoming at too slow a pace. The delay between ministerial announcements and subsequent publication of guidance results in high levels of enquiries from businesses who assume the funding will be available from the moment it is announced. The increasing complexity of the schemes – there are now 10 schemes open – and requirements for providing monitoring data are putting huge pressures on district teams.

We note there is no mention of extending business rates relief into 2021/22 but, given the uncertain outlook, this should be extended.

The financial settlement for shire district councils in 2021-22

While the spending review delivered some relief for the year ahead, it failed to address the fundamental longer-term issues of financial sustainability. There remains no plan for a sustainable funding framework for adult social care. Indeed, the review hints at further cuts to spending in the years ahead. The ability to delay the 3% social care precept into 2022-23 further indicates no government intention to deliver a sustainable funding framework for adult social care before then. Short-term financial support is fundamental to survival. But if services are to thrive, investment in the long-term is also essential. It's vital that government considers local authority funding in the round and holistically, so that changes to business rates, NHB, RSG and social care funding do not diminish, but indeed increase, the overall quantum of funding.

Council tax

The Spending Review and Settlement signify ongoing and increasing reliance on council tax for overall core funding – the IFS calculate that council tax will account for 61% of core funding in 2021-22, compared to 40% in 2009-10. We know that ability to generate revenue from council tax favours more affluent areas and means that funding does not follow need. Government plans for 2021-22 to direct grant funding to areas facing higher deprivation is welcome, but real, new investment is needed if the government is to level up across the country – with IFS analysis pointing to a 3% fall in core funding per capita over the past six years. [1]

In addition to our call for new investment, we consider that as locally elected, and locally accountable bodies, government should refrain from setting a limit on council tax increases and leave this to be determined by locally elected and accountable districts.

However, if government continues with its proposed approach, we will want to see greater flexibility than is proposed in the consultation.

Shire districts may raise their council tax by up to 2%. We recognise that this will add to the burden on taxpayers, during what is a very difficult time for many households. However, our members tell us many will see their council tax base eroded – by increasing numbers of defaulting households and increases in the numbers receiving local council tax support. The commitment to underwrite 75% of council tax losses goes some way to address this, but leaves councils footing the bill for the rest. The position is that a 2% increase would, in fact, generate less revenue than it would have done in the current financial year.

[1] IFS Briefing Note BN314, Assessing England's 2021-22 Local Government Finance Settlement p6

While we welcome the additional flexibility of “or £5, whichever is the greater”, the value of this for many districts will be eroded compared to the current financial year where their tax base has fallen, through no fault of their own.

Shire districts also face a detrimental position in relation to the 2% cap on council tax compared to unitary authorities and county councils. Both can generate an additional 3% for social care, and yet districts also play a key role in looking after people, through their welfare and benefits, housing, and leisure roles. PCCs can increase their precept by up to £15. Town and parish councils have no limits set. We also know that the cap leaves historically lower-precepting districts facing a gap to their peers they are unable to close, and for this reason, government could consider giving lower precepting authorities the flexibility to increase their council tax to the county or national average over a period of time.

The services underpinning the social fabric in our places should have further flexibilities to raise the funding to support the leisure, cultural and sporting amenities that will deliver a healthy recovery in our towns and cities. This helps to relive pressure on social services and the NHS. The country’s economic recovery also depends on the investment that districts make in economic development and regeneration, planning and housing growth. To support this effort, the Government must spread the opportunity for districts to raise a small additional precept should they wish to, benefiting from flexibilities similar to county and unitary councils. This should include shire district flexibility to raise their precept by up to £10, should they choose to do so. **A £10 a year increase is less than 20p a week per household at Band D**. This flexibility would allow districts to take the decision that is right for their communities locally, using their local knowledge and discretion to invest in health, wellbeing, and other local services that improve public health and reduce demands on social care and primary care service, helping to rebuild our social fabric, our resilience, and our recovery.

If the Government accepts our advice, the flexibility of £10 would allow the average district to increase its council tax by under 5.3% a year, providing broadly comparable flexibility to what is possible for shire county councils and unitary authorities. However, the amount of extra resource that might be raised, whilst welcome to district councils in supporting the range of important services we have outlined above, would be very modest compared to other types of authorities. It would be only two-thirds of the sum that might be raised by police and crime commissioners, for example, and only just over one-seventh of the sum that might be raised by shire county councils (and an even smaller proportion of the sum that might be raised by unitary authorities). **Moreover even if all districts took advantage of the maximum flexibility of a £10 increase, based on the current shire district council tax base, it would generate £75m in total, which would represent an increase of only 0.23% on total English council tax requirement in 2020-21, and 0.63% of the total Council Tax Requirement for shire counties, (including adult social care but excluding local precepts).**

New Homes Bonus

We look forward to engaging with government on its review of the New Homes Bonus. This is a significant income stream for districts, worth over £280m to districts in 2020/21 and an important incentive to deliver much needed housing growth. The impact of reduced construction activity because of Covid means that payments due to shire districts in 2021 will likely be lower than expected.

In recognition of the impact on shire districts' ability to deliver planned levels of housing growth, the DCN asks Government to temporarily remove the threshold before which payments are made in respect of housing growth in 2019/20. The threshold of 0.4% reflects historic average growth, pre-pandemic, and will not reflect the actual growth in 2019/20. As an alternative, the threshold needs to be reduced from 0.4% to the average housing growth achieved in England for the 12-month period relating to the 2021 award of NHB.

District Council's budgets are very sensitive to reductions in NHB (representing significant levels of Core Spending Power for most Districts) and adverse changes to the scheme will have a disproportionate impact on Districts' Finances and so we are pleased to see that there is a new round of payments for year 11. We accept that this is the final year under the current approach and pleased to see that government are honouring the previously announced legacy payments for years 8 and 9. We call for there to be a continuation of a housing incentive of some form and ask that there is a timely consultation on future proposals for the scheme.

We are also pleased that those councils who have seen a reduction in their Core Spending Power because of reducing bonus payments are protected via the minimum funding floor in the Lower Tier Services Grant.

However, we understand that there is a surplus on the NHB scheme of £278m which in previous years has been returned to local government through SFA share. This year, we note that, instead, the surplus is being used to fund a range of grants, including the increase in RSG, the new Lower Tier Services Grant, the increase in the Rural Services Delivery Grant and a contribution to the social care grant. Whilst we welcome a proportion of the surplus being distributed to support shire district services, and ensure that these vital services do not see a reduction in the core spending power, either this year or in future years, we are concerned that a significant proportion of the surplus is being used to fund rural services and social care pressures which have long existed and which should reasonably be funded with new resources from central government.

We support the principle of a funding floor which, in 2021-22, will see avoid a reduction in core spending power for almost half of district councils. However, there are mixed views among our members about how the Government is choosing to fund the funding floor, by using resources that might otherwise have been allocated to all councils benefitting from the Lower Tier Services Grant. Many councils feel aggrieved that they were not protected when NHB allocations were significantly reduced in previous years. Our strong preference therefore is that the Government should, if possible, provide new resources for the funding floor and that the £25m currently allocated for this purpose from the NHB surplus should instead be distributed to all councils that receive Lower Tier Services Grant.

<u>Business rates</u>

District councils play the most important role in generating economic growth in local areas, and the growth over recent years in business rates income demonstrates district councils' ability to do this. With the reduction in Revenue Support Grant, and restrictions on council tax increases, business rates are currently one of the most important sources of revenue for districts. Councils have been insulated from the wider economic crisis to a degree through the furlough and business support arrangements that the government put in place – with these ending, the increase in unemployment and in businesses ceasing to trade will present additional challenges.

The current business rate review needs to consider the impact of any changes on their immediate, and longer-term funding needs. Government should consider carefully and properly how to respond to the new ways of working while ensuring that business contributes to the local services that enable it to flourish. If government pursues a reset, transitional measures should be put in place to support councils negatively affected – ensuring that those who have worked tirelessly to grow their local economies are not penalised. There also remains uncertainty over a business rates reset and what this means for renewable energy receipts – districts need confidence and stability to invest for the long-term, and clarity is needed – if the receipts are to continue, districts can take a longer-term view of these receipts and the best way to use them

Any changes in legislation or policy, including replacement of business rates with other taxes, should not diminish funding for local government, and this includes continuing to ensure that local government has access to growth in business taxes as it does under the current arrangements for business rates; and that there should be arrangements for sharing the growth in shire county areas ("the tier split") based on the approach that the DCN proposed to MHCLG in 2019. Indeed, the business taxes that fund local government should be set by councils. This includes any exemptions, discounts, or supplements. Councils set council tax and decide the level of council tax reduction support for working age households. There is no reason why they should not decide such issues for business taxes that fund local government.

We are also asking Government to close the current business rates tax loophole which allows second homeowners to avoid paying any council tax or business rates on their properties. Currently, owners of second homes can apply to the Valuation Office to register their domestic properties for business rates if their property is available to let for a minimum of 140 days per year. If registered for business rates, a large proportion of these properties qualify for small business rates relief and are eligible for 100% relief and this in turn means they have no business rates to pay. Whilst we appreciate that the Government consulted on tightening the rules in November 2018, no action has been taken on this. We also feel that the Government consultation could go further: domestic properties should be treated as liable for council tax and pay council tax, irrespective of whether they are let for part of the year or not, unless it can be shown that the property is genuinely operating as a business.

Long-term stability and local flexibility

<u>Investment and certainty</u>

Looking forwards, it cannot be over-emphasised how important longer-term financial certainty, stability and local flexibility will be an essential basis on which districts can achieve their aspirations for their residents and businesses. Districts are ambitious – they want to invest in their communities, building back resilience, and repairing the social fabric of our health, leisure and cultural lives as the pandemic recedes. And yet, with looming black holes in their budgets, many will be faced with little option but to reduce services, losing those very members of staff who have been so critical to the national response to Covid-19. This has been made clear by the Institute for Fiscal Studies, who point to looming increases in demand, the increasing reliance on council tax for core spending power, increases in labour costs and the absence of a fair and equitable funding framework as significant challenges and uncertainties facing local government. [2]

Freedoms and flexibilities

Looking ahead to the next Spending Review, Government can and should go further to devolve powers and flexibilities locally. Districts should be free to attract and use income in ways that are locally responsive and accountable. The Government should remove council tax referenda and allow districts to set all discounts and increases for council tax and business rates, to raise other levies, and to set local planning and licensing fees. The current centralised system has been shown to be broken - for instance, when councils have not been able to reduce licence fees to reflect that pubs have been shut for a considerable proportion of the year. Positive steps would enable shire districts to:

- Locally set planning and licencing fees enabling full cost recovery. Last year district council taxpayers subsidised planning applicants by £30 million.
- Set Right to Buy discounts locally and retain 100 per cent of sales receipts to enable delivery of more council homes.
- Allow councils to retain all HRA capital receipts without any restrictions on use. This would allow ambitious, active councils further freedom to use their assets and finances productively.

Research undertaken for the DCN by Professor Colin Copus confirms that, in comparison to overseas local government taxation regimes, English local government has one of the narrowest sets of local taxation powers – council tax and business rates - and both are heavily restricted or controlled by the centre. Greater fiscal autonomy will strengthen local government when faced with crisis, such as the Coronavirus outbreak, as finances will be more resilient and additional sources of finance will be available without the need to wait for the centre. Greater fiscal autonomy, for example, would have enabled local government to develop their own financial packages to support local businesses and their employees and to support communities with financial assistance. All of this would have supported the government's own initiatives and, given local government's closeness to its businesses and communities, councils are able to respond quickly with vital support.

Reduce the plethora of short-term and one-off grant funding

The government focus on a highly centralised 'command and control' approach is further characterised in its approach to grant funding. The National Audit Office's 2018 report into the financial sustainability of local authorities highlighted the plethora of one-off and short-term funding initiatives. To the extent that many of the revenue grants are decided by formula, these could be rolled into the Revenue Support Grant, accompanied by a transparent process about the amounts provided to each council through this route and on the basis that councils would not receive less funding as a result. To aid councils' financial planning, councils need to be notified of the total amounts well before the start of the financial year.

Further, bureaucratic bidding processes reward those authorities with the capabilities for writing bids: they do not follow need. Recent statements to the Public Accounts Committee for an intention

[2] IFS Briefing Note BN314, Assessing England's 2021-22 Local Government Finance Settlement

to combine funding pots such as the Future High Streets Fund, Towns Fund, Growth Fund for the Levelling Up Fund sound positive, and yet these schemes should not be designed in Whitehall. Government should set a national framework, with local decision making, and engage councils in the co-design of the schemes.

With the government's restrictions to lending terms via the Public Works Loan Board, we call on government to work with districts to identify the unintended consequences that may result from the introduction of the new restrictions.

To summarise: the DCN urges government to grant local authorities the freedom to set their own local tax, maximise income generation locally, and to retain right to buy receipts to invest in more affordable housing. These changes will be to the benefit of the communities that our local authorities serve, support, and create.