District Councils' Network submission the Comprehensive Spending Review 2021

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DISTRICT COUNCILS' NETWORK
BETTER LIVES – STRONGER ECONOMIES

About the District Councils' Network

The District Councils' Network (DCN) is a cross-party member led network of 183 councils that provide 86 of the 130 most valued and visible public services in every street in non-metropolitan England. We are a Special Interest Group of the Local Government Association (LGA) and provide a single voice for district services within the LGA.

Executive Summary

The power of districts

1. Serving 20 million people across the country, councils providing district services are innovative and collaborative, strategic leaders and trusted deliverers, rooted in community and connected into every business. We address planning, housing, and homelessness. We collect household waste, and work to create a better environment with cleaner streets and safer parks. We drive growth in local economies, and support some of the most vulnerable. Our work in leisure and open spaces will drive a healthy recovery.

2. Districts will deliver the levelling up agenda by driving stronger economies and better lives in every street: close enough to communities to understand them, large enough to effect positive change across 60% of the country. Through this Spending Review, government can back districts, building on the impressive outcomes they have delivered during the pandemic.

Impact of the pandemic on districts

3. The pandemic follows an extremely challenging decade of austerity for district services. Between 2010-11 and 2020-21, districts saw a 35% reduction overall in real terms spending power. During this time, districts have protected frontline services by increasing efficiencies and diversifying their income streams.

4. Analysis by the Institute for Fiscal Studies shows that district councils have taken the hardest financial hit of any type of local authority during the pandemic. They have suffered substantial cost pressures, especially in our cohort of new towns, cathedral cities and coastal communities. These include extra costs of supporting the humanitarian effort and scarring costs, such as caused by the dramatic increase in homelessness. Income streams such as parking fees, which are equivalent to 29% of shire district budgets, have been severely squeezed. The council tax and business rates base, which is critical to districts' financial health, has been greatly eroded. Leisure and wellbeing provision has been put at significant risk: 1 in 3 member councils are considering permanent closures, and many councils are having to financially support their leisure providers to prevent closure.

5. A typical district council will have a net budget of £10-15m. Although the quantum of the numbers is small, district finances are finely balanced and the impact on the most visible services is significant.

6. The substantial package of financial support provided by the Government to date is welcome and has been vital to underpin the delivery of essential services. But there are significant gaps in the support and there will be ongoing cost and income pressures from the pandemic. We expect around £300m in lost non-tax income and additional expenditure for Q1-Q2 2021-22, only partially offset by the income guarantee in Q1.

7. As finely balanced as district finances are, we are concerned about potential changes to the powerful incentive to build homes and drive business from the New Homes Bonus and Business Rates. **Together, this puts half-a-billion pounds per year at risk, on average £2.5m per district and equivalent to about 15-20% of each authority's budget**. As a class of authority, district councils have worked harder than any other to build the economy and are 54% above the baseline. A cliff-edge reset would be devastating and disincentivise investment in growth.

8. As the country continues its recovery from the pandemic, the Government should maintain powerful district-level incentives for growth and housing, especially the New Homes Bonus (NHB) and Business Rates Retention. And it should ensure that reforms to the New Homes Bonus and business rates do not diminish current funding levels.

Financial sustainability as a springboard for growth and levelling up

9. Districts are eager to embrace the opportunity to level up, spread opportunity across the country, and confront the environmental challenges we face as a nation. The Spending Review should provide districts with long-term financial certainty and sustainability as the essential foundation for quick progress on these important agendas.

10. We are asking for support and collaboration with central government in the following areas, to underpin continued strong delivery as we look to rebuild the national economy one local economy at a time:

Protect the delivery of essential frontline services

- Reimburse districts for all ongoing covid-related costs and lost income in 2021-22: a minimum of £200m to address the additional expenditure projected for Q1-Q2 2021-22, and the non-tax income loss projected for Q2 2021-22. Extend support to districts with a Housing Revenue Account in line with the financial losses they have incurred.
- Commit to a year-on-year, real-terms increase in government-funded spending power over the Spending Review period.
- Deliver a multi-year financial settlement to provide essential certainty and stability.
- Ensure outsourced public sector providers are fully shielded from the impact of the new Health and Social Care Levy, and each council's additional costs are met in full.

Retain powerful incentives to drive local economic growth

- Ensure districts retain a strong incentive to drive economic growth by maintaining district access to growth in business taxes as under current arrangements for business rates.
- Defer any reset of business rates beyond 2022/23 to avoid financial uncertainty. When introduced, phase any business rate resets over 5 years to avoid diminishing the incentive to grow, ensuring proper transitional measures are in place.
- Ensure further changes in business rates policy do not cut overall district funding levels.

Deliver the commitment to building more homes

- Maintain the total funding available through a reformed New Homes Bonus (NHB) at 2021/22 levels, as a minimum, to contribute to achieving 300,000 new homes p.a. across each year of the Spending Review and provide longer term certainty.
- Ensure any changes to the NHB retain genuine incentives, with transitional arrangements to protect districts against significant losses.
- Retain the "Lower Tier Services Grant" which has acted to smooth the effect of losing legacy payments.

Free districts to raise funds locally to deliver locally

- Give districts flexibility to set council tax at the level necessary to support local services, with the ability from 2022/23 to increase by up to £10 as a minimum, and with greater flexibility in future years, including freedom to set discounts and increases locally.
- Allow districts to set planning and licencing fees locally, to enable cost recovery and to ensure council taxpayers are not subsidising planning applications.
- Withdraw proposals to remove charges for garden waste to avert a £2.6bn hit to district budgets (over 7 years).
- Maintain a permissive framework for capital finance with freedoms for districts to borrow and invest within their economic geography - removing recent restrictions to PWLB lending criteria and making permanent the flexible use of capital receipts.

Keep people out of expensive health and social care systems

- Safeguard the future of leisure and wellbeing provision with a second round of the National Leisure Recovery Fund worth £300m as part of a three-year recovery programme.
- Invest £1bn capital in the country's leisure estate to reduce carbon emissions, boost health outcomes, and generate new jobs.
- Triple the size of the Disabled Facilities Grant (DFG) to address the high proportion of those in need who say that their home is unsuitable for their needs. Ensure DFG funding can be used flexibly by raising the £30,000 cap to handle complex cases.

End hardship and homelessness

- Permanently unfreeze and uprate the Local Housing Allowance rates to reflect the 30th percentile of rents, adjusted for inflation going forward.
- Reverse reductions to Discretionary Housing Payments.
- Address the funding gap of over £72m p.a. between Housing Benefit subsidy and supported housing rents.
- Invest £10bn in new social housing alongside existing affordable homes programmes and give councils greater flexibility to retain and reinvest Right to Buy receipts.

Deliver the transition to Net Zero

- Accelerate and simplify the remaining £3.8bn social housing decarbonisation fund, noting that retrofitting will require further substantial investment, to include the public sector estate.
- Develop a fully funded framework to meet the further challenges of Net Zero, including renewable and active travel solutions, climate change adaptations, and district heat networks.
- Share further funding equitably across the Further Education sector to enable the training of local workforces and to support businesses to deliver net zero.

In detail - Districts' Offers

11. All districts are committed to delivering a post-covid recovery for their communities, driving local economic growth and playing their part in levelling up the country. We will work closely with central government to do that.

12. To ensure strong delivery, we need the right funding, financial support, and flexibilities. **The Government can:**

13. **Protect the delivery of essential frontline services** by reimbursing districts for all ongoing covid-related costs and lost income. With over £300m projected in lost non-tax income and additional expenditure for Q1-Q2 2021-22, significant pressures remain. They will be only partially offset by the Sales Fees and Charges scheme that closed at the end of Q1. Further financial support should be extended to councils with a Housing Revenue Account, who have not received any financial relief for housing pressures to date. This is despite reporting £45m in lost income and additional expenditure during 2020-21. These councils project ongoing lost income and additional expenditure of £28m for Q1-Q2 2021-22. And many councils are having to financially support their leisure providers to prevent closures.

14. To protect delivery, districts need a year-on-year, real-terms increase in government-funded spending power. We recognise and support the need for a sustainable funding framework for adult social care, as spend on adult social care now absorbs 68% of service spend for county councils.

15. Districts need financial certainty to plan and deliver local services and contribute to economic growth most effectively. Therefore, Government should deliver a multi-year financial settlement from 2022-23. This settlement needs to be published in line with the DLUHC target of early December, to enable districts to plan their own budgets effectively. This should include as much detail as possible, including the Government's intentions around council tax limits.

16. This needs to go hand in hand with providing clarity on the Government's intentions for local government finance reform, following consultations on the New Homes Bonus, business rates reform, and with Covid leading to a pause in the reviews of Fair Funding and business rates retention.

17. The Spending Review must also factor in the impact of the forthcoming increase in National Insurance Contributions (NICs). This will affect outsourced public service providers, such as leisure and waste contractors. To avoid additional financial pressure on district services, the Government should ensure public sector providers are shielded from the impact of the rise in NICs, and additional costs are met in full for each council. Existing contractual obligations with providers could result in a financial impact on local authorities, and these should be assessed and met within the New Burdens Doctrine. This is one of several elements where the financial impact to local authorities will need quantifying, as inflation, national insurance and dividend tax changes point to higher wage demands on employers.

18. **Retain powerful incentives to drive local economic growth** by phasing any business rates reset over five years to avoid diminishing the incentive to grow. In our view, introducing a reset for 2022/23 at this stage is not practicable and would introduce huge uncertainty.

19. When introduced, transitional measures will be needed to avoid penalising councils who have worked tirelessly to grow their local economies. Transitional measures could include setting a flooring mechanism that protects those councils most affected by the reset. We could also consider partial resets as we did when the Business Rates Retention Scheme was introduced. More recently the Government has consulted on rolling resets whereby one year's income from business rates is taken to be redistributed based on need and this is replaced by the next year's income, thus removing "cliff edges". We would like to work with the Government to explore these options further.

20. Districts are actively seeking to grow their local economies and have outperformed the business rates baseline by 54%. A cliff edge reset could put at risk business rates revenue gains of £220m, with a further loss of over £300m for districts if the New Homes Bonus scheme ended. Shire districts would need to increase their council tax revenue by more than a third (on average) to offset the loss of this revenue.

21. Any future changes in legislation or policy, including replacement of business rates with other taxes, should not diminish funding for districts or local government as a whole. 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.

22. And as we set out in our response to the government's review of business rates, local authorities should also be given more control over business rates. This would include setting rates, multipliers, and reliefs locally to develop bespoke approaches to incentivise, support and grow local economies.

23. The Government should amend legislation on council tax to ensure that increased demand for domestic holiday lettings contributes to the additional cost of services generated, such as additional litter. Domestic properties should be treated in the same way as all council taxpayers 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 operating solely as a business at all times. In line with arrangements in Wales, billing authorities should have the ability to charge a premium of up to 100% for second homes, to recognise the damaging effect they have on affordable local housing supply in popular tourist areas. Similarly, councils could have discretion to introduce a tourism tax should they choose to do so - to be set and retained locally by districts, in line with most other countries.

24. **Deliver the commitment to building more homes** by adapting the New Homes Bonus to reward communities for backing development. The main mechanism through which local authorities can influence housing is the planning system. The NHB contributes to visible benefits for local communities and helps to counter resistance to growth in housing, and so there should be no move to adjust the current 80-20 split to favour county councils. Targeting the NHB at the district level helps to ensure that the benefits accrue to the geographical area where the development takes place, and therefore the bonus should be awarded to Local Planning Authorities.

25. Our members tell us the New Homes Bonus has had a positive impact on their council's behaviours in creating new homes, has been important to protect core local services, and has provided additional infrastructure of wider benefit to existing and new communities. And the increase in the supply of new homes over the past ten years also points to the NHB having a material impact; net additional dwellings increased from 137,000 in 2011, to 244,000 in 2020, of which over 40% were from shire districts. This represented a 72% increase for shire districts from 2011-12 levels.

26. The total funding available through a reformed NHB must not be reduced further - it must be maintained at 2021/22 levels, as a minimum. As it contributes 8% of district core spending power on average, any changes need to retain incentives, with transitional arrangements to protect significant losses. The Government should also retain the "Lower Tier Services Grant" which has acted to smooth the impact of the loss of legacy payments.

27. And given the significance of the NHB to districts' overall funding, Government cannot reform it in isolation. We would be particularly concerned about the impact if the New Homes Bonus ended, combined with a business rates reset in 2022-23, which we consider not practicable now given the timeframe.

28. **Free districts to raise funds locally to deliver locally** by providing districts with flexibility to set council tax at the level necessary to support local services, with the ability in 2022-23 to

increase by up to £10 as a minimum, and with greater flexibility in future years. 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).

29. Increased local flexibility is needed to strengthen financial resilience and improve democratic accountability. District councils should have powers to set council tax discounts and increases locally. And greater freedoms over sales, fees and charges would permit cost recovery and build financial resilience. For instance, planning fees do not cover the cost of processing applications, meaning taxpayers are subsiding the cost at a rate of nearly £110m across shire district councils (2019-20 outturn), and increasing. Districts should be free to set planning and licencing fees locally.

30. Further, government reforms should not undo existing flexibilities. The Waste and Resources Strategy threatens existing fees charged for garden waste and carries potentially substantial additional costs. Research carried out for the DCN suggests annual capital and running costs of proposals to English waste authorities of £680m over seven years; totalling £4.7 billion. The proposals for garden waste alone have an estimated cost of over £2.6 billion over that period in income loss from charging and the costs of rolling out a comprehensive service. These reforms would have unfairness built in - resulting in those living in flats with no outside space subsidising a service for homeowners with gardens. Districts should be free to continue charging for garden waste.

31. As leaders of place, districts invest commercially to support services, drive regeneration, deliver housing and drive growth. DCN's initial analysis of published accounts for 2020-21 indicated effective gross yields sitting at 5.08%, down from 5.64% in 2019/20, despite the impact of the pandemic – holding up much more strongly than car parking and leisure incomes.

32. Rather than focus on preventing councils from making investments, the Government could focus its efforts on supporting councils to manage their investments to deliver the best value to their communities and businesses.

33. **Keep people out of expensive health and social care systems** by safeguarding the future of leisure and wellbeing provision. Analysis from a survey of our members shows a further £300m revenue recovery package over three years for shire districts is required across operators to support running costs, with 1 in 3 facing closure without further support, and many councils are having to financially support their leisure providers to prevent closure.

34. A partial recovery of leisure services and centres has been built on the use of swimming pool and gym facilities, but at the expense of those wider services that help to reduce pressure on the NHS and tackle health inequalities. As many as three quarters of districts are considering cuts to services including activities for older residents, and targeted exercise referral and social prescription schemes. Further revenue funding would prevent the loss of these critical preventative services, and safeguard leisure services.

35. Looking ahead, a longer-term strategic capital investment in leisure facilities is needed to enable councils to reduce their direct carbon emissions by 10 to 40%. The public leisure estate contributes this proportion of emissions because much of the stock is outdated, with 63% of sports halls and 60% of pools past their expected lifespans or overdue refurbishment. This should be resolved to answer safety and maintenance concerns and level up facilities across the country. We therefore join others in the sector to call for a £1billion capital investment in council leisure facilities to reduce emissions, boost usage, improve public health outcomes and foster further construction job growth.

36. And as the Government brings forward its plan for Adult Social Care, it should triple the size of the Disabled Facilities Grant to address the high proportion of those in need who say that their home is unsuitable for their needs. It should also ensure the funding for the Disabled Facilities Grant passes directly to districts and can be used more flexibly. The maximum £30,000 cap for mandatory grants should also be raised, as this is a barrier to quick adaptations, and sees districts having to secure other sources of funding for complex cases – additional bureaucracy that slows down delivery. We should also ensure that the formula for grant distribution truly addresses need regionally, so that this important preventative tool continues to aid in levelling up health across the nation.

37. **Ending hardship and homelessness** by withdrawing Covid protections cautiously. In Building back better – leaving no-one behind we highlight that nearly 9 in 10 councils expect sharp increases in homelessness if some measures are removed too fast. To prevent a surge in households unable to pay their bills or rent, the Government can permanently unfreeze and uprate the Local Housing Allowance rates to reflect the 30th percentile of rents, adjusted for inflation going forward, and reverse reductions to Discretionary Housing Payments.

38. We welcome the Government's intention to invest in supported housing. Currently local housing teams lose more than £72m every year due to the funding gap between subsidy received and the rent levels charged by unregulated supported housing providers. Addressing this shortfall can also be combined with investment in better regulated provision, and higher quality of supported housing to protect vulnerable residents.

39. With the number of homes for social rent being built diminishing over the past decade, and 1.1m on council waiting lists, investment of £10bn across the local government sector in building more social rented homes would deliver significant returns on investment, mostly through jobs and growth and increased tax receipts, and housing benefit savings.

40. The knock-on impacts for districts in tackling the housing shortage are significant, for instance spending on B&B accommodation has risen significantly. Shire districts have seen expenditure rising from £9m in Q4 2010, to £28.6m in Q4 2020.

41. **Districts can lead the transition to Net Zero in local communities**. 80% of districts have declared climate emergencies and 56% aim to reach Net Zero before 2050. But access to the right skills and resources is a challenge. Districts want to work with government on a needs analysis to inform the development of a long-term strategy and sustainable funding framework, as there will clearly be further substantial costs to reaching Net Zero. This should clarify local government's role in delivering net zero, and ensure certain and long-term funding to deliver, and to attract further investment.

42. A positive first step would be the confirmation of the dispersal of the remaining £3.8billion social housing decarbonisation funding, and for its delivery to be greatly accelerated and simplified. However, the Government should recognise that significant additional funding will be needed to achieve this goal. Research estimates a £1billion cost per year to 2050 to deliver decarbonised council housing stock. Government will also need to work with the sector to identify priorities and develop a capital fund for retrofitting and increasing energy efficiency across all council estates.

43. Districts and businesses not only need capital investment to deliver net zero, but also the resources and skills to develop solutions in a rapidly changing arena. We therefore call for further funding to be shared equitably across the Further Education sector to facilitate the training required to skill local workforces and support businesses to deliver net zero.

Principles for joint working between central and local government

44. The overarching approach to the way central and local government work together should be based on providing long-term funding certainty, reducing the use of short-term, one-off, and competitive bidding pots, trusting local leadership, and a whole-of-government approach to the long-term devolution of powers and funding. For instance:

- Districts can deliver more homes with greater certainty – enabled by long-term funding streams, and greater freedoms and flexibilities to drive innovative and creative local approaches. This includes retaining a bigger proportion of Right to Buy sales receipts and greater flexibility to reinvest receipts to enable delivery of more council homes.

- The Garden Community programme is good example of Government, Homes England and Local Authorities working together to delivery more high-quality homes. However, the short-term, unpredictable nature of the funding means that in-house specialist teams are continually under threat and retaining staff is an issue.

- Government should follow through on its commitment to reduce the plethora of individual funding streams by joining up the Housing Infrastructure Fund and other Homes England funding.

- The UK Shared Prosperity Fund can be a key driver to level up across the country, and we call for this to be devolved locally over a 7-year timeframe, providing certainty. This would empower local leaders to take decisions with their local communities, and avoid a bureaucratic, centralised bidding system. Equally, any capacity funding/support needs to be considered on a long-term basis. Councils are in an unrivalled position to deliver – holding the levers to bring about change, the relationships with key partners, and the local insight to best determine local priorities.

- As housing and benefits authorities, districts want to end homelessness by preventing it in the first place; devolution must enable this by reducing complexity and pooling together all funding at local level in districts, and giving new powers for districts to ensure health, employment, welfare, and justice partners collaborate around a strategy in places. Districts should be free to introduce licensing schemes without seeking the Secretary of State's approval.

Conclusion

45. This Spending Review marks a clear opportunity to stabilise and secure vital district services, and back them to deliver the challenges of levelling up across the country, investing in long-term housing and growth, health and wellbeing, and tackling hardship and homelessness.

46. Districts can deliver best with:
    - Financial fairness, certainty, and sustainability.
    - Incentives to grow - to retain the rewards of growth for communities.
    - Incentives to build - to invest in places to secure community backing for new homes; and
    - Incentives to innovate - to realise opportunities to raise locally and spend locally.

47. We look forward to continuing to work closely with central government as districts tackle the challenges ahead with ambition and determination.

Annex One – Financial Background

1. **A challenging financial context for district services:** District councils have been hardest hit financially over the past decade. Between 2010-11 and 2020-21, districts saw a 35% reduction overall in real terms spending power, against a decline of 26% for England overall.

2. The impact of covid has hit districts especially hard because of their increased reliance on income generating services, such as parking, and their funding model closely aligned to the health of the local council taxbase and business rates base. Shire districts are more heavily reliant on income generated by fees and charges, which have been partially compensated through the now closed income guarantee scheme.

3. The ability to generate income has partially protected services during this time. But, overall, there has been a 19.2% reduction in all service spend per capita, (gross of sales, fees and charges) since 2010-11, with spend on cultural services, environmental health and regulatory services, planning and development, and housing all falling. And, in truth, income generating powers remain narrow and constricted. For instance, planning fees do not cover the cost of processing applications, meaning taxpayers are subsiding the cost at a rate of nearly £110m across shire district councils (2019-20 outturn), and increasing.

4. Government has provided a substantial package of financial support provided for 2020-21, with £318m in grant funding to shire districts, plus funding streams such as Contain to support targeted areas of work. And yet ongoing covid pressures remain into 2021-22, with over £300m projected in lost non-tax income and additional expenditure for Q1-Q2 2021-22, partially offset by the income guarantee scheme in Q1. And those districts who have their own council housing stock have had no funding support, despite £45m in lost income and additional expenditure reported for 2020-21.

5. The 2020 Spending Review and Settlement signified ongoing and increasing reliance on council tax for overall core funding. The IFS calculates that council tax will account for 61% of core funding in 2021-22, compared to 40% in 2009-10. This increasing dependency on council tax for spending power just entrenches regional disparities - increases will generate less funding for local services in areas with higher levels of deprivation, and yet the burden weighs more heavily on individual households.

6. When the Government returns to the Fair Funding Review, we ask it to prioritise both the resilience of the whole sector and the resilience of struggling authorities. Equalisation will be necessary for districts with a low tax base and low business rates growth.

7. **An uncertain outlook for business rates and council tax collection:** There have been significant gains in the seventh year of the localised business rates gains system for some authorities. A quarter of districts have received over 12% of their spending power in gains. For districts, particularly good business rates growth significantly enhances financial resilience. However, a quarter of districts receive less than 5% of their spending power in gains and some receive less than baseline. Those authorities which have large gains now face huge reductions at reset.

8. **Levels of useable reported reserves:** Government should avoid drawing misleading conclusions about districts' level of useable reported reserves – there is a timing, technical anomaly in the level of useable revenue reserves being reported in 2020-21 accounts. This is due to the way that the Government has compensated district councils through Section 31 grants for covid support programmes, primarily in the form of Business Rates Reliefs and Business Grants.