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

**District Councils' Network response to the provisional 2017-18 local government finance settlement: confirming the offer to councils**

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

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

**General Comments**

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

The ambitious challenge of building 200,000 new homes a year remains, and districts are - and will continue to be - at the forefront of delivering the country's housing needs since they already enable one out of every two new homes built nationwide. District Councils will need to take up the challenge of providing the new types of housing for older people if we are to provide a comprehensive response to the social care crisis but the reduction in the reward for delivery of more new homes changes alongside the 1% rent reductions, the very tight rules around the treatment of Right to Buy receipts and the refusal to consider lifting the housing borrowing cap will frustrate our desire to deliver housing growth. The increasing pressures of homelessness will also impact directly on district councils and taken together with the reductions to the New Homes Bonus create a perfect storm for district councils

Most Councils will have constructed efficiency plans based on figures published in the February 2016 settlement, including indicative levels of New Homes Bonus. Those indicative levels were meant to reflect the impact of the proposed changes to New Homes Bonus on which DCLG consulted in December 2015. However, barely two months before Councils must set their Council Tax, the government has announced potential new changes to the New Homes Bonus which are both

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financially significant for District Councils and substantially different from those reforms on which it had originally consulted. The lack of notice of these new changes would appear to run counter to the principles behind multi-year settlements, i.e. greater funding certainty and clarity over future income streams and sufficient warning to make sensible plans for changes. The original consultation on New Homes Bonus stated that a formal response document would be published within three months of the 10th March 2016 closing date, but took 9 months to emerge.

It is clear from the published figures that District Councils are taking the largest reduction in spending power between 2016-17 and 2017-18 compared to other classes of authorities. Based on the provisional settlement figures, shire districts core spending power has reduced by 5.2%, which is more than twice as much as the next closest reduction of 2.4% (for metropolitan fire authorities) and far higher than the average reduction of 1.1%. District Councils are therefore disproportionately impacted by these proposals, leading to further financial instability and pressure on Districts coupled with the reduced benefit of the delivery of growth/houses from the proposed New Homes Bonus changes.

The funding crisis for social care is indeed significant and a durable solution to it needs to be found and we realise that the purpose of the changes to New Homes Bonus was to provide funding to support social care.

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

The application of these temporary solutions, which only recycle existing local government funding, does not tackle the wider need for a sustainable and long-term funding solution, alongside a far greater focus on prevention to reduce demand.

In relation to planning fees, the majority of fees and charges levied for public services are set locally, by the relevant authority, to reflect local costs. However two fee regimes continue to be set nationally – planning and licensing. In the majority of cases the centrally set fees do not cover the costs of delivering the service and the DCN would emphasise the importance of receiving income which reflects the cost of the service provided in order to ensure districts can continue to invest and deliver high quality services. The gap between income and the cost of provision is also increasing despite efforts to keep costs to a minimum, meaning in affect that council tax payers are subsidising commercial activity. The DCN has responded to the detail of the alternative provider model and urges the Government to provide clarity on the localisation of planning fees and this model going forward to provide further clarity for 2017/18 finances.

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

The DCN welcomes the continued flexibility for district councils to increase council tax by a maximum of £5 and we hope that this flexibility is continued for the entire settlement period.

**Question 1: Do you agree with the methodology of Revenue Support Grant in 2017-18?**

We fully support the four year settlement which has provided councils with some certainty for their medium term financial planning. Expansion of this multi-year offer would be welcomed, as by next year the current offer will only provide a further two years information, which is not supportive for councils for their medium term financial planning.

We are aware of continued concerns of our rural districts regarding the inclusion of council tax in the calculations of RSG reductions. We are also concerned that DCLG calculations assume that councils raise council tax by the maximum amount possible (i.e. 2% or £5 for shire districts). This appears to suggest that DCLG are encouraging councils to raise council tax by maximum amounts to bridge funding gaps, which is inequitable to the council tax payer.

**Question 2: Do you think the Government should consider transitional measures to limit the impact of reforms to New Homes Bonus?**

The DCN supports the principle of transitional measures to limit the impact of reforms to the New Homes Bonus scheme.

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

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

At this high level of 0.4% the baseline will have reduced, if not all but removed, for many councils the incentive that was trumpeted when the scheme was introduced in 2011. The Secretary of State is clear that housing is his number one priority, yet this late and unjustified change will hinder planning authorities in supporting housing growth.

***Therefore we propose that the 'deadweight' baseline level should be fixed at 0.25% for two years, to assist councils through a transition stage which helps to mitigate the longer term effect of the 0.4% 'deadweight' level.***

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

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

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

The DCN also opposes the retrospective element of the reduction to 5 years of NHB in 2017/18 and fours year from 2018/19. Those District Councils that were able to deliver growth from 2012/13 and who have made financial decisions on the basis of 6 year allocations are now facing a retrospective cut for new bonus allocations covering a significant period. Again this goes against the stability that the concept of four year financial allocations planning was supposed to provide and, taken with the lack of clarity relating to the new baseline rate impacts creates confusion around the incentive rather than sharpening it. This adds further weight to the need for transition arrangements.

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

While a continued focus on rewarding those councils that deliver the most housing growth is welcomed, the DCN is very concerned that these substantial reductions in funding for New Homes Bonus for all councils, will blunt its positive impact, rather than sharpen its focus - at a time when housing growth is a priority for the Department for Communities and Local Government. Previous Government reviews have concluded that the New Homes Bonus scheme is working well and making a difference to the delivery of housing, these changes will undermine those results in future. Loss of New Homes Bonus funding to councils will inevitably reduce the number of projects that promote housing and economic growth and improve the health and wellbeing of residents, and which, furthermore, reduce the burden of demand on Adult Social Care

Separately

**Question 3: Do you agree with the Government's proposal to fund the New Homes Bonus in 2017-18 with £1.16 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.5.8?**
Yes, we agree with this proposal as it is in line with previous years.

**Question 4: Do you agree with the proposal to provide £240 million in 2017-18 from additional savings resulting from New Homes Bonus reforms to authorities with adult social care responsibilities allocated using the Relative Needs Formula?**
The DCN recognises the difficulties facing councils responsible for social care and recognises the need for additional adult social care funding to meet ever-increasing demand. The funding crisis for social care is indeed significant and a durable solution to it needs to be found and we realise that the purpose of the changes to New Homes Bonus was to provide funding to support social care.

However the changes to New Homes Bonus do not constitute such a solution. The statement that *"£240 million has been reallocated from further savings to the New Homes Bonus, to support social care in 2017-18"* fails to recognise that £165 million of the savings are being taken from Councils with social care responsibilities. The net funding increase for these Councils from these reforms is therefore only £75 million, which is clearly insufficient in the context of the £2.6 billion funding gap up to 2020 outlined by the LGA in its "Adult social care funding: 2016 state of the nation report."

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

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

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

**Question 5: Do you agree with the government's proposal to hold back £25 million to fund the business rates safety net in 2017-18, on the basis of the methodology described in paragraph 2.8.2?**

The DCN supports this proposal provided the £25 million has already been accounted for in the DCLG calculations and is not a further reduction for councils.

**Question 6: Do you agree with the methodology for allocating Transition Grant payments in 2017-18?**

Yes, we agree with this methodology and would support a principle that this should be provided to councils that can demonstrate they are moving towards a balanced budget through their efficiency plan.

**Question 7: Do you agree with the Government's proposed approach in paragraph 2.10.1 of paying £65 million in 2017-18 to the upper quartile of local authorities based on the super-sparsity indicator?**

We agree with the principle of the rural service delivery grant and as this grant formed part of the four year settlement, would not have expected to see any changes. Therefore we agree with the proposed approach.

**Question 8: Do you have any comments on the impact of the 2017-18 local government finance settlement on those who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide supporting evidence.**

We have no comments.