



## Policy & Resources Committee 9 September 2013

### Local Government Finance Consultations

#### Purpose of report

To set out the proposed changes to Local Government Funding and the impact on East Northamptonshire Council (ENC).

#### Attachment(s):

**Appendix 1** New Homes Bonus (NHB) and the Local Growth Fund Technical consultation questions

**Appendix 2** Local Government Finance Settlement 2014/15 and 2015/16 Technical consultation questions

**Appendix 3** Proposals for the use of capital receipts from asset sales to invest in reforming services consultation questions

#### 1. Introduction

1.1. On 25<sup>th</sup> July 2013 DCLG published three consultations

- New Homes Bonus (NHB) and the Local Growth Fund Technical Consultation
- Local Government Finance Settlement 2014/15 and 2015/16 Technical Consultation
- Proposals for the use of capital receipts from asset sales to invest in reforming services

1.2. The consultations do not consult on individual authorities' allocations but instead ask questions about the changes that are proposed for the next settlement.

1.3. This report outlines the proposed changes and the impact on ENC.

#### 2. NHB and the Local Growth Fund Technical Consultation

2.1. In the Chancellor's 2013 spending round he announced a transfer in 2015/16 of £400m from the NHB pot to the Single Local Growth Fund. This represents approximately a third of the total NHB pot in 2015/16.

2.2. The consultation presents two options for allocating the £400m transfer of NHB

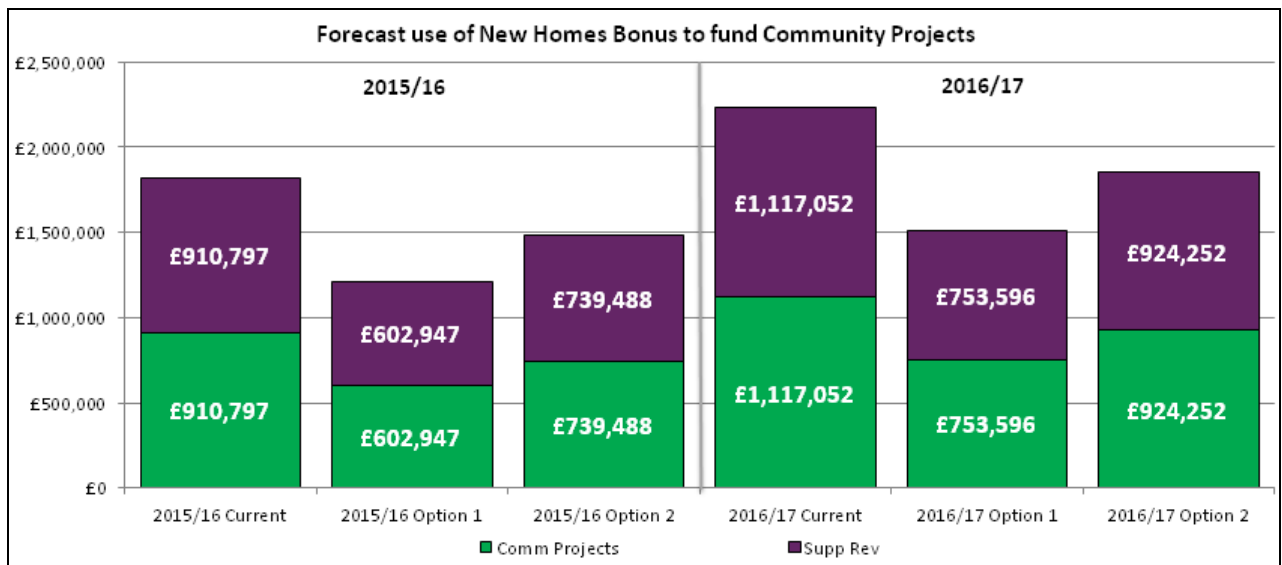
- **Option 1:** all authorities pay the same proportion of their allocations over to the Local Enterprise Partnership (LEP) (or LEPs, where an authority is in more than one) in order to reach the £400m total nationally (approximately 34%)
- **Option 2:** in two tier areas, counties pay over their full NHB allocation to the LEP(s), with districts paying the balance

2.3. DCLG says that the second option reflects the fact that, for districts, NHB makes up a large proportion of their spending power.

- 2.4. The consultation proposes that a new condition is attached to the NHB grant specifying that the pooled amount must be passed to the LEP lead local authority, and that resources, once in the Single Local Growth Fund will not be ring-fenced and can be spent on any part of the LEP's economic plan.
- 2.5. The consultation also proposes that where local authorities can demonstrate that they have committed contractually to use future allocations on local growth priorities, LEPs should take this into account when determining their local growth plan and their priorities for using pooled funding.

## 2.6. Impact on ENC

- 2.7. The graph below demonstrates the possible impact on community projects and revenue budget.



- 2.8. The chart above demonstrates the possible impact on ENC of the proposed changes from 2015/16. It should be noted that these projections are based on forecast housing numbers triggering NHB; the actual position may be different.
- 2.9. Both options set out a significant reduction in NHB received by ENC. However, as shown above, option 1 would have the biggest impact for ENC.
- 2.10. As a result of the proposed changes and current consultation, the Council is likely to need to reconsider its current strategy for allocation of NHB in response to these changes.
- 2.11. One of the questions in the consultation relates to councils which are in more than one LEP. At present ENC is only in NEP, although other Northamptonshire councils are also in SEMLEP. In accordance with a previous decision of this Committee, officers are keeping this situation under review in the light of the changes currently being consulted on and other changes to government and EU funding streams, and will report back to a later meeting if it is appropriate for the council to reconsider its LEP membership. In the meantime, we are maintaining links with SEMLEP as well as NEP at officer level.

## 2.12. Consultation Response

- 2.13. NHB technical consultation is open for 8 weeks and closes on 18 September 2013. A number of questions have been put forward within the consultation for consideration. These are shown at **Appendix 1**, along with proposed responses.

### **3. Local Government Finance Settlement 2014/15 and 2015/16 Technical Consultation**

- 3.1. The Chancellor's spending round also introduced changes to the Finance Settlements for 2014/15 and beyond. The changes are outlined below.
- 3.2. Safety net top-slice in 2014/15: In 2013/14 DCLG top-sliced £25m from the finance settlement to cover the projected costs of the business rates safety net in 2013/14. The safety net was put in place to ensure that, where a council experienced a large reduction in business rates, it could still remain financial stable. This has now been judged to have been insufficient and in order to cover this, and to ensure there is sufficient for 2014/15, DCLG are proposing to top-slice an additional £95m in 2014/15.
- 3.3. 1% cut in 2014/15: The Budget 2013 announced an additional cut of 1% for departments in 2014/15. The Technical Consultation clarifies that this equates to £218.8m for local government and represents a new cut in cash terms for Revenue Support Grant (RSG) of 1.78%. This is in addition to previous announcements of 10% per annum over the medium term.
- 3.4. Increase in Retail Price Index (RPI) forecast: The Budget 2013 also increased the forecast for September's RPI by 0.19%. This means that the local share of business rates will be larger than first anticipated. This reduces the cut to overall RSG by £21.1m.

#### **3.5. Impact on ENC**

- 3.6. The MTFs 2013/14 assumed 10% reductions in RSG in future years. As a result of the changes outlined above it is anticipated that the reduction is likely to be around a 13% impact on ENC funding.

#### **3.7. Consultation Response**

- 3.8. LG Finance Settlement technical consultation is open for 10 weeks and closes on 2 October 2013. A number of questions have been put forward within the consultation for consideration. These are shown at **Appendix 2**, along with proposed responses.

### **4. Proposals for the use of capital receipts from asset sales to invest in reforming services**

- 4.1. On 27 June 2013, the Government published a spending review document 'Investing in Britain's future'; page 41 of the document stated that:

*To incentivise asset sales and support investment in transforming local services, the Government will also consult on allowing local authorities some flexibility to use their receipts from asset sales to pay for the one-off costs of service reforms.*

- 4.2. The consultation aims to gather opinion from the local government sector to see if the idea of allowing part or even the whole of a capital receipt(s) from new asset sales to be used for a one-off revenue purpose to stimulate organisational change, is a viable and realistic option for local government to reconfigure their service areas, to bring down their on-going revenue costs and to deliver improved services

#### **4.3. Consultation Response**

- 4.4. The consultation is open for 8 weeks and closes on 24 September 2013. The consultation questions are shown at **Appendix 3**, along with proposed responses.

## 5. Equality and Diversity Implications

5.1. There are no known equalities issues arising from this report.

## 6. Legal Implications

6.1. There are no known legal implications arising from this report.

## 7. Risk Management

7.1. Failure to understand changes in funding and incorporate them into the Council's Medium Term Financial Strategy (MTFS) could result in the Council becoming financial unstable.

7.2. This risk is taken into consideration within the Council's risk register:

Risk	Description
257	Failure to develop and deliver sustainable budgets
503	Longer term financial standing jeopardised
635	Funding forecasts from government are not updated in light of changing circumstances

## 8. Financial Implications

8.1. This report is of a financial nature and the implications are set out within the report

## 9. Corporate Outcomes


9.1. This report links to the following Corporate Outcomes:

- Effective Management
- Good Value for Money

## 10. Recommendations

10.1. Members are asked to note the contents, consider whether ENC should respond to any of the current consultations and, if so, whether the proposed responses set out in the Appendices accurately reflect the Committee's views.

*[To raise awareness of, and consider responding to, current proposed changes in Government funding]*

<b>Legal</b>	Power:					
	Other considerations:					
<b>Background Papers:</b>						
<b>Person Originating Report:</b> Kelly Watson, Finance Manager <a href="mailto:kwatson@east-northamptonshire.gov.uk">kwatson@east-northamptonshire.gov.uk</a>						
<b>Date:</b> 29/08/13						
<b>CFO</b>			<b>DMO</b>		<b>CX</b>	

(Committee Report Normal Rev. 22)

## New Homes Bonus and the Local Growth Fund

Technical consultation questions

### Local Pooling

Any pooling of the £400m will remain in the local area. A number of authorities were worried that the DCLG would pass their allocation straight on to the Local Enterprise Partnerships (LEP) – not necessarily following local distributions. That will not happen. Local allocations will be pooled locally.

**Question 1:** *We would welcome views on the underlying principles of pooling the New Homes Bonus in this way, with specific regard to ensuring that pooled funding remains in the Local Enterprise Partnership Area where it originates and that the method of calculating the Bonus remains unchanged.*

### ENC Response

Since the introduction of NHB, ENC has set out its proposed methodology for the use of NHB. ENC set out a plan over the medium term to invest a significant and increasing proportion of NHB across the district in a number of different infrastructure projects. These projects range from small scale local projects to district and county wide infrastructure developments which would assist with growth.

The biggest challenge ENC has faced as a largely rural district is that the scale of developments had generally been too small to attract significant S106 income. Cumulatively this has resulted in a large shortfall in funding required to support infrastructure across the area. NHB is seen as a way of filling some of this deficit and rectifying some of the previous shortfall that has occurred.

The proposed changes will have an impact on the plans being developed by ENC and in particular on the district of East Northamptonshire.

When a decision is made about the future of NHB, and should a top slice be the outcome, this would significantly adversely affect a number of projects anticipated to be funded from NHB.

### The Proportions – Two Options (outline in report)

**Question 2:** *The first mechanism is that an equal percentage of all New Homes Bonus allocations will be pooled to the lead authority of their Local Enterprise Partnership, the precise percentage to be determined, but will be that necessary to make £400m nationally. Do respondents consider this to be an appropriate method?*

### ENC Response

ENC does not believe that this would be the most appropriate mechanism as it would significantly affect the financial resources the Council would have available to achieve its current MTFs. Given the potential impact on the Council's finances, a timely announcement of which mechanism is taken forward would be appreciated.

**Question 3:** *The second mechanism would act as described above for all areas with a single tier of local government (unitary authorities, metropolitan boroughs, etc.). Where areas have two tiers of local government (lower tier district councils and upper tier counties) the alternative distribution mechanism would operate whereby upper tier authorities would surrender all of their New Homes Bonus, with the balance coming from the lower tier. Do respondents consider this to be a preferable method of pooling for two tier areas?*

### ENC Response

Should the proposed changes continue, this would be the preferred option as it more appropriately recognises the financial implications for lower tier councils. Given the potential impact on the Council's finances, a timely announcement of which mechanism is taken forward would be appreciated.

## **Enforcing Pooling**

The consultation proposes that a new condition is attached to the NHB grant specifying that the pooled amount must be passed to the LEP lead local authority, and that the resources, once in the Single Local Growth Fund will not be ring-fenced and can be spent on any part of the LEP's economic plan.

**Question 4:** *Do respondents consider that the content of the proposed condition placed on the section 31 grant will be sufficient to enforce the local pooling of the New Homes Bonus funds?*

### **ENC Response**

See response to Question 1.

**Question 5:** *The government considers that the existing accountability arrangements for Local Enterprise Partnerships should apply to pooled funding as these are considered to provide sufficient safeguards for the protection of spending. Do recipients agree?*

### **ENC Response**

Overall the Council has no disagreements with the existing accountability arrangements for LEPs, however it should be noted that the Local Authority has no direct representation on the local LEP and as such clarification is needed surrounding the arrangements for Local Authority inputs into future plans for pooled funding.

## **What if you are a member of two LEPs?**

In this case the consultation document suggests that pooled New Homes Bonus allocations should be split 50:50 between the two LEPs.

### **ENC Response**

This is not applicable for the Council as ENC is currently a member of one LEP only, Northamptonshire Enterprise Partnership (NEP).

~~**Question 6:** *Do recipients agree that locally pooled NHB in London should pass to the Greater London Authority to be spent under existing arrangement?*~~ Not applicable for ENC.

**Question 7:** *Do you agree that where an authority is a member of more than one Local Enterprise Partnership, then the proportion to be pooled should be divided equally amongst the Local Enterprise Partnerships?*

### **ENC Response**

Although there is an overlap of LEPs covering this authority area (SEMLEP & NEP) ENC is currently a member of one LEP only, Northamptonshire Enterprise Partnership (NEP). It should be the choice of the authority as to what proportion is allocated to each LEP.

## **What if you have already committed to spending New Homes Bonus allocations on Growth?**

The DCLG want to understand this issue further and are asking the following questions.

**Question 8a:** *The Government proposes that where local authorities can demonstrate that they have committed contractually to use future bonus allocations on local growth priorities, Local Enterprise Partnerships should take this into account when determining their local growth plan and their priorities for using pooled funding. Do respondents agree with this proposal?*

### **ENC Response**

The Council does agree with this proposal, however, the Council feels that recognition of future plans which are not yet contractually committed should also be a consideration when determining local growth plans and priorities.

**Question 8b:** *If respondents disagree with question 8a are there alternative approaches for dealing with such commitments?*

### **ENC Response**

See response to Question 8a.

**Question 8c:** *Are there other circumstances in which a spending commitment should be taken into account by the Local Enterprise Partnership?*

**ENC Response**

The Council would like recognition for other circumstances such as:

- Current projects or plans which have started but are not yet fully contractually committed
- Recognition of where an authority is actively pushing the growth agenda and successfully achieving this, e.g. where large developments are beginning/areas of significant growth resulting in increasing business rates and housing development.

### Local Government Finance Settlement 2014/15 and 2015/16

#### Technical consultation questions

The local share of business rates is fixed until 2020 to provide a strong incentive for local authorities to promote growth; the full reduction will need to be applied to the element of funding that is provided through RSG.

The Government does not intend to reduce the Council Tax Freeze Compensation element of the RSG. Therefore, any reduction will be applied to the remaining elements of RSG.

**Question 1:** *Do you agree with the Government's proposal on how to implement the 1% reduction to the Local Government Departmental Expenditure Limit (LG DEL)?*

#### ENC Response

The Council is concerned about the significant on-going reductions to overall Local Government funding, and in particular the difficulty in planning over the medium term.

Given that the calculation for the local share of business rates is fixed, the Council agrees that the methodology for the implementation of the 1% reduction is reasonable.

**Question 2:** *Do you agree with the proposal for reducing the funding available for capitalisation for 2014/15 by £50m and using this revenue to reduce the amount required to be held back from RSG to fund the safety net?*

#### ENC Response

The Council would ask that more information is provided about how the additional requirement for Safety Net payments has been estimated. A significant change has occurred between this reduction in funding and the Government's original forecasts.

If it is deemed to be due to issues with the performance and processes of the Valuation Office Agency around appeals, then the Council would argue this is for the Government to address and to bear the costs of the financial risks of this uncertainty.

Alternatively, if the issue has been created through an abundance of successful appeals, much of the liability will relate to years prior to the start of the business rate retention scheme. If, as believed by local government finance experts, there is a surplus on the old scheme where rates were retained centrally, then the backdated impact of appeals prior to April 2013 should be charged to that pot and any balance then allocated back to authorities through the settlement.

In general, it is felt that the use of capitalisation directives to fund revenue should be minimised, therefore the Council agrees with the proposal to reduce the Capitalisation hold back to reduce the further reduction in the Revenue Support Grant.

**Question 3:** *Do you agree with the way the Government proposes to hold back the funding that is necessary for New Homes Bonus and safety net support, and to return any surplus to authorities?*

#### ENC Response (in conjunction with NCC)

Government should always seek to hold the minimum funding back and not be over cautious in calculating this amount, since money not provided for upfront funding cannot be planned effectively for.

It is felt that the total proposed top-slice suggested for New Homes Bonus of £1.1bn in 2015-16 together with the Government's £250m support is too high, particularly when considered against the National Audit Office's forecast for 15-16 in its March 2013 report on New Homes Bonus of £1.14bn. The Council believes the top-slice should be reduced in line with the NAO forecast, and the remaining £210m returned within the RSG.



When assessing the level of safety net support, we do not believe that NNDR1 forms are necessarily an accurate gauge of potential calls on the monies, given the volatility of appeals and historically large shifts between forecast and actual business rate income. This has been further exacerbated by the removal of the in-year NNDR2 process which would have given a much better idea of performance to date.

Given the high level of uncertainty around appeals at the time of completing NNDR1 forms it may be prudent to get an update from the Valuation Office to determine a more accurate assessment of the expected impact of appeals going forwards, before assessing the level of safety net support required.

The Government proposes that for all of the grants rolled in from 2013/14, it will set the 2015/16 totals to be the continuation of changes of the 2010 spending review period (i.e. 10% reductions each year).

**Question 4:** *Do you agree with the proposed methodology for calculating control totals for each of the elements within the Settlement Funding Assessment?*

#### **ENC Response**

The Council agrees that elements within RSG should not be treated with a blanket approach, and that consideration is given to each element. Further transparency around the presentation of funding reductions would aid the public in understanding the challenges being faced across Local Government.

It is proposed that from 2015/16 Council Tax Freeze Grant will be rolled into RSG.

**Question 5:** *Do you agree with the proposed methodology for transferring in the 2013/14 Council Tax Freeze Compensation?*

#### **ENC Response**

ENC agrees with the methodology for transferring the 2013/14 Council Tax Freeze Compensation. The Council will decide as part of the budget setting process what level of Council Tax is to be set.

~~**Question 6:** *Do you agree with the proposed methodology for adjusting the 2015/16 settlement to take account of the loss of tax revenue due to the Exchequer from the local authorities who are too small to participate in the Carbon Reduction Commitment Energy Efficiency Scheme?*~~

Relates to Phase 1 English local authority Carbon Reduction Commitment Energy Efficiency Scheme participants. Not applicable to ENC.

### Proposals for the use of capital receipts from asset sales to invest in reforming services

#### Consultation questions

**Question 1:** *Do you consider that the proposal to allow some flexibility for use of capital receipts from new asset sales will provide you with a useful additional flexibility for one-off revenue costs associated with restructuring and reforming local services to deliver longer term savings?*

#### ENC Response

The Council would welcome this proposal. It is felt that this could provide additional flexibility in the future.

**Question 2:** *To evidence base the response to question one, we would welcome (in no more than 400 words) your initial ideas for change(s) that you consider would benefit from the flexible use of capital receipts policy?*

*Information could include the level of funding required, type of asset(s) to be disposed, details of the service transformation and savings that could be achieved and future use of the asset(s).*

#### ENC Response

At this stage the Council is not able to provide information to support question 1. This information will emerge as the Council develops its plans and aspirations for the future. However, the Council would like to note that proposal such as this could have been used in the past initial service change and reform occurred and some redundancy costs were incurred.

It is proposed that a bid based competitive approach to ensure value for money (VFM) can be demonstrated via a cost/benefit analysis. Subject to the consultation a bid prospectus would set out the precise criteria.

**Question 3:** *Do you agree that these criteria should be used, or would you suggest alternative or additional measurements to decide a bid based approach and ensure a fair distribution for the proposed flexibility?*

#### ENC Response

It is important that an organisation is able to demonstrate VFM through cost/benefit analysis. However, a bid based approach may put off some authorities.

It is important that the approach used is applied fairly across Local Government and can demonstrate that no one organisation is disadvantaged through use of a bid based approach.

It is proposed that either a direction letter giving individual permission of a direction is used or alternatively amend the wording of the current regulations to apply a policy that would apply equally across all local authorities.

**Question 4:** *Do you agree that a direction letter mechanism would be the best method of delivering the aims of the policy proposal?*

#### ENC Response

The Council does not agree that a direction letter mechanism would be the best method. It is felt that the best method would be to amend current regulations to apply a policy equally across all authorities.

The Governments default position is that this flexibility would apply in 2015/16 which would allow authorities time to plan service reforms and asset disposals.

Event	Timing
Consultation issued	July 2013
Consultation closes	September 2013
Response to consultation	Autumn 2013
<b>Below subject to outcome of the consultation</b>	
Bid process commences	Winter 2013
Bid process decisions	Spring 2014
Direction letter issued	Spring 2014
Disposal of Asset	August 2013 – March 2016
Revenue Expenditure	April 2015 – March 2016

**Question 5:** *Is the proposed timetable realistic to allow for the practical implementation of the flexible use of capital receipts proposal?*

### ENC Response

The Council feels that the timetable represents a fair timescale for practical application of a specific proposal where plans for service reform are already in existence. However, where councils do not currently have clear plans for reform, this timetable does not allow for future service reform.

Given the late timescales for funding notifications and the consequent impact on financial planning, should the bid approach be adopted as set out above, the timescale for putting in an application would not suit changes beyond the shorter term period set out above.

The Council proposes that no set timetable be put in place and that it would be up to each authority to decide when the most appropriate time would be to apply the flexibility themselves.

**Question 6:** *If you felt the timetable was not realistic, what changes would you make to the proposed implementation of the policy to allow for the practical delivery of the flexible use of capital receipts?*

### ENC Response

The Council would welcome a more flexible timetable which would allow for future service reform to be introduced. Should the bid approach be implemented then future rounds for applications, possibly annually, may be a more appropriate mechanism.