The Changing Pattern of Finance within Local Government

Executive Scrutiny Committee

September 2012

Essex County Council

Introduction

- The funding arrangements for local government are changing
- Key material issues relate to NNDR and Council Tax Benefit changes
- There is still much uncertainty around these changes, hence a light review here, with further detail when its available and appropriate to bring
- Innovative funding opportunities are becoming available, but all come with a cost – we need to be clear about our investment priorities

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Timetable for key changes

- NNDR localisation consultation released July 2012 (closing end September)
- LCTS local decisions (billing authorities) in progress July 2012
- LCTS public consultation required September 2012
- Government response to LCTS grant distribution consultations December 2012
- Funding settlement December 2012
- Implementation of changes for April 13

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How the revenue budget is currently funded

Funding Source	2012/13 Original £000	%
Council Tax (incl. collection fund surplus/deficit)	580,986	62%
Formula grant •National Non-Domestic Rates (NNDR) •Revenue Support Grant (RSG)	 269,574 5,226	 29% 0.6%
General Government Grants	79,764	8%
Contribution from General Balance	2,356	0.4%
Total funding	**937,906**	**100%**

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NNDR localisation - theory

- At present, NNDR is collected by BC/DCs and share comes back to Counties via grant from central government (it is amalgamated with Revenue Support Grant and collectively called Formula Grant)
- From April 2013 NNDR will no longer be received as a grant
- “multiplier” will still be set centrally
- In principle, L.A.s will benefit from increased economic growth in their areas. Incentive is therefore to support businesses
- Start-up baseline position will be calculated broadly based on assumed ‘need’
- System of “tariff” and “top-up” will broadly preserve the baseline (i.e., there will be adjustments for local NNDR collected v baseline ‘need’)
- “levies” and “safety nets” will be introduced to offset disproportionate levels of change (e.g. from loss of a single major business in the area)

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NNDR – in practice – the story so far

- All NNDR must be used to support local government
- 50% of total business rates will be retained by central government to cover “other grants”
- 80% of the “local share” will be retained by DCs/BCs
- 20% will be passported to counties (i.e. 10% of the overall tax) – this reduces to 18% where the Fire Authority is a separate body
- County Councils will therefore be “topped up” to cover base level of need
- RPI increase is assumed against all variables (central govt will retain the determination of annual rate increase)
- Protection from losses will only apply to changes against starting position, whilst levies will apply to projected growth

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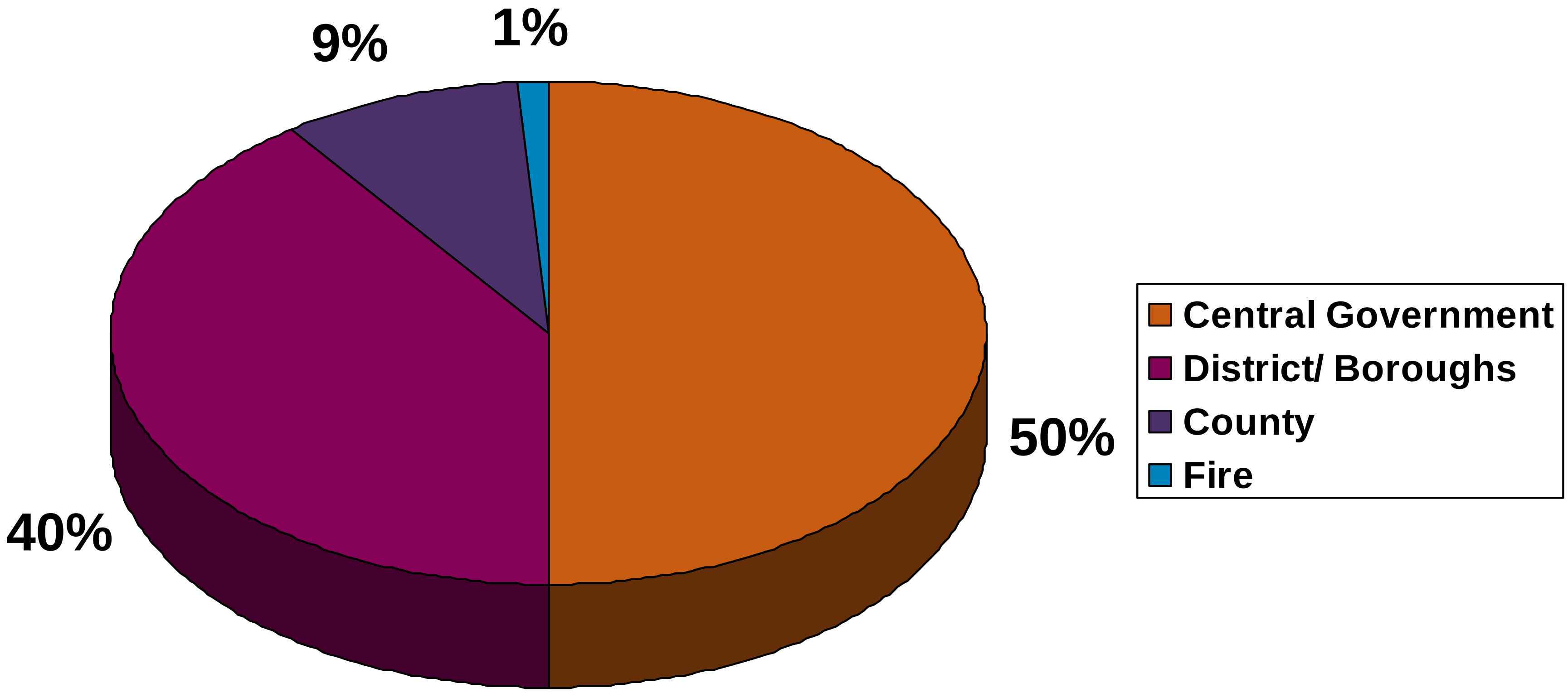
NNDR distribution



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A worked example (1)

- Assume our assessed level of required spend (Need) is £100m, and our share of NNDR is £20m. Our “top-up” will therefore be £80m.
- **RPI stands at 3%; NNDR growth is in line with this**
  - Need = £103m (£100m + 3% RPI);
  - NNDR = £20.6m (£20m + 3% growth);
  - Top-up = £82.4m (£80m + 3% RPI

Need = £103m (increase by RPI)

NNDR = £20.6m
(increase by growth)

Top-up = £82.4m (increase by RPI)

Overall growth in spending power = 3%, same as RPI

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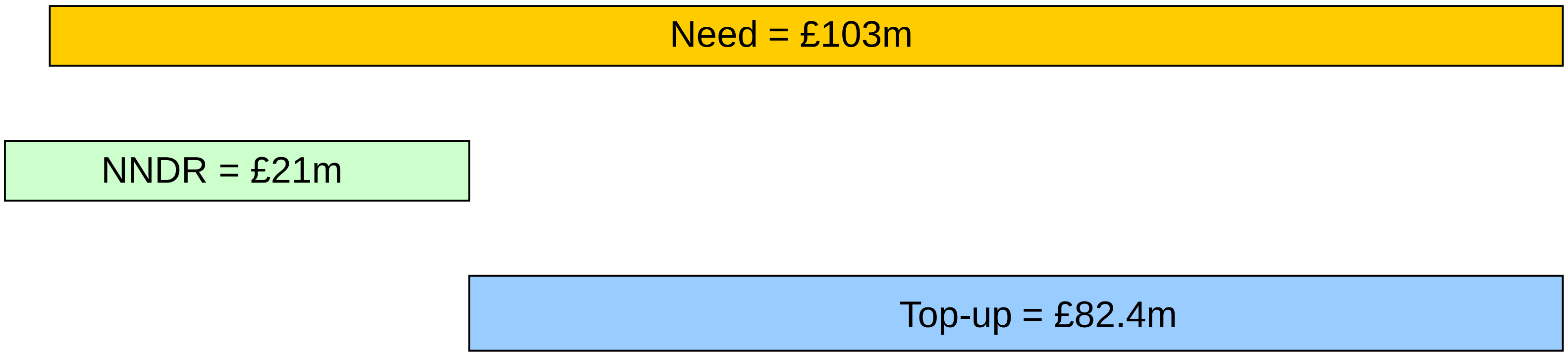
Worked Example (2)
- Growth above RPI

- If NNDR growth is 5%, and RPI is 3%,

  - ➢ Need = £103m (£100m + 3% RPI);
  - ➢ NNDR = £21m (£20m + 5% growth);
  - ➢ Top-up = £82.4m (£80m + 3% RPI

  – **<u>Excess</u>** funds for use by ECC = £0.4m



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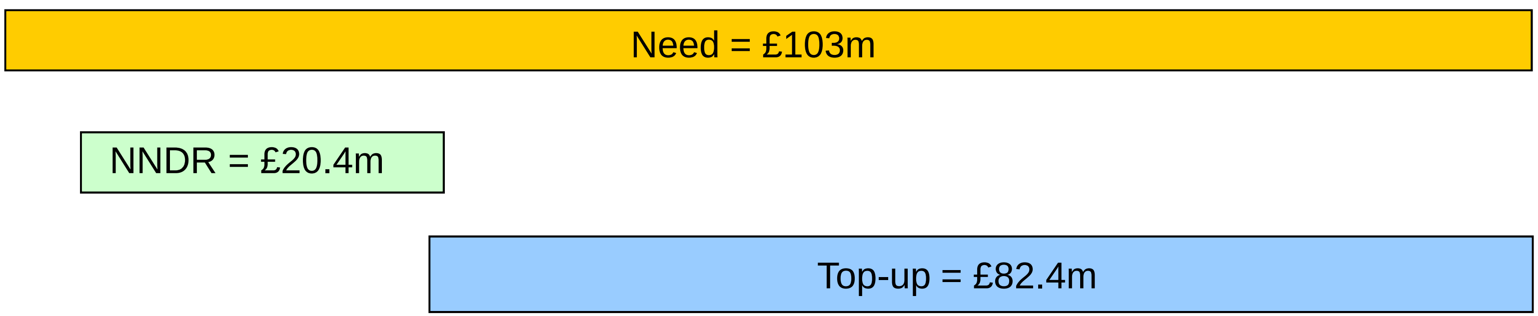
Worked example (3)
- Growth below RPI

- If NNDR growth is 2%, and RPI is 3%**,**
  - Need = £103m (£100m + 3% RPI);
  - NNDR = £20.4m (£20m + 2% growth);
  - Top-up = £82.4m (£80m + 3% RPI)

  – <u>**Deficit**</u> to be funded by ECC = (£0.2m)



The impact of variations on NNDR collected is therefore damped (for ECC) by the receipt of top-up

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Protection from disproportionate change

- **Levy** – the government will decide what proportion of increase to spending power is appropriate for L.As to keep. Anything above that will be deducted.

- **Safety net** – to protect L.As from disproportionate losses in income, a safety net will be set at X% below **BASELINE** (i.e. starting position, not compared with previous year). At the moment, this is likely to be between 7.5% AND 10% which for Essex will be in the order of £8m - £12.5m

- **Baseline is likely to remain constant for 10 years!**

  (So could have 10 years of growth between us & protection)

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Summary on NNDR changes

- Introduces a significant level of uncertainty in financial planning
- As a top-up authority, impact of volatility of rate collection will be damped for ECC
- It is unclear what the 50% “central share” will cover – we could lose other grants in this mix
- Should we be pooling arrangements with other Essex authorities? There is a potential of up to £2m benefit to ECC of pooling with other Essex authorities
- We will also have to ‘provide’ for appeals by setting aside funds to recognise that some of NNDR may be lost at a future date through appeals

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Local Support for Council Tax: Current Council Tax Benefit System

- Council tax benefit (CTB) feature of council tax system since latter introduced in 1993
- CTB is a means tested benefit that reduces council tax liability of low income households
- CTB administered by billing authorities on behalf of Department of Work and Pensions with billing authorities receiving cash payments based on actual CTB liabilities

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Spending Review 2010 Proposals

- Spending Review 2010 followed by DCLG consultation in summer 2011 announced abolition of CTB from April 2013

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- Replaced by local schemes run by billing authorities using unringfenced grant

- 10% cut in CTB funding also announced – reality of cut to be nearer 15% due to
  - distributional effects
  - caseload growth – easier to claim and economic climate
  - contingencies

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DCLG Proposals & Implications

- DCLG published consultation in summer 2011 followed by further consultation and statements of intent in May 2012
- Schemes must be agreed by 31 January 2013
- Pensioners to be protected with nationally determined regulations
- Vulnerable groups should also be protected – CLG will not define what these groups are
- Schemes should also protect work incentives

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DCLG Funding Proposals

- May 2012 funding consultation paper states funding will be based on:
  1. 2013-14 national projections of CTB spending; and
  2. 2011-12 subsidised CTB expenditure for England billing authorities as % of national total

- Funding allocation for Essex (excluding Southend & Thurrock) is £94m of which £67m is to be allocated to ECC

- Funding allocation will not be finalised until autumn 2012 _December settlement?

- Actual size of funding cut is c. 15% because of caseload growth and required contingencies

- Actual impact of cut upon working age claimants to be cuts of > 20% because of pensioner protection

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Essex Implications – Scheme Components

- Essex Benefits Managers Group including ECC formed Pan Essex council tax support group in February 2012

- Group is developing common framework and components for council tax support schemes in Essex that ECC Cabinet considered today:
    1. Common consultation approaches
    2. Joint consultation working between billing & precepting LAs
    3. Standardised approaches to processes such as claims
    4. Common components to scheme designs

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Other Funding Opportunities

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Community Infrastructure Levy (CIL)

- Has been in place since April 2011
- L.A.s can choose to levy a charge on development in their area
- Similar to old S106 arrangements, but…
- Charge is generic, not negotiated
- Levy can be used to support any infrastructure development
- Authorities may apply different levy rates to different areas to encourage / discourage development

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Business Improvement Districts (BIDs)

- NNDR payers within an area can vote for an additional levy
- The levy is to be used to implement specified projects or initiatives within that area
- Will be for a specified time only
- Can only be implemented if approved in a ballot of the business ratepayers in the area
- Money collected through this route must be kept separate and must be used for the specified purpose
- None currently existing in Essex
- More likely to be used by District Councils than County Councils due to the more localised nature of the implementation

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Tax Increment Financing (TIF)

- TIF allows L.A.s the freedom to borrow money against future growth in business rate income
- Borrowing can be used to invest in local schemes that will support business growth in an area
- TIFs have to be approved by government

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Social Investment Bonds (SIB)

- Investors seek a financial return alongside positive social impact
- Investors are not just financially motivated
- Essex is entering SIB in relation to Children's services ("Edge of Care")
- Payments to providers are linked to outcomes, not inputs
- Should lead to lower ongoing costs as outcomes improve and demand for services reduces
- We are exploring other options for SIB funding within Community Budgets work

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General Landscape

- Although there are multiple new investment models becoming available, it is important to remember that they key material changes to funding for local government are around NNDR changes and LCTS
- It is important to remember that all sources of funding have to be paid for!
- Under our prudential borrowing scheme, we set a limit of £32m borrowing for 2011/12, against which we did not take any loans. We have resources available to us already – how do we make best use of that?
- We need to be clear about what we want to achieve with the funding and find the right solution for each project, rather than looking for a project to fit the opportunity.
- Essex Funding Team has assisted organisations in greater Essex bringing in over £25m of EU funding since 2008. There is potential for this to be increased significantly and preparations are underway

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