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DEBATE PACK

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District Council Finance

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Summary

General debate on district council finances initiated by Mark Pawsey MP in Westminster Hall on Wednesday 1 May 2019 at 9.30 am.

The debate will take place on the motion: "That This House has considered district council finances."

1. Background

Funding settlements and statistics

The Library's finance dashboard provides annual funding and spending power data for all local authorities in England from 2016 to 2020.

Planned changes to local government finance

The Library briefing paper *Reviewing and reforming local government finance* provides an explanation of recent plans to reform local government funding, including extending business rate retention and the current Fair Funding Review.

The most recent consultations on business rate retention and the Fair Funding Review were published in December 2018.

The Housing, Communities and Local Government Committee published a report on *Business rate retention* in 2018.

Fiscal devolution: options

The IFS have published an analysis of options for fiscal devolution in England: "Taking control: which taxes could be devolved to English local government?", March 2019

In 2018 Parliament passed an Act permitting local authorities to charge up to 200% of normal council tax on properties that have been unoccupied and substantially unfurnished for two years or more, instead of the current limit of 150%. A Lords amendment extended this to 300% on properties that have been unoccupied and substantially unfurnished for five years or more (from 2020), and 400% on properties that have been unoccupied and substantially unfurnished for ten years or more (from 2021). Further information is available in the Library briefing on the *Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Bill 2017-19*.

The Scottish Government published a consultative document on introducing a tourism tax on 23 November 2018, followed by a report on a number of regional round-tables published on 7 March 2019.

The then Welsh finance minister, Mark Drakeford, made a statement on the Welsh Government's proposed vacant land tax in the Assembly on 15 May 2018. This must be agreed with HM Treasury before it is introduced.

Housing finance

During her speech to the Conservative Party Conference on 3 October 2018 the Prime Minister announced that Housing Revenue Account borrowing caps would be lifted to support more housebuilding. [Prime Minister's Conference Speech, 3 October 2018].

The Chancellor announced the lifting of borrowing caps with effect from 29 October 2018 during the Budget:

> …the Housing Revenue Account cap that controls local authority borrowing for house building will be abolished from 29 October 2018 in England, enabling councils to increase house building to around 10,000 homes per year. The Welsh Government is taking immediate steps to lift the cap in Wales.

The announcement was warmly greeted within the sector. The Resolution Foundation commented on the potential impact:

> The Office for Budget Responsibility (OBR) estimates that councils could complete an additional 20,000 new units by 2023-24 (and we estimate a further 7,000-plus units could be started by this point). Construction on this scale would represent a significant step-change for local authorities: in England and Wales they built a mere 1,900 new homes in 2017-18.

The Resolution Foundation's blog identifies potential savings for individuals due to lower social rent levels compared to private rents, and for the State due to Housing Benefit savings. Several factors are identified as explanations for the OBR's assessment of "uncertainty around local authorities' use of the extra borrowing room as 'medium to high" including:

- The continuation of the Right to Buy which could temper councils' appetite to build. Some authorities may prefer to build through local housing companies.
- The requirement for additional funds to combine with borrowing:

  "with money available for affordable homes still below the levels we saw in 2008-2010, and much already allocated to ongoing activities, councils may not be able to take full advantage of new borrowing opportunities without additional grant finance."
- Existing in-house capabilities of many councils to manage complex building programmes should not be over-estimated.

Prior to the 2019 Budget, research conducted by Capital Economics for the Local Government Association (LGA) was reported as having identified that councils could generate £320 billion for the economy over the next 50 years if they were able to build "a new generation of high quality council housing". The research found:

1. Every £1 invested in a new social home generates £2.84 in the wider economy.
2. Every new social home would generate a saving of £780 per year in Housing Benefit.
3. Every new social home would generate a fiscal surplus through rental income.

160 English local authorities currently have a Housing Revenue Account.

Right to Buy

By the end of June 1996 around 1.6 million council homes had been sold in the UK generating, at that point, some £28 billion in capital receipts.

There was no commitment to replace the sold homes when the statutory RTB was introduced in 1980. Restrictions were placed on the use of capital receipts raised from sales from the scheme's inception. Prior to April 1990, the Government's intention was to limit authorities to using only 20% of receipts raised from sales. However, the ability of authorities to cascade receipts from year to year, together with the application of restrictions to only to prescribed expenditure, meant that local authority expenditure and debt exceeded the Government's intended levels; in response, more stringent controls were introduced in April 1990.

After 1 April 1990, under section 59 of the *Local Government and Housing Act 1989*, local authorities were required to set aside 75% of receipts raised from the sale of council houses. These receipts could only be used, unless an authority became debt-free, to redeem debts or pay off credit agreements. The remaining 25% of 'useable receipts' could be used at any time to finance capital expenditure on any local authority service. Useable receipts could also be set aside as provision for credit liabilities.

A capital receipts pooling mechanism was introduced by the *Local Government Act 2003* (and associated regulations) with effect from April 2004. Under this mechanism councils were required to pool 75% of the receipts raised from the sale of council houses. Housing authorities could use the remaining 25% of capital receipts for any capital purpose, including investment in new social housing. The pooled capital receipts were redistributed back to local authorities by Government to enhance capital spend according to need – there was no requirement that these receipts be spent on housing capital expenditure:

> RTB sales reduce public sector net borrowing and since receipts are cash and therefore interchangeable with all other capital receipts, they are not hypothecated to any particular spending at any particular time.[1]

The *Localism Act 2011* provided for the abolition of the Housing Revenue deficit subsidy system with effect from April 2012. At this point local housing authorities in England moved to a self-financing regime following a one-off redistribution of 'debt' between local authorities. The self-financing settlement included an assumed annual receipt from RTB sales. Some authorities (136) took on more debt while others had their debt levels reduced or they became/remained debt free.[2] Under this system capital receipts raised from the sale of council homes is split between the Government and the local authority.[3] The split was initially set at 75/25% but is now 70/30%.

More information is available in the Library briefing Introducing a voluntary Right to Buy for housing association tenants in England.

Health prevention and public health

Information on the statutory responsibilities for public health services are set out in the Library briefing on the structure of the NHS in England. The

1 HCDeb 21 Feb 2008 c906-7W

2 The debt settlement was intended to allow each council, from rental income, to manage and maintain its stock in a good state of repair for 30 years, or replace it where necessary, with enough left over to meet debt interest and repay the debt over the same period.

3 Labour's model for self-financing had proposed that councils would retain 100% of their capital receipts and interest derived from investing the receipts.

Local Government Association has also published a resource library of policy and guidance on prevention.

In November 2018 the Government launched its 'Prevention is better than cure' vision for how it plans to transform the approach to prevention. This announcement included an ambition for everyone to enjoy at least five extra healthy, independent years of life by 2035 and to reduce the gap between the richest and poorest. The Government has also noted that a prevention green paper is expected later in 2019 (see PQ 237778, 1 April 2019).

Chapter 2 of the NHS Long Term Plan (7 January 2019) sets out action the NHS will take to strengthen its contribution to prevention and health inequalities, with a specific focus on:

- cutting smoking
- reducing obesity
- combating Type 2 diabetes
- limiting alcohol-related A&E admissions

The King's Fund has noted that there is a suggestion in the NHS Long Term Plan that the NHS might consider playing a bigger role in commissioning some public health services currently commissioned by local authorities (King's Fund blog, The NHS, local authorities and the long-term plan: in it together?, 15 March 2019).

2. Press Articles

Please note: The Library is not responsible for either the views or accuracy of external content.

[Airport tax mooted as Birmingham Commonwealth Games funding solution]
Room 151, Chris Smith
10 Apr 2019
The Commonwealth Games will be a crowning moment in the regeneration of the UK's second-biggest city but, as the city mulls an airport tax, agreeing funding is less certain

[A local income tax could empower councils – but there's no free lunch]
Room 151, Tom Harris
28 Mar 2019
With Westminster in turmoil over how (and whether) to 'take back control' from Brussels, calls for the government to devolve more control over tax and public services to county and city halls have been struggling to gain traction.

[Impact of tourism tax]
LocalGov, Rory Alexander
27 March 2019
Edinburgh is about to become the first city in the UK to introduce a tourism tax, but there are still considerations to be made as the council determines exactly what implementation of the tax will look like.

[The cost of being accommodating: tourist tax for and against]
Holyrood.com, Jenni Davidson
22 Nov 2018
Does common ground exist between local government and the tourism sector on a tourist tax?

[A Vacant Land Tax for Wales?]
Chartered Institute of Taxation
8 Oct 2018
The process under the Wales Act 2014 that enables the Welsh Government to introduce new taxes in areas of devolved responsibility subject to approval from the National Assembly for Wales and both Houses of Parliament, will be tested for the first time with the formal proposal for a vacant land tax going to the UK Government later this year.

[The national calamity we don't hear about – the death of local democracy]
The Guardian, John Harris
10 Jul 2018
Cuts and closures underline the flaws of a system dominated by Westminster's power. From health to schools to housing, we need an urgent rethink

Is a Welsh vacant land tax a half-measure?
Click on Wales, Peter Black
20 Feb 2018
Peter Black weighs up the implications of the Welsh Government's proposed vacant land tax. Peter Black was an Assembly Member for South Wales West from 1999-2016, a current Swansea Councillor and a former Welsh Liberal Democrats Housing Spokesperson

3. All Party Parliamentary Group for District Councils

All Party Parliamentary Group for District Councils

APPG Chair: Mark Pawsey MP

The APPG will work to promote the interests of district councils, support closer working with Parliamentarians and to raise awareness of the opportunities for districts in shaping the evolving local government agenda.

Report of APPG Inquiry into district council finances, Jul 2018

Recommendations

1 No district council should find themselves in a position of negative Revenue Support Grant (RSG): The APPG found that by 2019-20, 146 out of 201 district councils (72%) will be in negative RSG, effectively meaning that they will be giving HM Treasury more money than what they receive back from MHCLG to deliver services for their community. This is, as LGA Chairman Lord Porter has said, a 'tax' on local areas3. This creates an unsustainable, unjust and unfair dynamic in district areas and the government must take the required steps in their consultation to ensure no district authority is in negative RSG.

2 The Fair Funding Review must reverse the decline in district council spending power: District councils have seen the biggest reduction in core spending power since 2015 compared to other types of council. This steady decline must be reversed, through the fair funding review and greater flexibilities for districts to generate more freedoms, with an increase in spending power for district councils in the next spending review period from 2020.

3 Districts must be allowed freedom to introduce greater local freedoms and incentives: Measures to increase district spending power should include greater flexibilities to set local flexibilities to raise revenue and maintain incentives to support local growth. At the same time, the government must ensure a suitable safety net remains for areas where growth is more challenging. District councils themselves must continue to be innovative in generating sustainable finances through local initiatives.

4 The government should remove the New Homes Bonus (NHB) baseline threshold and commit to the NHB in the next spending review period: The introduction of the 0.4% baseline threshold for the New Homes Bonus (under which no new homes bonus is received) removed funding of over £70 million from district councils in 2017-18, and was passed to adult social care authorities. Despite this, 57 adult social care authorities were worse off as a result, since they also lost the New Homes Bonus. The government should remove the 'baseline' from the New Homes Bonus funding to ensure that all areas are incentivised to build more homes. The New Homes Bonus is a vital incentive in ensuring community support to deliver the homes this country needs. Since its introduction, the number of people supporting new housing in their local area has almost doubled. A

commitment should also be given to continue New Homes Bonus, in its current form, throughout the next spending review period to ensure that district councils can support the delivery of the government's housebuilding targets.

5 District councils should be given greater financial flexibilities to deliver more homes: The government should increase the time available to local authorities to spend Right to Buy receipts, and 100% of these receipts must be retained by districts. Additionally, local authorities with no Housing Revenue Account should have greater access to borrowing and the borrowing cap must be lifted in its entirety on the housing revenue account of district councils who are stockholding authorities.

6 Districts role in prevention must be recognised: The government's forthcoming consultation on future funding of adult social care must recognise the important role that district authorities play in delivering preventative services. Districts are Housing and Planning authorities, which means they are responsible for a range of services critical to health - both directly and through their influence on the wider factors that affect public health. Through the provision of leisure and recreational services, installing home adaptations, tackling homelessness, offering debt advice and delivering social prescription, districts are reducing demand on acute end care. The APPG welcomes the new money that the government has made available to local authorities that deliver adult social care through the social care precept on council tax, and we urge the government to enable districts to introduce a 'prevention precept' of up to 2% on council tax. The District Councils' Network forecast this would yield up to £26 million per year in 2019/20 and could generate significant long term savings many more times that amount for the NHS and social care authorities.

7 A health prevention fund should be established: The government should commit to establishing a new health prevention fund which districts, alongside other councils and public bodies, can bid for to support projects that deliver preventative services and can reduce the financial burden on adult social care.

4. Further information

4.1 Commons Library Briefing Papers

Reviewing and reforming local government finance

15 Mar 2019

Provides an explanation of recent plans to reform local government funding, including extending business rate retention and the current Fair Funding Review.

Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Bill 2017-19

18 Apr 2018

The Bill gives effect to two separate Government policy commitments made in the November 2017 Budget:

- To reverse the effects on the business rates system of the Supreme Court decision Woolway v Mazars, commonly referred to as the 'staircase tax';
- To increase the level of 'empty homes premium' that local authorities can charge through the council tax system.

4.2 Local Government Finance Settlement for 2019–20

The provisional Local Government Finance Settlement for 2019-20 was published on 13 December 2018, with an oral statement and questions in the House of Commons on the same day.

The Library produced an explanation of the finance settlement process in December 2018.

The provisional settlement documentation includes details of allocations of grant funding to local authorities for the 2019-20 financial year. For that year, it also includes details of business rate retention pilots; proposed council tax referendum principles; and policy decisions on the New Homes Bonus, 'negative Revenue Support Grant', and grants for social care.

The final settlement figures for individual local authorities were published on 29 January 2019.

The motion for the final settlement documentation was approved on Tuesday 5 February 2019.

All documents relating to the final local government finance settlement: England, 2019 to 2020

4.3 Welsh Assembly

Vacant land tax idea to be used to test Wales Act powers

Press release, 13 Feb 2018

The Welsh Government will put forward the vacant land tax idea to test the Wales Act 2014 powers, Cabinet Secretary for Finance Mark Drakeford said.

Oral Statement - Vacant Land Tax

Cabinet statement: Mark Drakeford, Cabinet Secretary for Finance

15 May 2018

Thank you very much, Deputy Presiding Officer. In February this year, I was able to inform Members of the Welsh Government's intention to test the new Wales Act 2014 mechanism to establish Welsh-specific taxes by seeking the devolution of powers for a Welsh tax on vacant land. This is an entirely new process, which neither the Assembly nor the UK Government has undertaken before. The first step was to agree the necessary process steps to securing the transfer of the relevant powers.

4.4 Institute for Fiscal Studies

Taking control: which taxes could be devolved to English local government?

Neil Amin Smith, Tom Harris and David Phillips

21 Mar 2019

In recent years, there has been renewed interest in the question of whether additional taxes should be devolved to English local government:

- The past decade has seen a number of changes to how local government is funded, including the introduction of business rates retention. Broadly, these changes have focused on giving councils more control over their funding and providing stronger financial incentives to councils to drive local growth and development. Devolution of additional tax revenues and powers could be seen as a natural extension of this agenda.
- After years of cuts, councils in England face serious short-term funding pressures. In the longer term the costs of funding social care are likely to increase faster than the revenues councils receive from council tax and business rates. While these issues could be addressed by using national taxation to increase the grant-funding given to councils, devolution of additional tax revenues and powers could also play a role.

This report: looks at the taxes currently devolved to local government in England and in other countries; sets out criteria which can be used to assess whether different taxes and tax powers are in fact suitable for devolution; applies these to a range of taxes; and looks at how much could be raised in different parts of England from different options.

4.5 Greater London Authority

Options for a tourism levy for London: A publication for the London Finance Commission [pdf]

Working Paper 83, Matthew Daley

Jan 2017

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