Key challenges facing Local Authorities

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CIPFA FAN
- Business Rates Retention
  - Accounting arrangements

- The Changing Landscape
  - Funding Implications
  - What can Councils do?
Accounting for Business Rates
Retention
Non-Domestic Rates - current

Billing Authority
General Fund

Ratepayers

Collection Fund

Preceptors

Central Government
Non-Domestic Rates - current

Billing Authority
General Fund

Ratepayers

Collection Fund

Preceptors

Central Government
Non-Domestic Rates - Proposed

Billing Authority
General Fund

Ratepayers
Collection Fund

Central Government

Preceptors
Non-Domestic Rates - Proposed

Billing Authority
General Fund

Ratepayers

Collection Fund

Central Government

Preceptors
Overview

Rates Distribution

Local

Central
Overview – Two Tier position

Rates Distribution

- Preceptor
- Billing
- Central
Overview – Separate Fire Authority

Rates Distribution

- Preceptor
- Fire
- Billing
- Central
Baselines, top-ups and tariffs

- Non-Domestic Rates baseline
  - Average of contribution to pool over five years

- Compared to the spending baseline
  - Top-up or tariff determined

- Set out in LGF Report
Budget Setting

- NNDR1 will be used to set the payments in year to preceptors and the government

- NNDR1 figure feeds into budget calculation

- Payments will not vary
  - Changes in collection will come through as deficit or surplus on the Collection Fund
  - Collection Fund – Interest debited or credited

- As a result will require formal approval process similar to Council Tax Base
Safety Net

\[
\text{Total Income} = \text{Income for Authority} + \text{Top Up / Tariff} - \text{Total Income}
\]

\[
< \text{Safety Net Threshold} = \text{Safety Net Payment}
\]

\[
= \text{Baseline Funding Level} \times \text{between 0.9 and 0.925}
\]

\[
= \text{Safety Net Threshold} - \text{Total Income}
\]
Levy

Income \times \text{Relevant Share} - \frac{\text{Tariff}}{\text{Retained Income}}

> \text{Baseline Funding Level} = \text{Levy due}

= (\text{Retained Income} - \text{Baseline Funding Level}) \times \text{Levy Rate}

= 1 - \frac{\text{Baseline Funding Level}}{\text{Business Rate Baseline}}
In Year Transactions

- Payments from Collection Fund to billing authority, preceptors and government based on NNDR1 forecast

- Where applicable payment of levy:
  - Billing and precepting authorities to government (in respect of previous year)

- Where applicable payment of safety net:
  - Government to billing and precepting authorities
  - Final settlement of previous year and provision payments for current year
Year End Accounting

- Surplus or Deficit on Collection Fund
  - Central Government, Billing Authorities, Preceptors

- Safety Net Payments

- Levies

- Collection Fund Accounting Similar to Council Tax
  - Adjustment Account – including safety net and levy differences
Put it all together...

Adjustment A/c

Billing Authority
General Fund

Ratepayers

Collection Fund

Central Government

Preceptors

Adjustment A/c
# Accounting (1)

<table>
<thead>
<tr>
<th>CIES</th>
<th>Collection Fund</th>
<th>Billing Authority</th>
<th>Preceptor</th>
<th>Central Govt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>1,000</td>
<td>400</td>
<td>100</td>
<td>500</td>
</tr>
<tr>
<td>Business Dr/Cr</td>
<td>1,000</td>
<td>4,000</td>
<td>1,100</td>
<td>5,000</td>
</tr>
<tr>
<td>Bodies Dr/Cr</td>
<td></td>
<td>540</td>
<td>90</td>
<td>450</td>
</tr>
</tbody>
</table>

## Balance Sheet

| Events Payments | 900 | 900 |
## Accounting (2)

<table>
<thead>
<tr>
<th>CIES</th>
<th>Collection Fund</th>
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<th>Preceptor</th>
<th>Central Govt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>1,000</td>
<td>400</td>
<td>100</td>
<td>500</td>
</tr>
</tbody>
</table>

### Balance Sheet

| Business Dr/Cr | 100 | 40 | 10 | 50 |
| Cash | 900 | 900 | 100 | 500 |
| Bodies Dr/Cr | 500 | 90 | 4500 |

### Events

| Transfers to bodies | 1,000 |
## Accounting (3)

<table>
<thead>
<tr>
<th></th>
<th>Collection Fund</th>
<th>Billing Authority</th>
<th>Preceptor</th>
<th>Central Govt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>19500</td>
<td>300</td>
<td>1900</td>
<td>475</td>
</tr>
<tr>
<td>Transfers to bodies</td>
<td>1,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>Billing Authority</th>
<th>Preceptor</th>
<th>Central Govt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Dr/Cr</td>
<td>1500</td>
<td>20</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Cash</td>
<td>100</td>
<td>400</td>
<td>100</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bodies Dr/Cr</td>
<td></td>
<td>60</td>
<td>10</td>
<td>50</td>
</tr>
</tbody>
</table>

### Events

| Appeals          | 50               |
## Accounting (4)

<table>
<thead>
<tr>
<th></th>
<th>Billing Authority</th>
<th>Preceptor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income in CIES (proper practice)</td>
<td>380</td>
<td>95</td>
</tr>
<tr>
<td>Transfer: Adjustment Account</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>General Fund Balance</td>
<td>400</td>
<td>100</td>
</tr>
<tr>
<td>Adjustment Account Balance</td>
<td>20</td>
<td>5</td>
</tr>
</tbody>
</table>
Accounting (5)

- **Top-Up and Tariff Payments**
  - Dr Cash; Cr Government Grant Income (CIES) (Top-Up)
  - Dr Government Grant Payable (CIES); Cr Cash (Tariff)

- **Safety Net and Levy**
  - Dr Cash; Cr Government Grant Income (CIES) (Safety Net)
  - Dr Government Grant Payable (CIES); Cr Cash (Levy)

- **Adjustment Account:**
  - Dr / Cr General Fund; Cr / Dr Adjustment Account
  - Difference between actual and estimated safety net or levy
The Changing Financial Landscape
Context

- Coalition aim to ‘significantly accelerate the reduction of the structural deficit over the course of a Parliament, with the main burden of deficit reduction borne by reduced spending rather than increased taxes’.
  - CSR Roughly 80:20 split between spending cuts and tax increases
  - LG Cuts of £81bn over 4 years
The Coalition – Our programme For Government

“We will promote the radical devolution of power and greater financial autonomy to Local Government and community groups. This will include a review of Local Government finance. We will provide incentives for Local authorities to deliver sustainable development, including for new homes and businesses.”

May 2010
Changing the Local Government Funding Landscape – A Reminder

- Local Government Finance Bill
- Four key messages
  - Business Rates Retention scheme
  - Local support for Council Tax
  - Technical Changes to Council Tax
  - Tax Increment Financing
- The whole Bill interlinks the funding and the changes
- Risk transfers from Central to Local Government
- Rewards are now part of the incentive
Resources now

- Formula Grant (RSG)
- Council Tax (base + local increase)
- Redistributed Business Rates

Plus income from sales, fees and charges and rents (rents are held separately) and grants
Resources from 2013-14

- Council Tax (Base - Council Tax Support)
- Retained Business Rates
- + Top-up / (-) Tariff
- Revenue Support Grant

Plus income from sales, fees and charges and rents (rents are held separately) and grants
Implications for Councils (1)

- For the books to balance it is about growth in the local economy...BUT
- Impact of adverse economic pressures from the Euro and Debt crisis...AND
- Job losses in the locality increase demand for state support and Local support for Council tax which is a fixed grant!
- Public sector austerity unlikely to change until 2017/18 at the earliest and Euro problems could extend it to 2020?
Implications for Councils (2)

- Poor economic performance has a direct impact on Councils, irrespective of Government settlements:
  - reduced yields from local taxes
  - reduced income from fees and charges
  - reduced income from reserves and balances due to low interest rates
  - Reduced capital receipts and planning-related income
  - increased demand on services caused by expenditure reductions elsewhere
Public Sector: Squeezed from All Sides?

- Volatility of Funding
- Increased Public Demands on services (demographics, schools, housing)
- Increased accountability
- Pressure/incentive to develop economic growth
- LA staff resources declining – and new skill sets required
- Central Government visions: To ‘Open Public Services’ & expand ‘localism’
Financial Resilience

- Responding to the pressures
  - New ways of working
  - Strong stewardship
  - Proactive Financial Management (use of Key Indicators?)
  - Sustainable income generation
  - New opportunities
Payment by results – ‘achieving better for less’

PbR is a new approach to commissioning and paying for services

- Commissioners pay service providers according to how well they achieve specified outcomes, rather than outputs or volumes of service

- These outcomes may be social, economic, financial, or a combination of all three

- PbR is not the only contract type that rewards good performance

- What sets PbR apart from other contract types is that a significant amount of payment is withheld until the results are delivered
Local PbR

- Audit Commission ‘Local Payment by Results’ (April 2012)

Benefits:
- can deliver savings and bring in new resources allows time to realise the benefits of change and preventative work
- can encourage new ideas, new forms of service delivery and new entrants to service provision
- can provide clearer accountability for outcomes
- aims to transfer financial and operational risks away from the commissioner

Risks
- Overall effectiveness is unproven
- Difficulties in setting performance levels realistically
New Homes Bonus

- Top sliced level of grant support to encourage the building of homes
- NHB will be funded within the Spending Review control totals
- Those who build above the national average will see funding increased and those who build below will see funding reduced
- The funding is not ring fenced and can be used for either revenue or capital purposes.
- It includes an affordable Housing premium (£350 per unit in 2012-13) to encourage this type of Build

http://www.communities.gov.uk/housing/housingsupply/newhomesbonus/newhomesbonusquestions/
Income Generation

- Local Government Act 2003
  - Charging for discretionary services
  - Power to Trade

- Localism Act 2011
  - General Power of Competence
    - Local Authority has the power to do anything that individuals may generally do
    - Anywhere in the UK, or anywhere else
    - For a commercial purpose or for a charge
Practical Guide to Income Generation (revised July 2011)
Other opportunities for Councils?

- Tax Increment Financing (TIF)
- Lower PWLB rates deal
- Shared Services / Partnerships
- Maximising procurement budgets
- Reducing fraud losses
- Asset rationalisations & sales
Tax Increment Financing

- Mechanism through which Councils borrow against predicted growth in their locally raised business rates and use that borrowing to fund key infrastructure and other capital projects.
- Been used in the USA for decades

However...

- For long term viability TIF works best in a growing national economy
- Levy payments and short reset periods may restrict the usefulness of TIF arrangements
PWLB reduced rates

Certainty Rate
20bp reduction in PWLB rate (for all loan types and maturities) for the provision of additional information and annual updates on three-year spending plans:
- Plans for long-term borrowing and refinancing
- Planned capital expenditure financed by borrowing
- Any plans for Bond issues

Scrutiny Rate
“The Government will also work with the local authority sector to consider the potential for an independent body to facilitate the provision of PWLB lending at a further reduced rate, to authorities demonstrating best quality and value for money”
Budgeting for Financial Risks

Approaches could include:

- Inclusion of a **contingency sum** in the budget - % on total expenditure reflecting uncertainty?
- Setting aside **earmarked usable reserves** to try and cope with this risk – on a single and multi year basis.
- **Covert approaches** – over estimation of certain budgetary items to take account of these risks – But not transparent and could have dysfunctional effects on the organisation
- **Authorities** – need to justify why they are holding reserves and what they might use them on – How can authorities respond?
Measuring Financial Resilience – A Possible Process

1. Identify potential pressures and shocks for the Authority
2. Incorporate them into a risk matrix after stress testing
3. Identify financial and other resources to mitigate pressures and shocks
4. Identify any extra resources including any additional income streams
5. Apply total resources to try to bring the Authority back to its previous state
6. Review Outcomes
Closing thoughts...

Business Rates Retention
- Accounting arrangements

The Changing Landscape
- Funding Implications
- What can Councils do?
Any Questions?