

FINANCING NEW BURDENS ON LOCAL AUTHORITIES: OPERATION OF THE REQUIREMENT FOR RESOURCE TRANSFERS

Introduction

1. There is an established principle governing proposals and initiatives which constitute new burdens on local authorities. The principle requires Divisions and Other Government Departments to inform LGF5 and territorial Departments of potential new burdens at an early stage and to quantify the likely costs in consultation with the local authority associations. This procedure applies to any potential new burden or removal of a function from local government. The contact point within the Office of the Deputy Prime Minister (ODPM) for the operation of this procedure is: Paul S Andrews, 5/K10, Eland House, Bressenden Place; GTN 3533 4013.
2. This document covers the requirement for resource transfers resulting from any new burdens placed on, or functions removed from local authorities. New expenditure in one programme has to be balanced by reductions elsewhere in order to keep within the overall control total.
3. If it is proposed that a new burden should be financed by the levying of fees or charges on industry, the Department of Trade and Industry should be consulted.
4. The contact point at the ODPM for information regarding the new burdens rules is: Paul S Andrews, 5/K10, Eland House, Bressenden Place; GTN 3533 4013.

The New Burdens Rules

- a) A new burden is defined as any policy or initiative which increases the cost of providing local authority services. In some cases, a new burden may arise as a result of a transfer of function, but this may not always be so.
- b) Resource transfers are required for policies or actions which have a particular impact on one or more local authorities. However, the requirement does not apply to policies which apply the same rules to local authorities and to private sector bodies (for example a change in the rate of employers' national insurance contributions), unless these have a disproportionate effect on local government.
- c) The new burdens procedure applies to all new burdens, regardless of cost. However, where the aggregate value of all a Department's burdens is below £100,000 per year, that Department is not required to make any transfer.
- d) The date when a new burden is considered to take effect is when the policy has an impact on local authorities, not when the policy was originally conceived or collectively agreed.
- e) The Government Department with lead responsibility for the policy giving rise to the new burden is responsible for securing the resources needed to fund the full cost to local authorities and for transferring this amount into the appropriate local government finance settlement. This will, where appropriate, involve co-ordinating the contributions from the other Departments involved.
- f) Where a Department considers that it requires additional resources to fund a new burden, then it is responsible for securing those resources in the Spending Review or otherwise.
- g) Departments must not make provision of a transfer conditional on their success in securing resources for the new burden. If a new burden is imposed, a transfer must be made.
- h) If the cost of a burden is projected to vary over time for any reason (for instance where a policy is implemented in stages), then this should be reflected in the level of the transfers for each of the three survey years.
- i) Departments' obligation to provide resource transfers extends to any policy within the field of the Department's responsibilities. Departments are also responsible for providing or securing transfers for policies being initiated or implemented by their executive agencies or other sponsored bodies. Where a European Community policy creates a new burden, the Department with lead responsibility should provide appropriate resources.
- j) Departments should agree with ODPM and territorial Departments the likely cost to local authorities of any new burden, taking account of the views of the local authority associations. Departments should seek, where possible, independent

corroboration of the figures. The Treasury will need to be involved if agreement cannot be reached without their involvement.

- k) If a reduction in a Department's programme places a new burden on local authorities, the Department must transfer into the appropriate settlement an amount to cover the full cost of the burden. Departments may not count reductions in their own programmes as savings for public expenditure purposes until they have done so.
- l) Departments should not consider general efficiency savings within local authorities to be an available source of funding for new burdens. Nor should they assume that authorities can absorb the cost of a new burden through reduced expenditure on existing functions. The exception is where a Department introduces other measures at the same time to reduce other burdens on local authorities.
- m) Savings resulting from reduced burdens should be discussed with the local authority associations and agreed between Departments in the same way as costs associated with new burdens. Where a function is transferred from local authorities to a Central Government Department or agency, savings to local government may be transferred to the relevant Department, subject to Treasury consent. Treasury approval is required to use any transfers for other purposes.
- n) Departments should not - other than in exceptional circumstances - make transfers conditional on the way the resources are distributed to, or used by, local authorities. The collectively agreed policy is that local authorities are responsible for their own spending decisions. Resources for local government are normally distributed through block grant mechanisms on the basis of a broad allocation formula (Standard Spending Assessments). It is not feasible to amend the formula in relation to every individual new burden. Exceptionally, a Department may make a case to fund a new burden by providing a specific or special grant or by transferring resources into an existing specific or special grant (see (o) below). These grants should comply with the rules on ring-fencing in the Local Government White Paper.
- o) Wherever possible, Departments should set timetables to enable resource transfers to be made well in advance of the local government finance settlement for the financial year in which the new burden will take effect. Transfers should normally be made in the April/May running tally exercise in the previous year. In exceptional circumstances only, these may be made in the July/August running tally exercise. If it is too late for a transfer to be taken into account in the Local Government Finance Settlement then, normally, implementation of the policy should be postponed until the following year. Where policy implementation cannot be delayed, the transfer should be made in the following year. If necessary, a Department should (with Treasury consent) make a grant under Section 31 of the Local Government Finance Act 2003 to local authorities to cover the first year costs. The Section 31 grant should comply with the rules on ring-fencing set out in the Local Government White Paper. The contact point

for guidance on making a Section 31 grant is: Paul S Andrews, 5/K10 Eland House, Bressenden Place; GTN 3533 4013.

- p) This also applies to new burdens on local authorities in Wales, Scotland, and Northern Ireland. Whether a burden gives rise to an inter-Departmental transfer or a transfer between territorial Departments' own programmes will depend on the circumstances in each case.