

## **Local Government Finance Update**

### **Purpose of report**

For discussion.

### **Summary**

This report provides an update on the LGA's work on local government finance policy matters, including the autumn budget submission and further business rates retention.

### **Recommendation**

The Resources Board are asked to note this report, comment on its contents and agree any further action.

### **Action**

LGA Officers proceed as directed.

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## **Local Government Finance Update**

### **Background**

1. This report highlights recent developments in local government finance. It provides an update on the LGA's work in this policy area, including the autumn budget submission and further business rates retention.

### **Issues**

#### Autumn Budget Submission

2. At the Spring Budget in March this year, the Chancellor announced that Budgets would in future take place in autumn and that would be the only fiscal event each year. Instead of a Spring Budget, the Government will deliver a Spring statement which is intended to be an update on the economy without policy announcements.
3. In line with usual practice, on 21 August 2017 HM Treasury invited submissions in advance of the Autumn Budget. The LGA's representation is scheduled to be submitted to the Government and published on the day of this meeting. It has been developed with the help of the District Councils Network, County Councils Network, Special Interest Group of the Municipal Authorities (SIGOMA), the LGA's Chief Executive Sounding Board and Chief Executives of Combined Authorities and approved by the LGA's Leadership Board, Executive and lead members of Resources Board.
4. Key Finance asks included in the Autumn Budget submission are:
  - 4.1. Meet the funding gap facing local services of £7.1 billion, made up of at least £5.8 billion by 2019/20 and a £1.3 billion pressure to stabilise the adult social care provider market today.
  - 4.2. Ensure that the Fair Funding Review does not result in any local authority seeing its funding reduce. Instead, the new funding baselines should be introduced through the additional resources provided by greater business rates retention (see below, paragraph 22 for more detail of this point).
  - 4.3. Make council tax a truly local tax. There should be increased local control over discounts and referendum limits should be abolished.
  - 4.4. Provide councils with financial flexibilities to build new homes by devolving funding, localising planning fees and removing the cap on Housing Revenue Account funding.

#### Adult Social Care finance

5. The £2 billion of new resources for adult social care, through the improved Better Care Fund (iBCF) announced in the Spring Budget was a welcome step in the

right direction to meet some of the pressures on adult social care. It has allowed councils to deliver some improvements and additional capacity this year.

6. According to the Association of Directors of Adult Social Services' (ADASS) Budget Survey 2017, nearly half of this year's iBCF has been spent on meeting social care needs, such as purchasing additional reablement support. The ADASS analysis highlights how funding can expand social care capacity in order to ease NHS pressures and enable more people to be discharged quickly and safely from hospital.
7. Other councils are investing in preventative services, including telecare or hospital avoidance schemes such as rapid response teams which mobilise quickly to treat someone in crisis in their own home rather than A&E.
8. The funding is not, however, sufficient to meet all funding pressures either short or long term. Respondents to the ADASS budget survey also highlight that the funding is not enough to both offset planned cuts, and deal with demographic and inflationary pressures. The need to find a long term, sustainable solution to the social care crisis remains urgent.
9. There is now recognition across the political parties both nationally and locally that social care is a vital service in its own right. It has a crucial role to play in helping people of all ages to live fulfilling lives and to remain independent as long as possible.
10. Following the discussion at the June 2017 meeting of the Resources Board we have offered to host round table talks to help secure agreement and build cross party consensus on the way forward. In August, the LGA wrote to leading figures of all main national political parties to invite them to the talks. Resources Board Lead Members had an opportunity to comment on the draft letter. The deadline for responses is 18 September and officers will update on progress at the meeting.
11. As discussed at the previous Resources Board, any review will require fresh approaches to the roles and responsibilities of individuals in providing for their old age and an ambitious rethink of the role of the government (both local and national) in managing demand for, and meeting the costs of, adult social care.

#### Further Business Rates Retention

12. In autumn 2015 the then Chancellor of the Exchequer announced that all business rates would be retained by local authorities by 2020. Since then, the LGA had been working closely with DCLG on how such a system would work. This joint work came to halt with the announcement of the General Election earlier this year.

13. The Local Government Finance Bill, which would have provided the legislative framework for the introduction of further business rates retention, commenced its passage through Parliament in January 2017. However, the Bill did not get far enough in its passage through Parliament before the dissolution of Parliament, prior to the General Election, and so fell. The Queen's Speech, announced on 19 June, set out the Government's legislative programme for the next two years. It did not include a reintroduction of the Bill.
14. The Government committed to giving local government more control over the money it raises, and in a debate in the House of Lords on 13 July the Government said that it will look at ways to implement further business rates retention without primary legislation. More recently, the Government has [invited local authorities to pilot 100% business rates retention in 2018 to 2019](#) and to pioneer new pooling and tier-split models. The deadline for authorities to submit pilot proposals to DCLG is Friday 27 October.
15. In June, the LGA's Leadership Board expressed support for the LGA continuing to work with the sector and the Government on the introduction of further business rates retention, if needs be without primary legislation, and officers will continue to work towards this objective. The Board agreed that the sector should now take the opportunity to argue for extra business rates to be localised and used to plug the £7.1 billion funding gap instead and to make sure the Fair Funding Review works for all. This would preclude the transfer of new responsibilities to local government as part of the reforms.
16. In late July the LGA arranged a meeting for the local government members of the Business Rates Retention steering group. The purpose of the meeting was to take stock of views on further business rates retention, following the general election, and to consider business rates retention in the wider context of local government finance. The view of group members was that the proposed reforms cannot be considered in isolation from the fair funding review and wider issues such as the Government's commitment in the Queen's Speech to a consultation on options for putting adult social care on a more secure financial footing.
17. The Chairman wrote to the Secretary of State on 17 August outlining the LGA's position. The Secretary of State responded to the letter, expressing a commitment to further joint working between the LGA and the Government on potential options for delivering the reform. He reiterated the Government's aim for the reforms to be fiscally neutral.
18. The full joint DCLG / LGA Business Rates Retention Steering Group has been reconvened with DCLG to meet in early October. The Business Rates Task and Finish Group will also need to meet shortly to consider the issues in more depth.

### Fair Funding Review

19. At the time of the 2016/17 final Local Government Finance Settlement, the Government announced the Fair Funding Review. The Review is looking at the mechanism used to distribute funding between local authorities and the intention is for the results of the review to contribute to the setting of individual local authority funding baselines. Prior to the General Election, the Government's intention was for the review to be implemented in April 2019 to coincide with further business rates retention reforms.
  
20. Following the General Election in June, the Government has committed to continuing with the Fair Funding Review. This work has resumed, but the revised timescale for implementation is uncertain and is likely to be April 2020. The officer technical working group, co-chaired by the LGA and DCLG, met for the first time after the Election on 19 July and future meetings are planned to take place every two months.
  
21. Leadership Board has considered the Fair Funding Review and the following points have been included in the Autumn Budget submission as the LGA's position, calling on the Government to:
  - 21.1. Ensure that no local authority sees its funding reduce as a result of the Review. Instead, the new funding baselines should be introduced through the additional resources provided by greater business rates retention.
  
  - 21.2. Deliver a simpler system of assessing relative funding needs that ensures that only indicators which have a material impact on distributions are used. All councils should be able to tell as easily as possible why their allocations are the way they are. This should not come at a cost to fairness or incentives to be more efficient and reduce demand for services.
  
  - 21.3. Carefully consider the basis on which relative ability to benefit from council tax is taken into account. Local authorities accept that council tax needs to be considered in the review, but we urge the Government to continue discussing with councils the various options that are available. This should include a discussion of the impact of local council tax support schemes.
  
  - 21.4. Set a clear time limit on transition from the current funding baselines to new ones, to avoid past situations where some areas never reached the allocations implied by the formulae.

### Business Rates Reliefs

22. In the 2017 Spring Budget, the Chancellor announced a number of business rates reliefs:

- 22.1. Business rates relief for pubs. This is a £1,000 business rate discount for public houses with a rateable value of up to £100,000, subject to state aid limits for businesses with multiple properties, for one year from 1 April 2017.
  - 22.2. Supporting small business relief. This is support for small businesses losing Small Business Rate Relief due to the revaluation, to limit increases in their bills to the greater of £600 or the real terms transitional relief cap for small businesses each year.
  - 22.3. Discretionary relief for small businesses most affected by the revaluation, with locally designed schemes and a £300 million fund spread over three years.
23. Formal confirmation of the schemes was delayed by the announcement of the General Election and the supporting small business relief required an update of local authority software to identify eligible businesses. The Government has been pressing hard for a quick implementation of all three schemes and has written to local authorities on a number of occasions urging them to implement the schemes as soon as possible. A Ministerial statement on the matter was made on 14 September. This highlighted examples from a number of named councils and set out plans to publish a list of authorities that have notified DCLG that they have rebilled for each of the three relief schemes from 3 October.
24. The LGA continues to work with the Government and councils since the Spring Budget on this issue.
- 24.1. We successfully pressed the Government to provide official confirmation of the reliefs policies before the General Election.
  - 24.2. We provided regular updates and reminders to member authorities through LGA bulletins and dedicated email alerts.
  - 24.3. We collected information about emerging issues, such as the need for software updates and other reasons for delay, in order to ensure the Government has an informed position before resorting to unfounded criticism.
  - 24.4. We continue to call for HM Treasury to allow local authorities to carry forward unspent allocations of the £300 million fund to future years of the discretionary relief policy.

#### MiFID II

25. The Markets in Financial Instruments Directive II (MiFID II) is a package of EU legislation, introduced in 2014, which regulates both retail and wholesale investment business in the UK. The aim of the MiFID legislation is to strengthen protection for investors. In this case investors includes local authorities and local authority pension funds. The Directive reclassifies the status of local authorities from “professional” to

“retail” and this will have a major impact on the ability of local authorities to invest in certain financial instruments. Much of the consultation, as it affected local authorities, was about the process local authorities would have to go through to qualify to “opt up” from “retail” status to “elective professional” status which would enable them to continue to invest in more complex financial instruments.

26. In early July the Financial Conduct Authority (FCA) published a policy statement setting out final rules for their implementation of the Markets in Financial Instruments Directive II (MiFID II). This followed a consultation in December 2016 to which the LGA submitted a response.
27. The FCA’s July policy statement was a big improvement on that consulted on last year and recognised the unique nature of decision making within authorities in the conducting of treasury and pension fund investment management activities. This will result in a more straightforward process for local authorities for ‘opting up’ to elected professional status. This was good news for local government and follows extensive lobbying from the LGA and councils. This is particularly true for Pension Funds, where the special nature of the Funds has been specifically recognised.
28. Nevertheless Local Authorities (and Pension Funds separately) do need to consider what action to take to implement the Directive. It is likely that all Pension Funds will want to elect to opt up to professional status and the LGA has worked with representatives of investment managers who work with Pension Funds to design a standard opt up process. This was launched in August and can be found on the [Scheme Advisory Board’s website](#).
29. The position for Local Authority Treasury management is less clear as the market is more diverse, and not all local authorities will want to opt up. Nevertheless, as reported to Resources Board during the June meeting, we are working with the financial sector to design a possible standard opt up process, based on that designed for pensions. A standard process would be of value to the local authorities in that they would be asked the same questions by each financial institution with which they wish to opt up. For such a process to be of use, it would be essential that financial institutions use it widely as they will control the opt-up process. If such agreement can be obtained, it is proposed to publish the process.

### **Implications for Wales**

30. The proposals for business rates retention set out by DCLG, the Fair Funding Review, and business rates reliefs affect England only. MiFID and the Autumn Budget, apply to Wales and England, although some of the points in the LGA’s submission relate to England only.

**Financial Implications**

31. This is part of the LGA's core programme of work and as such has been budgeted for.

**Next steps**

32. Members of the Resources Board are asked to note this report, comment on its contents and agree any further action.