

DCLG Technical Consultation on the 2018/19 Local Government Finance Settlement

Purpose of report

For discussion.

Summary

This report sets out the key points contained within the Government's technical consultation on the 2018/19 local government finance settlement and asks members for views on the LGA's draft response.

Recommendation

That the Leadership Board discuss the consultation document and provide comments on the LGA's draft response.

Action

Officers to proceed as directed.

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Introduction

1. The Department for Communities and Local Government published a technical consultation on the 2018/19 local government finance settlement on 14 September. Such consultations are regular events in the local government finance calendar, but normally take place during the summer.
2. The consultation does not include draft grant allocations, but confirms the Government's intention to continue with the four-year funding deal announced in December 2015. The four-year deal covers financial years from April 2016 to March 2020 and covers revenue support grant, business rates top-ups and tariffs (except technical adjustments such as due to the revaluation), transitional grant and rural services delivery grant. The consultation covers a number of technical matters related to the settlement which are set out below.
3. The deadline for responding to the consultation is 26 October. This paper provides a draft LGA response for comments by members of the Leadership Board and sets out the final steps in the development of the response before formal submission on 26 October.

Summary of the issues in the consultation document

4. New Homes Bonus (NHB)

- 4.1 The initial threshold below which NHB will not be paid was set at 0.4% for 2017-18. The baseline for 2018/19 will be set at the time of the provisional settlement, with the implication that it could be increased.
- 4.2 In addition, the Government is considering how to introduce other adjustments to the new homes bonus as per its 2016 consultation. In particular, it is consulting on the basis on which adjustments to the new homes bonus should be made to reflect development that was permitted after an appeal and review by the Planning Inspectorate.
- 4.3 One option is to reduce the bonus on the basis of the particular developments that are granted permission upon appeal. Another option is to look at the overall percentage of revised decisions and then apply a reduction to the total new homes bonus for a local authority on this basis. There is likely to be a distributional consequence depending on the value of developments which are granted permission upon appeal compared to those that are built without appeal.
- 4.4 The consultation also asks whether these adjustments should apply to National Parks Authority areas, county councils and areas with development corporations.

5. Council tax referendum principles

5.1 The government proposes to keep the core principle at 2 per cent; and are considering whether this should be extended to mayoral combined authorities (MCAs). The adult social care precept would remain at an additional 2 per cent with additional flexibility to increase the precept by 1 per cent to 3 per cent in 2018-19, provided that increases do not exceed 6 per cent between 2017-18 and 2019-20. Shire districts and the police would be allowed an increase up to the higher of 2 per cent or £5 on a Band D household.

6. Council tax precepts for Mayoral Combined Authorities (MCAs)

6.1 With the agreement of the Combined Authority (with the exception of the West of England), directly elected Combined Authority Mayors can raise a council tax precept from 2018/19, depending on what functions they have. The Government is considering applying referendum principles to MCAs and therefore will set notional amounts for 2017/18 to give a baseline on which to assess increases. The Government will engage with mayors and authorities before setting these.

7. Transfers of functions to Police and Crime Commissioners (PCCs)

7.1 This deals with the situation where a county fire service may transfer to a PCC. This would mean recalculating settlement amounts and would also require alternative notional amounts to separate council tax attributable to the fire service from overall council tax levied by the county council. The Government also proposes a technical adjustment to ensure there is no effect on the adult social care precept in these circumstances.

8. Adjusting for the business rates revaluation

8.1 This follows on from the 2017 revaluation and the adjustments to top-ups and tariffs made in the 2017/18 settlement. It confirms that the same methodology will be used for the 2018/19 settlement. This will mean some adjustment to the 2017/18 tariff and top-up to reflect the final rating list on April 1st 2017 and will also feed into the 2018/19 tariffs and top-ups. The document also confirms that the levy rates will be set on the basis of the recalculated top-ups and tariffs. This could mean some change in levy rates for individual councils.

Draft LGA response and next steps

9. The draft response is provided as Appendix A. It has been prepared based on previous LGA policy positions, a discussion at Resources Board on 22 September and comments from the County Councils Network, the District Councils Network, the Special Interest Group of Municipal Authorities (SIGOMA) and from treasurer societies.

10. The following is a summary of some of the key messages within the response. It excludes some of the more technical matters which are covered in the full response at **Appendix A**.

10.1. Multi-year settlements

10.1.1 The LGA welcomed the principle of the four year settlement offer made in December 2015. We have long called for local government to have a longer financial planning horizon. Certainty in the current financial environment is vital for local authorities.

10.1.2 This is year 3 of the 4 year deal and there is yet no clarity over funding levels in 2020/21 and beyond. This uncertainty hampers meaningful financial planning and is leaving councils in a perilous situation at a time when government grant funding is the lowest it has been for decades and local services are facing a £5.8 billion funding gap by 2019/20 and a £1.3 billion pressure to stabilise the adult social care provider market.

10.1.3 It is imperative that the Government provides a clear timeline for when local authorities can expect decisions over funding levels, both nationally and locally, in 2020/21 and beyond and that the draft local government finance settlement and final local government finance settlement for 2018/19 are announced significantly sooner than they have been in recent years.

10.2. Council tax referenda (including MCAs)

10.2.1 The LGA has consistently argued against the principle of council tax referenda. Referenda on council tax are an unnecessary and costly burden that will put growth-generating investment at risk. Council tax should be a local decision and councils should be held accountable through the normal mechanism of the ballot box.

10.2.2 Under the Localism Act 2011, the Secretary of State has the power not to determine a set of principles for a financial year. The LGA believes the Secretary of State should exercise this power and give local authorities the freedom to set council tax levels at the right level. Councils can be trusted to make sensible decisions about council tax increases, taking into account the wishes of local residents.

10.3. New Homes Bonus

10.3.1 The LGA does not support the proposal to adjust new homes bonus allocations on the basis of developments permitted following an appeal against the initial decision. The proposal to remove payments from developments allowed on appeal may unfairly prejudice the planning process. In some cases the decision of the planning authority may be based on representations from other stakeholders, for example utility companies, or statutory consultees, including national agencies, which may result in planning applications being refused.

10.3.2 New homes can only be built hand-in-hand with additional investment in infrastructure, and local public services. In this context, the proposals to adjust new homes bonus allocations on the basis of developments permitted after an appeal against the initial decision only add further uncertainty for

little financial gain for the Treasury. The Government estimates the change will lead to a £17 million saving.

10.3.3 More broadly, the Government acted within the letter, but not the spirit of the four-year deal when it implemented significant changes to the new homes bonus with little prior notice in 2017/18, such as the introduction of the 0.4% housing growth baseline. This must not happen again. The Government must commit to not increasing the baseline housing growth threshold to any individual local authority as soon as possible.

11. Members of Leadership Board are invited to comment on the draft response.
12. Following the meeting of the Leadership Board, officers will ask LGA Executive members for their views. Following the meeting of Executive, a revised draft response will be shared with Lead Members of Resources Board for final clearance in line with the Government's deadline for responses of 26 October.

Implications for Wales

13. This consultation relates only to English local government. The Welsh Local Government Association works with the Welsh Government on similar matters on behalf of Welsh local authorities.

Financial Implications

14. This work forms part of the LGA's core work programme and has been budgeted for in the 2017/18 budget.