Local Government Association

Resources Board

22 January 2018

Local Government Finance Update

Purpose

For information and discussion.

Summary

This report updates members on progress of the LGA's work related to local government finance policy since the last meeting of the Board. It focusses on business rates retention reform and the progress of the Fair Funding Review.

Recommendation

That Members of the Resources Board note the report.

Action

Officers to proceed as directed.

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Local Government Finance Update

Introduction

1. This report updates members on progress of the LGA's work related to local government finance policy since the last meeting of the Board. It focusses, in particular, on Business Rates Retention and the progress of the Fair Funding Review. The 2018/19 Provisional Local Government Finance Settlement is covered separately on the agenda of the Board.

2. The LGA Leadership board and LGA Executive set the policy direction on business rates retention reform and the Fair Funding Review, with the assistance of the LGA Business Rates Task and Finish Group. Appendix A sets out the background of the reforms and current key LGA policy lines on these matters.

Business Rates Retention

3. At the time of the provisional 2018/19 Local Government Finance Settlement, the Government announced that it will proceed with introducing 75 per cent business rates retention from April 2020. To achieve greater retention the following grants will be phased out and funded through business rates retention:

   3.1. Revenue support grant;

   3.2. Rural services delivery grant;

   3.3. Public health grant; and

   3.4. GLA transport capital grant.

4. Following this switch, English councils will collectively keep 75 per cent of any future growth in business rate income. The top-up and tariff mechanism will be retained, but the top-ups and tariffs will be reset at the point of implementation of greater retention and will take the Fair Funding Review into account.

5. The Government still needs to make a number of decisions about the design of the system before implementing greater business rates retention including:

   5.1. The split of business rates income between different tiers of local government.

   5.2. The future of the business rates levy.

   5.3. The level of, and the funding mechanism for, the safety net against business rates losses.

   5.4. Ways to minimise the uncertainty arising from business rates avoidance and appeals.

5.5. The extent and frequency of resets – prior to the General Election the Government was looking at partial resets, allowing local authorities to keep some of the growth at the point of reset.

6. The list above will be used to form the work programme for the joint DCLG/LGA officer-led Steering Group and technical working groups, most notably the systems design working group.

7. The Government also announced that 10 areas were successful in applying to pilot 100 per cent business rates retention in 2018/19 – Berkshire, Derbyshire, Devon, Gloucestershire, Kent & Medway, Leeds, Lincolnshire, Solent, Suffolk and Surrey.

8. The 2017/18 pilots have been extended for another year. The London pilot has also been expanded to include London boroughs as well as the Greater London Authority. This means that in 2018/19 there will be 16 business rates retention pilots in operation. The Government has committed to the pilots process continuing in 2019/20.

9. The LGA also submitted written evidence to the business rates retention inquiry by the Communities and Local Government Select Committee. This will be published in due course according to usual House of Commons procedures.

Fair Funding Review

10. Alongside the provisional 2018/19 local government finance settlement, the Government confirmed that it is looking to implement the Fair Funding Review by April 2020. The results of the Review will be used to form funding baselines as part of the move to 75 per cent business rates retention. This is the date that the joint DCLG / LGA working group on the Fair Funding Review has been working to.

11. Following our calls to inject further pace into the process of the Review to maintain its credibility with our members, the Government also published the awaited consultation on the design of the relative needs assessment, in particular:

    11.1. The extent to which a single formula could be used to assess relative spending needs;

    11.2. Which services might require specific formulae to assess their relative spending needs;

    11.3. What cost drivers could be used in these formulae; and

    11.4. What techniques could be used to give weightings to different cost drivers as well as the formulae against one another.

12. While the LGA's response is in the process of being formulated, it is notable that the Government has accepted the case made by stakeholders, and supported by the LGA, that the new needs assessment should aim to be simpler but without a disproportionate cost to fairness. Discussions about a much reduced number of formulae and cost drivers are a welcome recognition of the proposals and concerns made by councils.

13. The consultation does not cover the relative resources adjustment, transition or other technical matters. We expect these to be addressed through a series of technical papers

throughout 2018 and the expanded LGA work programme, as outlined at the last meeting of the Board, will be used to feed into these discussions.

14. Officers are in the process of organising a series of regional workshops, attended and co-delivered by DCLG colleagues, to discuss the consultation and councils' views in the second half of February 2018. These workshops will follow the previous two series of workshops in spring and autumn of 2017, attended by approximately 500 delegates.

15. The deadline for consultation responses is 12 March 2018. The Business Rates Task and Finish Group will oversee the production of the draft LGA response, with LGA Leadership Board and Executive providing final clearance at its meetings on 7 and 8 March, respectively.

16. At the time of writing this report, the Fair Funding Review Working Group was due to meet on 16 January. Key items to be discussed include the consultation document and in particular the progress of government thinking on which analytical techniques could be used to weight cost drivers against one another in the formulae. The papers will be available on the LGA website.

Investments and MRP consultations

17. The LGA's response to the consultation from the Government on the proposed changes to the Local Authorities investment code and the Minimum Revenue guidance was approved at the last meeting of this Board and was submitted to the Government before the deadline in December.

18. The code and guidance form part of the overall local authority prudential framework for capital finance along with the Cipfa Treasury Management Code and the Cipfa Prudential Code. The revised Cipfa codes were published at the end of December 2017.

IFRS (International Financial Reporting Standard) 9

19. UK law stipulates that IFRS standards must be implemented into public service reporting. IFRS 9 is due to be implemented from the financial year 2018/19. The standard includes new rules for the valuation of investments, particularly collective investment vehicles, in local authorities' final accounts and there is concern in the sector that it will have an unintended negative impact on local authority revenue accounts.

20. These new rules mean that local authorities will have to make an annual revenue account adjustment for fluctuations in the value of certain specified long term investments, even where these fluctuations are unrealised. There is a concern that this revenue adjustment will either force local authorities to hold additional reserves as insurance against fluctuations, or will be forced to reduce revenue spending in other ways to take account of possible fluctuations.

21. The LGA is working with Cipfa to try to persuade the Government to implement a statutory override to these specific provisions. Such an override could be implemented at no cost and would avoid these unintended consequences of the new standard, as referred to above.

Implications for Wales

22. IFRS 9 affects all UK local authorities, however, the implementation of the statutory override for Welsh local authorities would be a matter for the Welsh Government rather than DCLG. The LGA will liaise with the Welsh Local Government Association on this issue. There are no other direct implications for Wales arising from this report. The funding of Welsh local authorities is a devolved matter in Wales.

Next steps

23. Officers will proceed on the basis of the discussions at Resources Board.

24. The LGA will continue to work closely with Government on further business rates retention reform and the Fair Funding Review, including responding to future consultations and technical discussion papers.

Financial implications

25. With the exception of the work mentioned in paragraph 12, the work is part of the LGA's core programme of work and as such has been budgeted for in 2017/18 budgets.