

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 the Spring Statement, the Fair Funding Review, business rates retention reform and other matters.

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, including the Spring Statement, the Fair Funding Review and business rates retention.
2. The LGA's Leadership Board and Executive set the policy direction on business rates retention reform and the Fair Funding Review, with the assistance of the LGA Fair Funding Review and Business Rates Retention Task and Finish Group.

Spring Statement

3. The Chancellor delivered his Spring Statement on Tuesday 13 March. As previously expected, the Chancellor did not unveil new tax measures or extra spending. The LGA provided [a short on-the-day briefing](#) on the Statement as well as a [media statement](#) setting out its reaction.
4. The Chancellor used the Spring Statement to confirm that the 2018 Autumn Budget will set total public expenditure limits for 2020/21 and future financial years. In 2019, a Spending Review will then allocate the funds to Government departments. Funding for local government at a national level is normally covered by this exercise.
5. Officers are starting work on influencing the Autumn Budget and the Spending Review, as the combination of both events is likely to set national funding totals for local government until the next General Election. As a starting point, the LGA is looking to produce estimates of the funding challenge facing local services by 2025. Officers expect the results of this work to be ready in the summer.
6. Member thoughts on the LGA's approach to the Autumn Budget and Spending Review, and any suggestions for content, are welcome. The LGA Leadership Board will discuss approaches to this work during the June meeting. Officers will continue to provide updates at future meetings of the Resources Board.

Fair Funding Review

7. The LGA submitted [its response](#) to the [Government's consultation on the Fair Funding Review](#). The response was cleared by the LGA Leadership Board and Executive, following feedback from the LGA Fair Funding Review and Business Rates Retention Task and Finish Group, Lead Members of Resources Board, and representatives from local government special interest groups and treasurer societies.
8. The response provides answers to technical questions and makes the following more general points:

- 8.1. In order for the outcome of the Review to be successful and sustainable it needs to be introduced alongside additional resources to meet the funding gap and to deal with transition from one formulae to another.
- 8.2. A single formula to estimate relative needs for the totality of local government is highly likely to be too crude to deliver an equitable result. It is welcome the Government has recognised this by proposing service-specific formulae as an element of the assessment.
- 8.3. In shortlisting cost drivers for the foundation formula, the Government should consider density, rurality, large student population and daytime populations. Inclusion of indicators in a formulae should be based on evidence rather than assumption.
- 8.4. We support an approach that focusses on the drivers of demand and cost that cannot be affected by local policy choices. This would preserve the incentive to invest in prevention and the system would not be seen as creating perverse incentives.
- 8.5. The Government must make it clear that public health will be a 'service specific formula' within the proposed structure, unless the cost drivers used in the formula match the 'foundation' formula.
- 8.6. The Government should explore non-HRA housing support as a service to be assessed under a specific formula.
- 8.7. Some highly localised cost pressures (such as the cost of maintaining flood defence, or persons with no recourse to public funds) should be dealt with outside of the Fair Funding Review, with the Government providing specific funding on a case-by-case basis.
- 8.8. We support using the expertise of a representative group of finance officers and service directors to 'sense check stage' the results of any statistical analysis.
9. As part of the consultation process, LGA officers organised a series of regional events in partnership with MHCLG officials. Over 200 delegates attended the six events and their views have been fed into the consultation process directly.
10. The officer-led Fair Funding Review Technical Working Group met on 28 March. It discussed the potential treatment of council tax and a specific adult social care relative needs formula. Papers are available on [the LGA business rates hub](#).

Business rates retention

11. The Secretary of State for Housing, Communities and Local Government published a [Written Ministerial Statement](#) setting out an error made in calculating the size of the allocations of the specific grant to compensate local authorities for caps of the business rates multiplier. This affects 2017/18 and 2018/19 business rate retention pilot authorities.

12. The 2017/18 pilot authorities received £36 million more in compensation in 2017/18 than they should have under the correct methodology. The Government has confirmed it will not be seeking to claw back the extra funding for 2017/18. However, adjustments will be made to funding for pilot areas for 2018/19.
13. Work on the introduction of 75 per cent business rates retention in April 2020 is now well underway in the officer level Steering Group and Systems Design Working Group. Two substantive issues have so far been considered:
 - 13.1. Which properties should be included on the central rating list which, due to their nature, are not suitable for being assessed on the local rating list. MHCLG will develop criteria which can be used to determine what properties should be on the central list and what should be on the local lists. There will be a consultation on the properties to be moved in spring 2019.
 - 13.2. Reform of the tier split, safety net and levy mechanisms. MCHLG will work directly with the County Council Network, District Council Network and county and district treasurer associations, on developing a proposal for tier splits for consideration by the Systems Design Working Group and the Steering Group.
14. Further discussions at the Systems Design Working Group leading up to a consultation paper in September 2018 will concern appeals and loss payments, resets, measuring growth and revaluation, transitional arrangements and pooling.
15. The Steering Group has also considered a tabled paper from Ministry for Housing, Communities and Local Government (MHCLG) on retained growth for 2018/19. MHCLG were asked to provide further information on the effect of pools and on previous years.
16. Following the approval of 10 new pilots for 2018/19, MHCLG is expected to invite applications for pilot status in 2019/20. At this stage it is not known what criteria will be used for assessment.

Guidance on Local Government Investments and Minimum Revenue Provision

17. In February the Government published updated statutory guidance on capital finance (on [local government investments](#) and on [minimum revenue provision](#)). The Government also published its [response](#) to the consultation on the proposed changes to this guidance. Resources Board members will recall that we submitted a response to the consultation, and the revised guidance takes account of a number of the points made, particularly with regard to the implementation date of the minimum revenue provisions guidance. The LGA published a short [briefing](#) on the main features of the new guidance to help councils understand the implications.
18. Under the new guidance, councils should not borrow to fund any investments, including property investments, that it makes solely to make a financial return, although it should be noted that councils need to “have regard” to the statutory guidance, and to the other parts of the prudential framework for capital finance (the Cipfa Prudential code and Cipfa Treasury Management code). If councils then choose not to follow the guidance they will need to justify this.

National Audit Office Report on Financial Sustainability and Reserves

19. The National Audit Office recently published its [report into the Financial Sustainability of Councils](#), including some stark messages about the funding of local government. We provided evidence during this study and responded to the report with a [media statement](#) and [briefed MPs](#) for a debate in Parliament on this on 20 March.

20. We also produced a [briefing on council reserves](#) in response to comments made about these at Treasury questions in the House of Commons and in the media.

Implications for Wales

21. There are no direct implications for Wales arising from this report. The funding of Welsh local authorities is a devolved matter in Wales.

Next steps

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

23. 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

24. This work is part of the LGA's core programme of work and as such has been budgeted for in 2017/18 and 2018/19 budgets.