

## **Appendix A – Local Government Finance Update**

### **Purpose**

For comment.

### **Summary**

This report updates members on the Chancellor's Autumn Budget, progress of the Fair Funding Review and further Business Rates Retention, as well as other local government finance items not covered elsewhere on the agenda of the Resources Board.

### **Recommendation**

That members of Resources Board note this update.

### **Action**

Officers to proceed with delivery of the LGA work programme on matters set out in the paper as recommended by the Board.

**Contact officer:**

Nicola Morton

**Position:**

Head of Local Government Finance

**Phone no:**

020 7664 3197

**Email:**

[Nicola.morton@local.gov.uk](mailto:Nicola.morton@local.gov.uk)

## **Appendix A – Local Government Finance Update**

### **Introduction**

1. This report updates members on the Chancellor's Autumn Budget, progress of the Fair Funding Review and further Business Rates Retention, as well as other local government finance items not covered elsewhere on the agenda of the Resources Board.
2. Policy on further Business Rates Retention and the Fair Funding Review is being developed through the Task and Finish Group on Business Rates Retention and the Fair Funding Review, Leadership Board and Executive.

### **The Chancellor's 2018 Budget Autumn**

3. On Monday 29 October, the Chancellor delivered his 2018 Budget. The LGA issued an [on-the-day reaction](#), and produced a [summary of the key announcements](#) for local government. The following day the LGA published a more comprehensive [briefing, including the LGA's view of the main announcements](#).
4. The key announcements were:
  - 4.1. Confirmation that the HRA borrowing cap would be lifted as of 30 October 2018.
  - 4.2. Additional £650 million funding for adult and children's social care in 2019/20 (with more detail to follow at the local government finance settlement).
  - 4.3. Additional £55 million of Disabled Facilities' Grant funding in 2018/19.
  - 4.4. Additional £420 million of funding for local road maintenance in 2018/19.
  - 4.5. £675 million bid-based co-funding for improvement of high streets.
  - 4.6. Cutting business rates bills by one-third for retail properties with a rateable value below £51,000, for 2019/20 and 2020/21.
  - 4.7. A new levy on large, multinational digital businesses – this is covered in more detail in the fiscal devolution paper, also on today's agenda.
5. The Budget included a draft high-level plan for UK public spending from 2020/21 to 2023/24 which could form the basis of the 2019 Spending Review.
6. From 2019/20 to 2023/24, Resource Department Expenditure Limits (Resource DEL – this is the day-to-day government departmental spending, which includes revenue grants to local government) will grow at an average of 1.2 per cent, per year in real terms.
7. However, this includes the decision to increase NHS funding which has an impact on the settlements for other departments. Taking into account past decisions to protect particular departmental budgets, such as education, defence and international aid, there

is a clear need for local government to put forward a strong case ahead of the Spending Review.

8. It is also worth noting that, due to the business rates retention reforms, a significant majority of local authority income – everything funded through locally retained taxation – sits outside the Government's definition of Resource DEL. This represents an opportunity for local government to state a stronger case against further funding reductions, and also a challenge to make sure that the Government's business rates retention plans are delivered in full.
9. The timing of the Spending Review remains uncertain. However, in his evidence to the Treasury Select Committee the Chancellor said he hopes to announce the outcome at the 2019 autumn Budget.

### **Fair Funding Review**

#### Delivery of the LGA Fair Funding Review work programme

10. In November 2017 the LGA's Executive and Leadership Board agreed a LGA work programme on the Fair Funding Review. A high level update on this work programme is attached as **Annex A** and the following paragraphs provide more detail.
11. Work on [evaluation criteria](#), the [divergence of relative needs over time](#) and [relative needs and resources assessment models](#) is now complete.

#### *Transition options review*

12. As agreed at previous meetings of the LGA's Leadership Board and Executive, the LGA has commissioned a review of transition methods previously used in the distribution of funding from central government, and a model to assess the impact of different methods of moving from the current pattern of funding to the one following the Fair Funding Review and introduction of 75 per cent retention.
13. At the time of writing, the underlying Excel model was being developed for clearance with the LGA Chairman and Group Leaders. The Task and Finish Group will consider the commissioned report, which uses the Excel model for analysis, at its next meeting in December.

#### Fair Funding Review technical working group update

14. The 21 September meeting of the needs and redistribution technical working group focussed on four main topics:
  - 14.1. A paper from the County Councils Network and the Rural Services Network on the additional service costs associated with rurality;
  - 14.2. A paper from SIGOMA and the Core Cities on population concentration and the impact on costs;

- 14.3. A paper from the North East Combined Authority on the costs of concessionary travel and the potential for a specific formula for this area within the relative needs assessment;
- 14.4. A paper from MHCLG on the potential to use population projections in the relative needs formulas wherever possible, to make the assessment more future-proof. This is in line with the LGAs policy on population data to be used in the formulae.
- 15. This was the last meeting of the Group in 2018, with MHCLG officials now focussing on publishing the consultation and then delivering the local government finance settlement. When the technical working group reconvenes in 2019, items for consideration are likely to include:
  - 15.1. A review of the responses to the consultation, including considerations behind the choice of notional council tax level in the resources adjustment; and
  - 15.2. A more detailed consideration of various options on transition mechanisms.

#### The Government's next steps for the Fair Funding Review

- 16. The Government's work is building towards a wider consultation on the Fair Funding Review. Government officials have elaborated on the issues the consultation might explore as part of papers to the July 2018 officer-led Steering Group.
- 17. The following is subject to Ministerial decision on the scope of the consultation, including the extent to which the Government would identify preferred options at this stage.
- 18. On the relative needs assessment, the consultation might cover:
  - 18.1. The structure of the assessment, including options for tier-specific foundation formulas and formulas to assess specific services. The Government might express a preferred option on this.
  - 18.2. The leading cost drivers for inclusion in the above, and a description of proposed analytical techniques to weight them against one another;
  - 18.3. Commentary on the area cost adjustment.
- 19. On the relative resources assessment, the consultation might cover high level approaches to:
  - 19.1. Measuring the council tax base, in particular treatment of mandatory and discretionary council tax discounts. This includes local council tax support schemes;
  - 19.2. The choice of notional or actual council tax levels to be used when calculating the adjustment;
  - 19.3. Treatment of other income, such as sales, fees and charges.

20. On transition, the consultation might cover:

20.1. High level principles that could underpin the choices of transition mechanism, such as stability, speed, transparency and time limits;

20.2. The definition and measurement of 'baseline' and 'target' between which the transition mechanism would be applied to.

21. This is in line with the LGA's work programme on the Fair Funding Review, with the core LGA work programme and meetings of the Business Rates Retention and Fair Funding Review Task and Finish Group all helping explore policy options ahead of the publication of the consultation document.

22. Once the consultation is published, officers are planning to coordinate another set of MHCLG/LGA regional consultation events. Due to the timing of the consultation and the local government finance settlement, it might be the case that there are fewer but larger events organised than the previous model of six smaller events.

## **Business Rates Retention**

### Business Rates Retention model

23. In April Leadership Board agreed to the LGA commissioning a business rates retention model to enable the effect of possible systems design changes to be estimated. Following a tendering exercise LGFutures were commissioned to produce the model. Following demonstrations to the Business Rates Retention Task and Finish Group on 12 September, the Chairman and Group Leaders signed off the model which is now on the [LGA website](#). A bulletin was sent out to Chief Finance Officers alerting them to this and an item was included in the weekly bulletins which go to Chief Executives and Leaders.

### 2019/20 pilots

24. The prospectus inviting areas to bid to become a 75 per cent further business rates retention pilot closed on 25 September 2018. The five 2017/18 devolution pilots will continue at 100 per cent in 2019/20 and there will be separate discussions covering London. Non-London 2018/19 pilots had to reapply if they wish to be a pilot in 2019/20. Unlike in 2017/18 and 2018/19 there will not be a no-detriment clause. An announcement is expected at the time of the Local Government Finance Settlement on 6 December. Any updates will be given to your meeting.

### Other business rates retention updates

25. A consultation paper on business rates retention is expected to be published at around the time of the local government finance settlement on 6 December. Officers expect the following to be covered:

25.1. Different options for resets, including consideration of how to balance desirable criteria such as simplicity, rewarding growth and allowing for needs. Options are expected to include partial and phased resets;

- 25.2. The future of the safety net as a 'backstop' for authorities which have lost income although the precise level is expected to be determined at a later date. Currently the safety net is 92.5 per cent of the baseline funding level for the 50 system, and 97 per cent for the 100 per cent pilots;
  - 25.3. Options for reforming the levy so that it covers what MHCLG consider to be 'excessive growth' within the system only;
  - 25.4. Discussion of tier splits, although it is likely to be a decision made later in the process
  - 25.5. How to incentivise pooling, with a more targeted levy.
  - 25.6. Criteria for property to go on the central or local lists. There is likely to be a consultation on the central and local lists, with respondents being given a chance to identify hereditaments which they think should change lists under the proposed criteria.
26. It is also expected that an alternative further business rates retention system will be included in the consultation document. Briefly:
- 26.1. there would be separate calculations of (i) the amount of business rates that authorities would need to retain in order to match the assessment of their relative needs and (ii) the amount of business rates they would retain as a result of growth or any decline in the system.
  - 26.2. These would feed into a single tariff/top-up which, when added or subtracted from an authority's share of non-domestic rating income in that year, would mean that their retained business rates were equal to their assessment of need plus any growth or decline.
  - 26.3. The Government believe this would enable the impact of appeals and provisions to be stripped out ensuring that the benefits of growth are not reduced by larger than anticipated appeals or misjudgements about the level of provisions. This would be an alternative to the previous proposal for 'nationalising' appeal risk which MHCLG do not believe it is possible to achieve without great complexity.
27. The proposal has been discussed by two joint meetings of the Systems Design Working Group and Implementation Working Group and also by the Business Rates Steering Group. It has also been discussed by the LGA's Task and Finish Group on Business Rates Retention and the Fair Funding Review. Their reaction was that alternative approach is worthy of further investigation. This includes:
- 27.1. How it can be explained more simply;
  - 27.2. Ensuring that how the system is operated is transparent including how it compensates for appeals, and the level of business rates and growth kept locally and nationally;
  - 27.3. Modelling to demonstrate it can achieve the above without unintended consequences.

## **Other matters**

28. On 14 November at the National Children's and Adult Services Conference, the LGA published [its reaction to the responses received to the LGA's Green Paper on the future of adult social care and wellbeing](#).
29. The key recommendations related to financial issues include:
- 29.1. The Government should fund in full the £3.56 billion funding gap facing adult social care by 2024/25 to allow current services to continue.
  - 29.2. The Government must work with local authorities to agree a clear figure for the cost of unmet and under-met adult social care need in time to feed into 2019 Spending Review discussions.
  - 29.3. The Government should prioritise investment in prevention, community and primary health services within the £20.5 billion additional expenditure for the NHS.
  - 29.4. Where additional funding is invested in adult social care, this should be made available with as few conditions as possible so local areas have discretion to prioritise the most pressing local issues.
  - 29.5. The £600 million cut to the public health grant since 2015 should be reversed.
  - 29.6. In consulting on the shape of, and sustainable funding for, social care through its green paper, the Government should make the case for increases in Income Tax and/or National Insurance and/or a social care premium.
30. In October MHCLG published the [report](#) of the independent review of the governance and processes which underpin the oversight of the business rates system carried out by Andrew Hudson. The review was published following the error in calculating the S31 grant for pilot authorities earlier this year. The review included recommendations that the final local government finance settlement should be published no later than 31 January and that the provisional settlement should be published by about 5 December. MHCLG has announced that the provisional settlement for 2019/20 will be published on 6 December 2018.
31. The Government has published its [response](#) to the consultation on mitigating the impact of fair value movements in pooled investment funds and draft regulations; the last meeting of Resources Board approved the LGA's submission to the consultation. There were an exceptionally high number of responses to the consultation, showing that this is an issue for the sector. The Government has announced that it will implement the statutory override for at least five years and will then review further, which is a good outcome for the sector.
32. Following the implementation in April of the new prudential framework for capital finance and MHCLG's updated statutory guidance for local authority investments, Cipfa has published [a statement](#) on borrowing in advance of need and investments in commercial properties. In this statement Cipfa has signalled their intent to issue further guidance to

clarify whether certain investment approaches identified are consistent with the requirements of fiscal sustainability, prudence and affordability.

33. Following the success of this year's conference in January, the date for the next LGA annual Local Government Finance Conference has been confirmed. It will be held on Tuesday 9 January 2019 at 18 Smith Square. The focus of the conference will be the 2019 Spending Review, the Fair Funding Review and further Business Rates Retention.

### **Implications for Wales**

34. There are no direct implications for Wales arising from business rates retention, the Fair Funding Review, the Cipfa statement on investments and the IFRS statutory override as these are for England only. We will liaise with the Welsh LGA over the 2019 Spending Review. The distribution of funding to Welsh local authorities is a devolved matter in Wales.

### **Financial implications**

35. Members of Leadership Board have previously approved spending of LGA reserves on the LGA work programme on the Fair Funding Review and commissioning of a Business Rates Retention model.
36. Other work outlined in the paper above is part of the LGA's core programme of work and as such has been budgeted for in the 2018/19 budget.



## **Annex A – High-level Progress Update on the LGA Fair Funding Review and Business Rates Retention Work Programme**

<b>Project</b>	<b>Purpose and description</b>	<b>Quick update</b>
<b>Criteria for assessing proposed distribution models and methodologies</b>	To give the LGA a structured and consistent way to assess new distribution models.	<a href="#">Complete</a>
<b>Formula grant: update the data</b>	<p>Update the data in the current distribution model (where updated data is available) to see the impact of this on individual allocations separate to any methodology changes. In effect this would provide an updated baseline to inform a discussion on how long the formulae remain 'future proof' without any review of weightings.</p> <p>To help the LGA and member authorities form policy on the data used in the formulae and the frequency of distribution resets, or other ways to 'future proof' the mechanism.</p>	<a href="#">Complete</a>
<b>Distribution model: develop a distribution model</b>	A model to allow local authorities to see the impact of different key cost drivers and differential weightings. To help the LGA and member councils evaluate the impact of various Government and stakeholder proposals on their council and to allow them to put forward their own proposals	<a href="#">Complete</a>
<b>Council tax equalisation: develop a model</b>	<p>A model to identify the impact of adjustments for council tax and council tax support on individual authorities.</p> <p>To inform LGA policy and to help individual member councils evaluate Government proposals.</p>	<a href="#">Complete</a>
<b>Damping /transition mechanisms</b>	An analysis of historic damping / transition mechanisms and a model to inform discussions on the guiding principles of transition. To inform LGA and member authorities' policy.	Suppliers appointed; work expected to be delivered in 2018.

Project	Purpose and description	Quick update
<b>Business Rates Retention model</b>	<p>A model to enable LGA and local authorities to assess the impact of system design choices in areas including:</p> <ul style="list-style-type: none"> <li>• The setting of business rates baselines;</li> <li>• The extent and frequency of business rates resets;</li> <li>• Dealing with losses due to appeals;</li> <li>• The level of the safety net and how it is funded; and</li> <li>• The split of business rates income in two-tier areas.</li> </ul>	<a href="#">Complete</a>