LGA Executive

24 January 2019

Provisional 2019/20 Local Government Finance Settlement

Purpose

For information and discussion.

Summary

This report provides an update on the 2019/20 Provisional Local Government Finance Settlement announced by the Government on 13 December 2018 and summarises the LGA's formal response.

Recommendation

That members note the report.

Action

Officers to act on members comments.

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Introduction

1. The Secretary of State for Housing, Communities and Local Government announced the 2019/20 Provisional Local Government Finance Settlement on 13 December 2018, with a deadline for responses of 10 January 2019.

2. The settlement sets out allocations of key local government grants, as well as the Government's assessment of local authorities' core spending power, for 2019/20.

3. The Government also published consultations on Business Rates Retention and the Fair Funding Review. These are covered by separate items on the agenda.

4. The LGA issued a press release and produced an on-the-day briefing, providing a summary of all announcements and the LGA's immediate reaction.

Key announcements

5. The following were the key announcements in the 2019/20 Provisional Local Government Finance Settlement:

   5.1. Core Spending Power, as defined by MHCLG, will rise by an average of 2.8 per cent in 2019/20. This includes:

      5.1.1. The additional resources of £240 million for Adult Social Care and £410 million, for both adults and children's social care, announced in the Budget in October 2018;

      5.1.2. Additional funding for the New Homes Bonus of £18 million to maintain the threshold at 0.4 per cent;

      5.1.3. An increase in the Rural Services Delivery Grant of £16 million;

      5.1.4. Resources of £152.9 million to cancel the adjustment known as Negative Revenue Support Grant;

      5.1.5. Updated council tax figures based on decisions local authorities made in 2018/19, revised taxbase growth assumptions, and assumptions on council tax increases;

   5.2. The following council tax referendum principles were announced:

      5.2.1. A core principle of up to 3 per cent applying to shire county councils, unitary authorities, London borough councils, the City of London, the Isles of Scilly, the GLA general precept and fire and rescue authorities.

      5.2.2. A continuation of the Adult Social Care precept, with an additional 2 per cent flexibility available for social care authorities. This is subject to total increases

for the Adult Social Care precept not exceeding 6 per cent between 2017/18 and 2019/20, and increases being no more than 2 per cent in 2019/20.

5.2.3. Shire district councils in two-tier areas to be allowed increases of up to 3 per cent, or up to and including £5, whichever is higher.

5.2.4. Police and crime commissioners (PCCs) to be allowed increases of up to £24 in 2019/20 (including the Greater London Authority charge for the Metropolitan Police, and the PCC component of the Greater Manchester Combined Authority precept).

5.2.5. Directly elected mayors to decide the required level of precept by agreement with their combined authorities.

5.2.6. Continue to defer the setting of referendum limits for town and parish councils.

5.3. The Government confirmed its decision to remove the downward adjustment to tariffs and top-ups for authorities which would otherwise have been in 'negative RSG' for 2019/20. This is being funded by central government;

5.4. New Homes Bonus allocations were revised to reflect actual housing growth. The Government did not increase the New Homes Bonus threshold and has committed up to £20 million to fund this;

5.5. A return of £180 million of surplus on the levy account distributed to all councils based on the 2013/14 Settlement Funding Assessment;

5.6. 15 local authority areas to pilot 75 per cent Business Rates Retention in 2019/20, as well as all London boroughs and the City of London Corporation (previously 100 per cent in 2018/19). The five 100 per cent business rates pilots which started in 2017/18 to continue at 100 per cent in 2019/20. This should have no financial effect on non-pilot authorities.

The LGA response

6. On the basis of the views set out in the LGA on-the-day briefing, subsequent further analysis of the announcements in the settlement and views gathered from member authorities, a formal response was cleared by the Chairman, LGA Political Group Leaders and Lead Members of Resources Board. It was submitted in line with the Government's deadline.

7. The following are the key messages of the response:

7.1. The extra funding in the 2018 Budget, including an additional £650 million for children and adults, and £420 million for roads funding showed that the Government is listening to the LGA's call for desperately needed investment to ease some of the pressure facing local services next year. Councils, however, will still face an overall funding gap of over £3 billion in 2019/20. It is therefore disappointing that the Government has not used the settlement to provide further desperately needed resources for councils next year. Many councils will be forced to take tough

decisions about which services have to be scaled back, or stopped altogether, to plug funding gaps. It is vital that the Government provides new funding for all councils in the final settlement, and uses the 2019 Spending Review to deliver truly sustainable funding for local government.

7.2. The additional one-off funding for adults and children's services announced in the 2018 Budget is welcome. However, there is still a substantial funding gap facing children's and adult social care in 2019/20. As the Public Accounts Committee has acknowledged, local authorities are under real strain. Key services that support vulnerable people, such as social care and housing, are now under enormous pressure.

7.3. We have repeatedly warned of the serious consequences of the funding pressures facing these services. An injection of new money from central government is the only way to protect the vital services which care for older and disabled people, protect children and support families. In response to our own green paper on social care and wellbeing, we are calling on the Government to make the case for national tax rises or a new insurance scheme so that current and future generations can be confident they will be supported to stay healthy and well and can access the care and support they need to help them maintain their independence and wellbeing.

7.4. The continuation of the higher referendum limit for council tax increases will give some councils the option of raising extra money to offset some of the financial pressures they face next year. For shire districts with the lowest council tax levels the 3 per cent limit does not provide any more spending power, as they can already increase council tax by 3 per cent or more due to the £5 flexibility. For many other district councils, the positive impact is minimal for the same reason. We call on the Government to offer further flexibility to these councils.

7.5. No national tax is subject to a referendum. The council tax referendum limit needs to be abolished so councils and their communities can decide how local services are paid for, democratically, through the ballot box. On its own, however, council tax flexibility is not a sustainable solution to the funding crisis. Increasing council tax raises different amounts of money in different parts of the country, unrelated to need.

7.6. We welcome the Government's decision not to increase the New Homes Bonus (NHB) threshold further next year, and the provision of up to £20 million to fund this. The LGA would welcome the opportunity to continue working with the Government on how we can support house building. In response to the case from councils, the Government has recently consulted on increasing the level of Right to Buy receipts councils can reinvest in replacements. We look forward to the Government's proposals on next steps and hope that it allows councils to retain 100 per cent of their receipts.

7.7. Further Business Rates Retention pilots will enable aspects of the 75 per cent Business Rates Retention system to be tested prior to implementation for all in 2020/21. We will respond to consultations on further Business Rates Retention and the Fair Funding Review in due course and will continue to work with the

Government on these reforms, including tackling the impact of business rates appeals on local authorities.

7.8. We acknowledge that the Government has provided extra resources to some councils in 2019/20 to cancel the 'negative RSG' adjustment to tariffs and top-ups. The Government has also made an extra £16 million available through the Rural Services Delivery Grant. Councils which receive the extra resources will welcome this. The Government should use the 2019/20 final Settlement, the Fair Funding Review and 2019 Spending Review to provide the appropriate level of funding to all councils.

7.9. It is right that the £180 million surplus on the levy account is returned to local government, as it was top-sliced from Revenue Support Grant.

7.10. The four year deal runs out in March 2020. In order for councils to budget successfully they need clarity on future funding as soon as possible. We recognise that transformation, can reduce costs in the longer term results but these savings take some time to deliver and there are costs in the shorter term. In addition, many service contracts are long term which limits the ability of councils to make immediate changes to the volume or nature of services or to reduce costs. We therefore remain concerned that there is no clarity over funding levels, for both the national pot and local allocations, and any council tax referendum limits, after March 2020. Nor do councils know how they will be affected by the implementation of a new funding formula alongside further business rates retention. This hampers meaningful financial planning at a time when central government grant funding is the lowest it has been for decades and demand pressures are increasing. We call on the Government to commit to a full assessment of the overall funding needs of local government in the 2019 Spending Review and guarantee to fully fund them.

7.11. We welcome the earlier Autumn Budget this year and the Government's aim of a settlement on 6th December. It was a shame that due to other circumstances there was a delay of a week. We call for the Government to continue to commit to earlier settlements, as promised in the response to the Hudson Review.

8. A cross party group of LGA politicians met with Rishi Sunak MP, Parliamentary Under Secretary of State and Minister for Local Government, on 9 January 2019. Members raised a number of the in the key issues included in our response to the settlement. This included welcoming the additional resources announced in the Autumn Budget and settlement but pointing to the funding gap facing local government in 2019/20 of over £3 billion. Members also offered to work closely with the MHCLG in the run up to the 2019 Spending Review.

9. The LGA will continue to lobby the Government in advance of the 2019/20 Final Local Government Finance Settlement and will brief MPs for the debate in the House of Commons on the final settlement.

Implications for Wales[1]

10. The 2019/20 Provisional Local government Finance Settlement is applicable to English local authorities only. The Welsh Government has separate arrangements with Welsh local authorities.

Financial implications

11. This is core work for the LGA and is budgeted for within the 2018/19 LGA budget.

[1] *The WLGA pays a membership fee to the LGA on behalf of all Welsh councils and we lobby for them on "non-devolved" issues - e.g. DWP work. The WLGA provides "top-slice" for workforce support, but none for "improvement".*