

Appendix A – Local Government Finance Update

Purpose

For comment.

Summary

This report updates members on the 2019/20 Local Government Finance Settlement, further Business Rates Retention and the Fair Funding Review, as well as other local government finance items.

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.

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Appendix A – Local Government Finance Update

Introduction

1. This report updates members on the 2019/20 Local Government Finance Settlement; Further Business Rates Retention, the Fair Funding Review and other local government finance items.
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 Local Government Finance Settlement 2019/20

3. The Government announced the 2019/20 Provisional Local Government Finance Settlement on 13 December 2018. The LGA issued a [press release](#), produced an [on-the-day briefing](#) on the announcement, and [responded to the provisional settlement](#). The final settlement was announced on 29 January 2019 and approved by Parliament a week later. The LGA [briefed](#) Parliamentarians ahead of the debate. A number of MPs used LGA lines, and referenced the LGA funding gap during the debate.
4. The key announcements in the 2019/20 Local Government Finance Settlement were:
 - 4.1. Core Spending Power, as defined by MHCLG, rose by an average of 2.8 per cent in 2019/20. This included:
 - 4.1.1 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;
 - 4.1.2 Additional funding for the New Homes Bonus of £18 million to maintain the threshold at 0.4 per cent;
 - 4.1.3 An increase in the Rural Services Delivery Grant of £16 million;
 - 4.1.4 Additional resources of £152.9 million to cancel the adjustment known as Negative Revenue Support Grant;
 - 4.1.5 Updated council tax figures based on decisions local authorities made in 2018/19, revised taxbase growth assumptions, and the assumption that councils increase council tax by the maximum possible within the referendum limits;
 - 4.2. In addition, a surplus of £180 million on the business rate retention levy account was returned to all councils based on their 2013/14 Settlement Funding Assessment. This was not included in Core Spending Power.

- 4.3. The following council tax referendum principles were:
- 4.3.1 A core referendum principle of up to 3 per cent¹;
 - 4.3.2 A continuation of the Adult Social Care precept²;
 - 4.3.3 The higher of up to 3 per cent or £5 for shire district councils; and
 - 4.3.4 Increases of up to £24 for Police and crime commissioners (PCCs)³.
- 4.4. Sixteen local authority areas will pilot 75 per cent Business Rates Retention in 2019/20. The five 100 per cent business rates pilots which started in 2017/18 will continue. This should have no financial effect on non-pilot authorities.
5. The [LGA response](#) was approved by the Chairman, Group Leaders and Lead Members of Resources Board. Key points included the following:
- 5.1. Welcomed the extra funding, which showed that the Government is listening to the LGA but pointed to the £3 billion funding gap facing councils in 2019/20;
 - 5.2. Called on the Government to provide additional resources in the 2019/20 final settlement and 2019 Spending Review;
 - 5.3. Welcomed the continuation of the higher council tax referendum limit but requested additional flexibility for shire districts who do not benefit from the £5 limit;
 - 5.4. Welcomed the Government's decision not to increase the New Homes Bonus (NHB) threshold;
 - 5.5. Pointed to the uncertainty facing councils from April 2020 and called for greater clarity.
6. 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 key issues in our response to the settlement and offered to work closely with the MHCLG in the run up to the 2019 Spending Review.
7. Our annual finance conference on 8 January was a great success featuring speakers from across the political spectrum including the Chief Secretary to the Treasury, Liz Truss, the Secretary of State for Housing, Communities and local Government, James

¹ for 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. A referendum limit for Northamptonshire was set at 5 per cent.

² 2 per cent flexibility available for social care authorities in 2019/20 providing increases for the Adult Social Care precept do not exceed 6 per cent between 2017/18 and 2019/20

³ included the Greater London Authority charge for the Metropolitan Police, and the PCC component of the Greater Manchester Combined Authority precept

Brokenshire, and the Shadow Secretary of State for Communities and Local Government, Andrew Gwynne. The conference was fully sold out, and was chaired by the Chair and Vice Chair of Resources Board.

Fair Funding Review

8. The Government's further consultation on its [review of local authority relative needs and resources](#) (commonly known as the 'fair funding review') was published on 13 December and closed on 21 February 2019. The consultation had three main strands; relative needs, relative resources and transition. A final consultation on Fair Funding Review will be published this year, with final policy decisions in autumn 2019.
9. The consultation covered the Government's leading options for the structure of the relative needs assessment:
 - 9.1. a foundation formula based solely on population and an area cost adjustment;
 - 9.2. service specific formulae for adult social care, children's services, public health⁴, highways maintenance, fire and rescue, legacy capital finance and flood defence and coastal protection;
 - 9.3. An area cost adjustment including an adjustment for labour costs, property costs, remoteness and journey times.
10. On the relative resources assessment, the consultation covers:
 - 10.1. How to measure the council tax base including treatment of discounts, exemptions, premiums and local council tax support;
 - 10.2. The use of notional rather than actual council tax.
 - 10.3. Whether to take into account actual or assumed council tax collection rates;
 - 10.4. Whether to project changes in the council tax over a number of years; and
 - 10.5. Whether to include an assessment of fees and charges in the resources deduction.
11. On transition, the consultation covers the main principles underpinning the choices of transition mechanism, such as stability, speed, transparency and flexibility. The Government is of the view that the actual funding position for 2019/20 should form the starting point for the transition path, instead of a constructed notional set of baselines.
12. [The LGA response to the consultation](#) was developed following discussions at the Task and Finish Group on Further Business Rates Retention and the Fair Funding Review. It

⁴ The Government will take a final decision on the transfer of public health into further business rates retention this year.

received the support of Leadership Board and Executive at their January meetings and final clearance by the Chairman and Group Leaders. In summary, the LGA:

- 12.1. Points out the current system is opaque, overly complex and out of date;
- 12.2. Recommends the Government is transparent and provides sufficient evidence behind its decisions to ensure credibility including the more details on the evidence behind the proposals in the consultation paper;
- 12.3. Disagrees that the reviews should be revenue neutral and recommends that additional funding is needed when the outcome of the Review is implemented;
- 12.4. Asks the Government to meet £8 billion funding gap facing councils by 2024/25, with £3.1 billion in 2019/20;
- 12.5. Seeks clarity over funding for local authorities from April 2020.
- 12.6. Supports simplicity but not at a disproportionate cost to accuracy.
- 12.7. Supports deprivation being included in the foundation formula with the weighting being derived by the evidence;
- 12.8. Expresses disappointment at the continued uncertainty over the future of the funding of public health.
- 12.9. Agrees the government should continue to take account of non-discretionary council tax exemptions
- 12.10. Recommends no discretionary discounts or premiums should be adjusted for (other than working age council tax support).
- 12.11. Agrees with the use of notional council tax to avoid perverse incentives;
- 12.12. Recommends not using actual council tax collection rates but, given the correlation with deprivation, adjust for using a formula approach.
- 12.13. Agrees that sales, fees and charges, including parking income, should not be taken into account.
- 12.14. Points to trade-offs between the government's principles and the merit in considering including the current income from council tax in calculating the transition baseline and target (not the Fair Funding Review baseline).
- 12.15. Disagrees that assumptions about council tax increases, either due to taxbase growth or due to assumed future council decisions, should be included.

Business Rates Retention

13. The consultation [Business Rates Retention Reform Sharing risk and reward, managing volatility and setting up the reformed system](#) was published on 13 December 2018 and closed on 21 February 2019. The document commits to the principle of further Business Rates Retention and to 2020 implementation. A final consultation on the reform of the system including details of implementation and transition will be published this year, with final policy decisions in Autumn 2019.
14. The key points in the consultation document were:
 - 14.1. Resets are seen by the Government as key to the balance of risk and reward. 2020 will be a full reset but in future there are various options such as partial resets and phased resets;
 - 14.2. The safety net is to remain as a way of softening shocks to the system. The document did not propose a level, although noted the 75 per cent pilots have a 5 per cent safety net;
 - 14.3. Abolishing the levy is government policy but requires primary legislation. The Government sought views on the level of the levy and referred to rates between 100 and 250 per cent;
 - 14.4. A preference for a sector-led decision on a national tier split (with a possibility for pools to agree tier splits locally) but recognised the need for a fall-back position in the event that agreement is not reached;
 - 14.5. Pools are considered by Government to be a desirable element of the system and the Government sought views on how to incentivise them;
 - 14.6. Sought recommendations of hereditaments to transfer between the central and local lists confirming that councils' baselines would be adjusted for;
 - 14.7. The document reaffirmed the Government's commitment to address the impact of appeals on council budgets and concluded the alternative administration approach model (which was summarised in a previous report to Resources Board) was the only way to address appeals volatility. The Government believe this would enable the impact of appeals and provisions to be stripped out ensuring that the benefits of growth are kept by councils (subject to the levy).
15. As with the response to the Fair Funding Review consultation, the response to [the Business Rates Retention consultation](#) was developed following discussions at the Task and Finish Group on Further Business Rates Retention and the Fair Funding Review. It received the support of Leadership Board and Executive at their January meetings and final clearance by the Chairman and Group Leaders. In summary: the LGA:
 - 15.1. Recognised the potential merits of phased resets but requested modelling in order to make an informed decision.

- 15.2. Supported the continued use of a safety net with its level to be determined at a later date.
 - 15.3. Did not express an opinion on the level of the levy due to the differing views of member authorities.
 - 15.4. Supported continued discussions between shire districts and shire counties on tier splits and other elements of the system. Recognising a fall-back position is likely to be necessary.
 - 15.5. Noted the Government's view that the alternative administration is considered to be the only feasible approach to deal with appeals volatility. We supported continued exploration of this model, subject to it being explained more simply and more transparency in how it compensates for appeals.
16. An update on the LGA's other work on further Business Rates Retention and the Fair Funding Review can be found in **Annex A**. The LGA published a [Business Rates Retention model](#) last year and has commissioned LGFutures Ltd to produce a further model on the alternative administration of the system which will allow users to explore the impact of the proposed model of business rates retention. This will be signed off by the Chairman and Group Leaders in a similar way to the existing model.
17. During January and February 2019 the LGA ran a series of joint LGA / MHCLG regional events on the Needs and Resources and the Business Rates Retention consultations to allow delegates to hear from MHCLG and LGA officers, to ask questions and to make comments. Events were held in Birmingham, Bury St Edmunds, Leeds, London, and Taunton and were attended by 235 delegates representing 155 local authorities and local authority organisations.

Spring Statement and 2019 Spending Review

18. The Government has confirmed that the Spring Statement will be announced on 13 March 2019 in the form of a response by the Chancellor of the Exchequer to forecasts from the Office for Budget Responsibility (OBR). Like last year, the Government is not seeking submissions in advance of the Spring Statement. In line with a previous Treasury announcement the annual 'major fiscal event' is the Autumn Budget rather than the Spring Statement.
19. At the time of writing there is no further information on the 2019 Spending Review. Meanwhile the LGA is continuing its work in advance of the 2019 Spending Review in line with the report to Resources Board in September 2018.
20. The LGA has hosted two joint MHCLG / LGA themed roundtables with senior officers from councils, the Treasury, MHCLG and other government departments; one on welfare reform and the other on special educational needs and the Dedicated Schools Grant. Further roundtables are planned over the next few weeks including on adult social care, children's social care, financial sustainability and place based services.

21. The LGA has also launched its [Spending Review campaign](#), with information on the reductions in resources to councils since 2010, the funding gap and the discretionary services at risk, such as bus services and council tax support. The LGA's Leadership Board and Executive will receive a paper at their March meeting updating them on progress on some LGA work on the 2019 Spending Review. This paper will be shared with Resources Board members on a confidential basis. A paper on the LGA's work on the 2019 Spending Review will be on the agenda for the next meeting of Resources Board with a particular focus on the finance related elements of this work.

Treasury Select Committee inquiry into the impact of Business Rates on business

22. The Treasury Select Committee has opened an inquiry into the [Impact of Business Rates on business](#). The terms of reference cover:
- 22.1. The impact of changes in business rates policy since 2017 on businesses, such as reliefs and allowances and the ability to pay;
 - 22.2. How the current business rates system measures up to principles for good taxation such as fairness, supporting growth, and providing certainty and coherence;
 - 22.3. The economic justification for a property-based tax, including the impact of business rates on rental prices and property prices, alternatives to property based taxes, and the impact on local authorities and the high street.
23. The deadline for written submissions is 2 April 2019. The LGA will be drafting written evidence for submission which will be developed through the LGA Task and Finish Group on Business Rates Retention and the Fair Funding Review and cleared through the Chairman, Group Leaders and Lead Members of Resources Board. We would welcome the views of the Resources Board on the Inquiry.

Business rates treatment of self-catering accommodation

24. Following consideration by Resources Board at its last meeting, on the [consultation on the business rates treatment of self-catering accommodation](#), an [LGA response](#) was drafted in line with Resources Board recommendations and submitted, having been agreed by the Chairman, Group Leaders and Lead Members of Resources Board. The LGA response welcomes the Government proposals and calls on the Government to take action more broadly on business rates avoidance. It also calls on the Government to assess how a similar scheme is working in Wales and ensure that any lessons are incorporated into the scheme for England.

Public Accounts Committee report on Local Government Spending

25. The Public Accounts Committee published a report into [local government spending](#) on 6th February. Among key recommendations, the Government was urged to set out the steps it will take to move local government to a stronger financial position and to explain how

its estimates for councils' funding needs compares to our own, and explain any differences. This was in reference to our evidence to the Committee which outlined a funding gap of over £3 billion facing councils in 2019/20. The PAC is also seeking information on how MHCLG assures itself the sector is sustainable. Responding to the report, the Chair of your committee made reference to the funding gap of £8 billion and the importance of the Spending Review in securing financial sustainability and fully funding councils.

Valuation Office Agency gateway

26. The Valuation Office Agency (VOA) has revised its [Information Sharing Agreement \(ISA\) and Information Sharing Protocol \(ISP\)](#) which allow it to share information on business rates with councils through the Local Authority Gateway. The VOA revisions address a number of concerns, with the previous agreement and protocols which were launched in 2017, such as onward sharing of data. We have encouraged all LGA member councils to sign up to the revised agreement as it will contribute to improving local authority access to data for non-domestic properties, supporting forecasting and revenue management.

Audit Fees consultation

27. The LGA has [responded](#) to a Public Sector Audit Appointments (PSAA) [consultation on the scale of audit fees for 2019/20](#). PSAA proposed that 2019/20 fees are set at the same level as 2018/19. The LGA response was cleared by Resources Board Lead Members and states that the reduction in fees since the new contracts came into place in 2012/13 is welcome; however, it is important to councils that any reduction in fees should not affect the quality of audit work. Overall, therefore, the proposal to freeze the level of fees in 2019/20 is supported.
28. We also state that a number of our members have raised concerns that reducing audit fees could mean a reduction in quality and scope of audit, or that if additional work has to be done it could be accompanied by an additional fee. We are aware, through our ongoing engagement with PSAA, of the steps that are being taken to ensure the audits are delivered in accordance with the contracts and the regulatory requirements, as referred to in the consultation. We will continue to work with PSAA to ensure the needs of the sector are met.

Review of enforcement agent (bailiff) reforms: call for evidence

29. The LGA made a [submission](#) in response to a Ministry of Justice [call for evidence on enforcement agent \(bailiff\) reforms](#). Lead Members of Resources Board cleared the submission which recognised the increased importance of council tax as a source of income to local authorities given that council external funding has been cut by over £15 billion since 2010, and local government faces a funding gap of over £3 billion in 2019/20 just to maintain current services. It is, therefore, important local authorities are able to collect income that is due to them otherwise valuable local services including those that help protect children and vulnerable adults may need to face further cuts.

30. The submission recognised the steps councils make to help people in financial difficulty, whether through signposting to free debt advice, or through the joint [Council Tax Protocol](#), which the LGA has developed alongside Citizens Advice.
31. The LGA raised concerns over the fixed fees, which can be disproportionate, particularly for small debts, such as Council Tax Support. In addition, the system of percentages can add up to substantial amounts in the case of some business rates debts.
32. Finally, on the call for an independent regulator, on which there is no LGA policy, the evidence states that the LGA is aware that some organisations have made the case for this and that the Government should look carefully at this case.

Implications for Wales

33. There are no direct implications for Wales arising from the local government finance settlement, Business Rates Retention or the Fair Funding Review as the distribution of funding to Welsh local authorities is a devolved matter in Wales. Discussions are taking place with colleagues in the Welsh LGA on the 2019 Spending Review.

Financial implications

34. 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. 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 2018/19 and 2019/20 budgets.

Annex A – High-level progress update on the LGA Fair Funding Review and Business Rates Retention work programme

Project	Purpose and description	Quick update
Criteria for assessing proposed distribution models and methodologies	To give the LGA a structured and consistent way to assess new distribution models.	Complete
Formula grant: update the data	<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>	Complete
Distribution model: develop a distribution model	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	Complete
Council tax equalisation: develop a model	<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>	Complete
Damping /transition mechanisms	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.	Complete
Business Rates Retention model	<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"> • The setting of business rates baselines; • The extent and frequency of business rates resets; • Dealing with losses due to appeals; • The level of the safety net and how it is funded; and • The split of business rates income in two-tier areas. 	Complete

Project	Purpose and description	Quick update
Alternative Administration Model of Business Rates Retention	A model to enable LGA and local authorities to assess the impact of the alternative model.	Commissioned and due for completion by end of March 2019.