

Appendix A – Local Government Finance Update

Purpose

For comment.

Summary

This report updates members on the 2019 Spring Statement and other local government finance items, including HMT Select Committee Inquiry into business rates, CIPFA Financial Management code, and Fighting Fraud and Corruption Locally Strategy.

Recommendation

That members of LGA 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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Local Government Finance Update

Introduction

1. This report updates members on the 2019 Spring Statement and other local government finance items, including the HMT Select Committee Inquiry into business rates, the CIPFA Financial Management code, and the Fighting Fraud and Corruption Locally Strategy.
2. Business Rates Retention, the Fair Funding Review and the 2019 Spending Review are covered separately on the Resources Board agenda.

The 2019 Spring Statement

3. The Chancellor, Philip Hammond MP delivered his [2019 Spring Statement](#) on 13 March 2019. He set out the direction of the Government's thinking on the next Spending Review and a range of areas of interest to local government, as well as an update on the progress of previously made commitments.
4. In response to the Spring Statement, we issued a [media statement](#) and sent a [bulletin](#) to our member councils summarising the relevant announcements (please see [Annex A](#) for a summary of the relevant announcements). We will also continue to respond on behalf of the councils, including briefing for parliamentary debates and engaging in discussions with the Government.
5. The 2019 Spending Review announcements are covered separately on the Resources Board agenda.
6. The Chancellor also set out the Government launched consultations on the following topics of interest to councils:
 - 6.1. The Government published a [consultation on its Infrastructure Finance Review](#) that will look at the Government's tools for supporting private investment, and how they are delivered, in the context of the UK's changing relationship with the European Investment Bank. The deadline for responses is 5 June 2019.
 - 6.2. The Government launched its [review of the Aggregates Levy](#). The initial discussion paper sets out the rationale for the review, the terms of reference and scope of the review, and how stakeholders can engage.
7. Future consultations covered in the Spring Statement included:

- 7.1. A consultation on Planning for Future High Streets will explore potential changes to help local areas make better use of planning tools to support their local high streets, including through Compulsory Purchase Orders and Local Development Orders.
- 7.2. A publication on the Future of Mobility: Urban Strategy will set out the Government's approach to putting the UK at the forefront of mobility, and responding to the significant changes taking place in transport technology – such as the growth in electric vehicles and the development of self-driving vehicles.

Treasury Select Committee Inquiry into business rates

8. On 2 February 2019 the Treasury Select Committee launched an inquiry into Business Rates to scrutinise how Government policy has impacted business. The Committee wishes to examine how Business Rates policy has changed, including Business Rates Retention, alternatives to property-based taxes such as the proposed digital services tax, and how changes to Business Rates could impact businesses.
9. The terms of reference cover:
 - 9.1. The impact of changes in Business Rates policy since 2017 on businesses, in particular changes in reliefs and allowances, the ability of businesses to pay and the relationship between Business Rates and the behaviours it drives in business.
 - 9.2. How the current Business Rate system measures up against the following pillars of good tax policy: fairness, supporting growth and encouraging competition, providing certainty and being coherent.
 - 9.3. The economic justification for a property-based business tax, including the impact of Business Rates on rental prices, property prices, alternatives to property-based business taxes, such as the proposed digital services tax, the problems associated with property-based business taxes and the impact of changes (proposed and actual) of Business Rates on local authorities and councils, and the high street.
10. A draft LGA response was discussed by the Task and Finish Group on Business Rates Retention and the Fair Funding Review. Following revision in light of comments made at this meeting the final submission was submitted to the Committee having been cleared by Lead Members of Resources Board. It is important to note that the submission cannot be published until the Select Committee publishes the evidence submitted. However, in summary our submission makes the following key points:

- 10.1. The LGA wishes to see a business rates system which provides an income to councils which keeps up with demand, responsive to local needs and fair to all which promotes growth through incentives. This is particularly important given the pressures on local government. We refer to the LGA estimate that without more resources in the sector in 2024/25 there will be a funding gap of an estimated £8 billion.
- 10.2. Property continues to provide a good basis for business rates as it is efficient and 98 per cent of business rates are collected in year. We consider that more should be defined in statute rather than by case law. How this is framed should be the subject of a further consultation involving the LGA and the sector.
- 10.3. We welcome the proposed digital services tax announced in the 2018 budget as a first step to taking measures on retailers who may not pay business rates on retail premises and consider that a proportion of the resources raised from this measure should be used to fund local services. As part of a wider look at how alternative sources of taxation could contribute to funding local services, research needs to be carried out to work out the best way of capturing online activity, through a revision to business rates valuation methodology or through a new online tax.
- 10.4. We also repeat points made previously on the importance of resolving appeals, suggesting that there should be a time limit to appeals. We support the increase to 75 per cent business rates retention planned from April 2020 and consider that the Government should find time to introduce 100 business rates retention when parliamentary time permits.
- 10.5. We consider that the system of reliefs and exemptions should be reviewed with a view to allowing greater discretion by councils. We also make points on business rates avoidance and repeat our call for the Government to introduce changes on the lines of those announced by the Welsh Government in 2021.

CIPFA Financial Management code

11. CIPFA have [consulted](#) on a draft Financial Management code for local authorities. The code aims to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. CIPFA aims for the code to be applicable to all types of local authority across the UK, not just councils, and has tested out the draft with a number of different types of local authority. The consultation closed on 30 April.
12. Although much of the code is based on existing and already published codes and guidance, the code does not have legislative backing and this is acknowledged by CIPFA in the code itself. Resources Board Lead Members have approved an [LGA response](#) to the consultation which welcomes the code as an additional tool for local

authorities to use, but emphasises that it should be based on principles rather than prescription.

13. Although the code provides examples of good practice which will be useful to local authorities, ultimately it is the responsibility of local authorities themselves to determine how they will achieve sound financial management appropriate to their local circumstances, supported by the statutory section 151 officer.

Fighting Fraud and Corruption Locally

14. The Fighting Fraud and Corruption Locally (FFCL) Board is a partnership between local authorities and expert partners associated with the sector at officer level. The Board is supported by both the LGA and by MHCLG and under their guidance it produces a [Fighting Fraud and Corruption Locally Strategy](#). The strategy was last revised in 2016 and since then the Board has been working on the promoting the strategic leadership of counter fraud activity within councils. The Board is now reviewing the 2016 strategy.
15. In March 2019 the Board and its partners organised a conference and awards ceremony for the sector “Developing Fraud Resilience Locally – Current Challenges in Local Government Counter Fraud and the Response”. This conference highlighted good practice in counter fraud activity across the sector and sought to raise awareness of fraud risk with councils’ leadership teams. As well as looking at council activities, the conference included a session with academics and senior staff across the sector investigating the wider impacts of fraud activities on communities.

E Commerce Levy

16. At your meeting in November 2018, you agreed that, subject to the appropriate resources being available, the LGA should commission a piece of work to explore the potential design and benefits of an e-commerce levy. This is in recognition of the fact that it is now widely seen that the current business rates mechanism does not provide for a fair burden of taxation for different types of business activity, in particular in terms of businesses with physical high street premises and businesses operating through a predominantly digital footprint. The specification should cover the options for the levy, how it would work and how it would be collected.
17. As part of the 2019/20 budget process funding has been made available for this work. Officers are drawing up the Request for Quotations, following which tenders will be requested in line with LGA procedure. The resources board will receive regular updates on this work.

Implications for Wales

18. The funding of Welsh local authorities is a devolved matter in Wales although we will continue to explore with the Welsh LGA opportunities to work together on the Spending Review.
19. We have not been able to assess the implications for Wales of the consultations and reviews announced in the 2019 Spring Statement and will discuss with the Welsh LGA. The CIPFA financial management code will also apply to local authorities in Wales.

Financial implications

20. With the exception of the work on the e-commerce levy, this work 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. Spring Statement 2019 – announcements relevant to local government

Public spending and the 2019 Spending Review

1. As part of its [Economic and Fiscal Outlook report](#) published alongside the Spring Statement, the Office for Budget Responsibility (OBR) has concluded that:
 - 1.1 Economic growth in the UK and globally has slowed since the 2018 Budget in October, with a downward revision to the near-term GDP forecast.
 - 1.2 But tax receipts have performed better than expected in the final months of 2018-19 and the OBR has judged that much of this buoyancy will endure.
 - 1.3 Together with downward pressure on debt interest spending from lower market interest rates, this delivers a modest medium-term improvement in the public finances.
 - 1.4 The Chancellor has banked most of the improvement in the public finances in lower borrowing, but has spent some on higher planned public services spending.
2. The Chancellor confirmed that, subject to an EU exit deal being agreed, the Government will hold a Spending Review which will be launched before the 2019 Summer Recess and conclude alongside the 2019 Autumn Budget. This will set departmental budgets, including three year budgets for resource spending (covering 2020/21 to 2022/23).
3. As the part of the 2019 Spending Review, the Government will run a zero-based review of capital spending.
4. The Spending Review will have a renewed focus on the outcomes achieved for the money invested. Alongside the Statement, the Government has published a revised version of the [Public Value Framework](#), aimed at Government departments, with accompanying guidance.
5. The Government will provide an extra £100 million to Police and Crime Commissioners in 2019/20, ringfenced to pay for additional police force overtime targeted specifically at knife crime and for new violent crime reduction units.

Government consultations and reviews

6. The Chancellor set out the Government's launched consultations on the following topics of interest to councils:
 - 6.1 The Government has published a [consultation on its Infrastructure Finance Review](#). The review will look at the Government's tools for supporting private investment, and how they are delivered, in the context of the UK's changing relationship with the European Investment Bank. The deadline for responses is 5 June 2019.
 - 6.2 The Government has launched its [review of the Aggregates Levy](#). The initial discussion paper sets out the rationale for the review, the terms of reference and scope of the review, and how stakeholders can engage. The paper also sets out the membership of an expert working group.
7. Future consultations covered in the Spring Statement include:
 - 7.1 A consultation on Planning for Future High Streets will explore potential changes to help local areas make better use of planning tools to support their local high streets, including through Compulsory Purchase Orders, Local Development Orders, and other innovative planning measures.
 - 7.2 A publication on the Future of Mobility: Urban Strategy will set out the government's approach to putting the UK at the forefront of mobility, and responding to the significant changes taking place in transport technology – such as the growth in electric vehicles, the development of self-driving vehicles and advances in data and internet connectivity.

Other announcements and progress on commitments made previously

8. The Government has announced that in the coming months, it will publish the following in relation to planning reform:
 - 8.1 Additional planning guidance to support housing diversification on large sites, in response to the review by Sir Oliver Letwin and with the aim of improving build-out rates once planning permission has been granted.
 - 8.2 A package of reforms, including allowing greater change of use between premises, and a new permitted development right to allow upwards extension of existing buildings to create new homes.
 - 8.3 A Green Paper setting out proposals on how greater capacity and capability, performance management and procedural improvements can accelerate the end-to-end planning process.
9. The Government announced a new £3 billion Affordable Homes Guarantee scheme, to support delivery of around 30,000 affordable homes. In addition to this, the Chancellor announced allocations of the Housing Infrastructure Fund to new areas.
10. The Chancellor confirmed that the Government will use the forthcoming Environment Bill to mandate biodiversity net gain for development in England.

11. The Government will introduce a Future Homes Standard by 2025, future-proofing new build homes with low carbon heating and world-leading levels of energy efficiency.
12. The Government has confirmed its commitment to provide additional funding to the British Business Bank for venture and growth capital, as we leave the European Union and our relationship with the European Investment Fund changes.
13. The Government restated its commitment to publishing a comprehensive National Infrastructure Strategy, setting out its priorities for economic infrastructure and responding to recommendations in the National Infrastructure Commission's National Infrastructure Assessment alongside the 2019 Spending Review.
14. The Chancellor referred to allocations relating to previously announced schemes: £60 million of the Transforming Cities Fund (announced at Budget 2017) and £53 million from the Local Full Fibre Networks Wave 3.
15. The Chancellor confirmed up to £260 million as part of a Borderlands Growth Deal. On top of the £102 million announced recently for the Carlisle Southern Link Road from the Housing Infrastructure Fund.
16. The Government confirmed that, as announced in the 2018 Budget, the Apprenticeship Levy co-investment rate will be halved from 10 per cent to 5 per cent, and the amount employers can transfer to their supply chains would increase to 25 per cent. These changes will now take effect from April 2019.
17. The Chancellor announced that the Government will fund the provision of free sanitary products in secondary schools and colleges in England from the next school year.
18. The Government will respond to the House of Lords Economic Affairs Committee [report on the Retail Prices Index \(RPI\) and its measurement](#) in April, following discussion of relevant issues with the UK Statistics Authority.