

## **Local Government Finance Update**

### **Purpose**

For discussion and direction.

### **Summary**

This report highlights the announcements in the 2017 Spring Budget with implications for local government. It also provides an update on the LGA's work on local government finance policy matters, including further business rates retention.

### **Recommendation**

That the Board note the report, comment on its contents and agree any further action.

### **Action**

LGA Officers to proceed as directed.

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## **Local Government Finance Update**

1. This report highlights recent developments with implications for local government finance. It outlines the financial implication for local government of the announcements in the 2017 Spring Budget. It also provides an update on the LGA's work on further business rates retention, including the Local Government Finance Bill and the Government consultation.

### **Spring Budget 2017**

#### **Background**

2. The Chancellor's [Budget](#) was published on 8 March 2017. From now on, the annual Budget statement will take place every autumn, replacing the Autumn Statement. A Spring Statement will replace the existing Budget in March each year, in which the Chancellor will respond to economic forecasts made by the Office of Budget Responsibility. This Spring Statement is not intended to be a major 'fiscal event'.
3. The LGA published an [on-the-day briefing](#), highlighting the key announcements relevant to local government. This was circulated to member authorities as well as MPs and Peers, including our Vice Presidents, and selected stakeholders. In the weeks following the Budget, LGA officers are following up with departmental officials on the detail of the announcements and providing further briefings and responses as required.
4. The Chancellor's plans for overall public spending have largely remained unchanged since Autumn Statement 2016. The announcement of additional social care funding was the most significant change and is outlined in more detail below.
5. Ahead of the Budget, HM Treasury [announced](#) more details about the efficiency review, which is intended to identify a further £3.5 billion of departmental savings for 2019/20. The Government intends to allocate £1 billion of these savings for reinvestment in priority areas and stated that 'Government also recognises the important role that social care spending plays and so efficiencies found within local government will be used to help meet existing pressures'.
6. The major announcements in the Budget which impact on local government finance in particular are summarised below.

#### **Additional Adult Social Care Funding**

7. The LGA has been consistently highlighting the financial and operational pressures facing local authority adult social care services. In our Autumn Statement submission, we warned that by the end of the decade the service would face a funding gap of at least £1.3 billion – on top of pre-existing pressures in the provider market worth at least another £1.3 billion.
8. As a result of our campaigning, the Chancellor announced in his Budget statement that the Government would provide an additional £2 billion to councils in England between 2017/18 and 2019/20 for Adult Social Care. This is new money and it will be front-loaded to supplement the funding from the improved Better Care Fund (iBCF). The additional

funding will be worth £1.010 billion in 2017/18, £674 million in 2018/19 and £337 million in 2019/20. As a result, all adult social care authorities will receive additional funding.

9. At the time of writing the final conditions for the funding were still being finalised. However, in the Budget Book the Government stated that ‘councils will need to work with their NHS colleagues to consider how the funding can be best spent, and to ensure that best practice is implemented more consistently across the country’.
10. The Department for Communities and Local Government [published](#) details of the allocation methodology, alongside allocations for each council with social care responsibilities. 90 per cent of the funding will be allocated on the basis of the existing approach used for the iBCF, which takes into account Government’s initial estimates of how much each council could potentially raise from the adult social care precept. The remaining 10 per cent will be allocated according to the existing social care relative needs formula. A note prepared by the LGA’s local government finance team outlining the methodology in more detail was made available to member authorities on the LGA’s website.
11. The Government also announced in the Budget that it will set out proposals in a Green Paper to put the adult social care system ‘on a more secure and sustainable long term footing’. The LGA is already in early discussions with officials about the expected content of the Green Paper. The Budget Book stated that the Government ‘is committed to establishing a fair and more sustainable basis for adult social care, in the face of the future demographic challenges set out in the OBR’s Fiscal Sustainability Report’.
12. The LGA welcomed the announcement, saying that it marked a significant step towards protecting the services caring for older and disabled people in our communities over the next few years. We will work with the Government to ensure that councils have flexibility over how they use this funding. Any measures associated with the funding must be proportionate and agreed with local government leaders.
13. As helpful as the announcement is, short-term pressures remain and the challenge of finding a long-term solution to the social care crisis is far from over. To close the funding gap facing social care additional funding needs to be recurrent and put into local government baselines. The publication of a Green Paper will be vital to securing sustainable, long-term funding for the sector. Local government leaders must play a fundamental part in reaching a solution. All options must be on the table and it needs cross-party national support.

### **Business Rates Revaluation Support Measures**

14. The Chancellor announced a package of support, worth in total £435 million for businesses in England facing significant increases in business rates bills from April 2017, as a result of the revaluation. The support package was made up of three measures:
  - 14.1 Support for small businesses whose eligibility for Small Business Rate Relief has reduced or ended as a result of the revaluation.
  - 14.2 Funding for local authorities to support £300 million of discretionary business rates relief between 2017/18 and 2020/21.
  - 14.3 A £1,000 business rate discount for pubs with a rateable value up to £100,000, subject to State Aid limits.

- 15 The Government will fully compensate local government for the loss of income as a result of these measures. More details on these announcements are outlined in a separate paper on the Resources Board agenda (see agenda Item 3)

### **Other Business Rates Announcements**

- 16 The Government announced its intention to introduce more frequent revaluations, at least every three years, of non-domestic properties. HM Treasury will set out its preferred approach to delivering this reform at the next Budget in the autumn this year and will consult ahead of the next revaluation in 2022.
- 17 In our [response](#) to the [discussion paper](#) on this proposal last year, the LGA said we would not support more frequent revaluations unless there is a significant change to the way valuation is carried out and a limit on speculative appeals. It is also vital that any changes fit in with the development of further business rates retention, which will be implemented in 2019/20.
- 18 Separately, the Government has published its [response](#) to the consultation on the draft regulations for the new system of business rates appeals, Check, Challenge and Appeal, which will apply from April 2017. In the response, the Government stated that it will bring forward proposals by April 2018 for setting a fixed time limit for appeals. We have lobbied on this for some time, so this is a welcome announcement.

### **Other Policy Announcements**

- 19 The issues summarised above highlight the main announcements in the Budget impacting on the work of the Resources Board. However, there were a significant number of other announcements which also affect local government, outlined in the [on-the-day briefing](#).

### **Local Government Finance Bill**

- 20 The [Local Government Finance Bill](#) was introduced, and had its first reading, in the House of Commons on 13 January. The Bill will provide the framework legislation to implement the Government's proposals for further business rates retention. Specifically it:
- 20.1 Abolishes the central share, currently set at 50 per cent, which councils pay to the Government.
  - 20.2 Abolishes the provisions to pay revenue support grant to councils, as this will in the future be provided through retained business rates.
  - 20.3 Allows for the Government to make payments to authorities for losses due to appeals meaning that councils will no longer have to make provisions in a way that impacts on their ability to provide services. This is a major policy win as the LGA has campaigned long and hard for the impact of appeals not to fall on individual local authorities.
  - 20.4 Abolishes the annual local government finance settlement; this will be replaced by a multi-year 'statement of principles' which will not have to be approved by Parliament.

- 20.5 Provides that referendum principles can be set on a multi-year basis.
  - 20.6 Abolishes the levy on growth in business rates.
  - 20.7 Allows a new power for the Secretary of State to designate pools of authorities where not all authorities agree. Pools will be able to designate areas within them where growth in business rates could be retained for a number of years, along the lines of enterprise zones and subject to certain parameters.
  - 20.8 Allows councils to reduce the business rates multiplier, with the proviso that the council which determines the reduction will have to bear the financial consequences.
  - 20.9 Gives powers to raise an infrastructure supplement of up to 2p in the £ to the GLA and mayoral combined authorities.
- 21 The Bill also contains some provisions not directly related to business rates retention. It allows for a new process to designate properties to the Central List. It also provides the legal framework for some previously announced Government policies:
- 21.1 It sets out new mandatory reliefs for the next generation of telecommunications infrastructure.
  - 21.2 Changes to rural rate reliefs to bring them into line with small business rates relief.
  - 21.3 Gives local authorities the discretionary power to grant relief on their own public toilets.
  - 21.4 Measures paving the way for more digitalisation of business rates billing.
  - 21.5 For the multiplier to be based on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).
- 22 The Bill received its Second Reading on 23 January and was approved without a division. The Bill was in Committee Stage between 31 January and 21 February. During the Committee stage the LGA's Senior Vice-Chair, Cllr Nick Forbes, gave oral evidence to MPs on the Bill on the LGA's views on the Bill and the reforms more generally.
- 23 The LGA also submitted written evidence to the Bill Committee. The LGA has briefed extensively on the bill and has worked with MPs to put forward new amendments and respond to their request for the further information on elements of the reforms. As a result, the LGA was extensively mentioned its passage through Parliament so far. The LGA worked with MPs to table amendments to the Bill in four areas:
- 23.1 Removing the powers of the Secretary of State to force authorities into pools against their will.
  - 23.2 Removing council tax referendums. The Bill allows for them to be set over a number of years.
  - 23.3 Giving councils more flexibility to target multiplier reductions.
  - 23.4 More discretion on reliefs.
- 24 As is often the case with Government-led legislation, no substantive amendments were made to the Bill at the House of Commons Committee Stage. We will therefore continue

to work with MPs and Peers to explore options for improving the Bill as it progresses through the House of Commons and moves into the House of Lords.

- 25 During the Committee stage we secured a commitment from the Secretary of State, Sajid Javid MP, and the Local Government Minister Marcus Jones MP to work with the LGA to reduce business rates avoidance. During a Bill Committee hearing the Local Government Minister reiterated the commitment to “work with the LGA, the Charity Commission and others to explore what legislative and non-legislative steps we might take to protect the system and tackle business rate avoidance”.
- 26 The Bill has now completed the Committee Stage and, at the time of writing, is awaiting a date for the Report and Third Reading stage in the House of Commons. A ‘carry-over motion’ for the Bill has been approved, enabling the Bill to continue its passage in the next session of Parliament following the Queen’s Speech, which is expected in mid-May 2017. The Government’s planning documentation indicates that the Bill is expected to complete its passage through Parliament in late 2017.
- 27 As the Bill progresses through the House of Commons and House of Lords, the LGA will continue to work with Parliamentarians to highlight key issues of concern to local government.

#### **Government Consultation on Further Business Rates Retention**

- 28 The Department for Communities and Local Government (DCLG) published its second [consultation document](#) on further business rates retention on 15 February, alongside a [summary of responses](#) to the previous business rates retention consultation. In the consultation document the Government confirms April 2019 as the date for the expected implementation of the new system across local government and outlines seven questions, largely on system design issues including the following areas:
  - 28.1 **Approach to resets.** The document confirms that DCLG is looking at fixed term partial resets of both the business rates and the needs baseline once every five years. This is in line with the views of the sector in response the Summer 2016 consultation on Business Rates Retention
  - 28.2 **How growth is measured over a reset period.** The document says that growth should be measured in a way that provides an appropriate incentive, is simple and transparent and avoids perverse incentives.
  - 28.3 **Business Rates Pooling.** The document confirms that there will be powers (included in the Bill) to compel authorities to join a pool and that the incentives for pools will be strengthened.
  - 28.4 **Local Growth Zones.** Pools will have the ability to establish Local Growth Zones which, similar to Enterprise Zones, allow for retention of business rates without this having to be taken into account in the tariff and top-up system. The document discusses specific parameters for these zones which could be set through regulation, such as the proportion of growth retained, the geographical area covered, the number of years for which they could exist, and the purpose for which growth could be used.
  - 28.5 **Managing the impact of appeals.** The document confirms that there will be a central provision for appeals and other ‘valuation errors’. This will be funded through a top-slice.

- 28.6 **Tier Splits.** It is recognised that the split in two tier areas and within London is closely related to risk and reward. The importance of providing stability of funding for adult social care services, the ability of the different tiers to influence growth and which services are devolved to the different tiers are recognised. It does not propose a specific split, and says that districts and counties are discussing the matter.
- 28.7 **Business rates pilots.** The Government confirms that business rates pilots will start in April 2017 in five areas with devolution deals (Greater Manchester, Liverpool City Region, West Midlands, West of England and Cornwall) and with the Greater London Authority. It invites all councils, including those not covered by devolution deals, and which may be two tier areas, to apply to be a pilot from April 2018. More information will be published shortly by DCLG.
- 28.8 **Safety net.** The document recognises that there is an ongoing need for a safety net to support local authorities which experience a shock to the system such as the closure of a major ratepayer.
- 28.9 **Central list.** The government intends to set out policy on what properties should be on the central list (this currently includes utilities) and which should be on local lists. The Bill will remove the requirement for the Government to make regulations to move properties on to the central list. The contents of the Central List will be reviewed in order to support the set-up of the new system and continue to support the existing 50 per cent system.
- 29 The consultation closes on 3 May 2017 and the LGA will submit a response to the consultation. This response will be signed off the LGA's Business Rates Task and Finish Group and Group Leaders.
- 30 The LGA, together with DCLG, is organising six regional events on the current consultation for local authority members and officers in March and April. The events build on similar events for the first consultation last August and September, which were well received. They will provide an opportunity for members and officers to hear from DCLG officials and LGA officers about the current proposals, ask questions and give their views on the plans.

### **Fair Funding Review**

- 31 The LGA continues to work with DCLG on the Fair Funding Review. The Bill does not set out proposals for redistribution, as the implementation of a new fair funding mechanism does not require legislation. The LGA and DCLG are working with members of the steering group and needs working group to develop options for consultation. Until more detailed work has been done, it would not be in the interests of local government to seek to tie down details of a fair funding mechanism. However, as part of the forthcoming regional consultation events, we will be seeking feedback and views on the key factors that need to be considered in the needs assessment.
- 32 At the time of writing the Government's expected further consultation on the Fair Funding Review had yet to be published. It is expected that this consultation will focus on identifying cost drivers and indicators which could form part of the assessment of relative needs to help inform the scope of the data collection exercise.

### **Recommendations**

- 33 Members of the Resources Board are asked to note this report, comment on its contents and agree any further action.

**Financial Implications**

- 34 This is part of the LGA's core programme of work and as such has been budgeted for.

**Implications for Wales**

- 35 The Budget has implications for the public sector across the United Kingdom. However, the on-the-day briefing has focussed on issues that have an impact on English local government. Funding announced in the Budget for England will have Barnett Formula consequences for Wales. Business rates revaluation does apply in Wales as well as England, but it will not affect council funding in the same way. Business rates policy in Wales is the responsibility of the Welsh Government. The proposals for business rates retention set out by DCLG affect England only and the Bill's provisions apply to England only. Other matters mentioned in the report apply to England only.