

Local Government Finance Update

Purpose

For discussion and direction.

Summary

This report provides an update on the LGA's work on local government finance policy matters, including further business rates retention.

Recommendation

Members of the Resources Board are asked to note this 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 provides an update on the LGA's work on finance, including further business rates retention.

Business Rates Retention and the election

2. The Government consultation "100% business rates retention: further consultation on the design of the reformed system" closed on 3 May. The [LGA's response](#) to this noted that there is still a lot of work to be done on the design of the system, such as how exactly resets would work. We also reiterated our assertion that before any additional responsibilities can be transferred to local government to be funded through further business rates retention, it is imperative that local authorities must be able to use the additional income from business rates to address existing funding pressures.
3. The Local Government Finance Bill, which provided the enabling legislation for further business rates retention, had not completed its passage through Parliament before the dissolution of Parliament on 3 May. As a result, it will be for the new Government to decide its priorities after the general election and decide whether or not to reintroduce the Bill at the start of the new session. Until then, in common with other aspects of Government policy development, Government work on the Fair Funding Review and further business rates retention has been on hold. This means that the joint DCLG/LGA steering group and working groups have not been meeting and all meetings of these groups have been cancelled.
4. The LGA has continued its own policy development work during this time and will call for the next Government to ensure that both business rates retention reform and the Fair Funding Review continues.
5. Following the election, we have concentrated on getting the LGA's messages on finance included in discussions with the new Government. In particular the message that local government currently faces an estimated funding gap of £5.8 billion by 2019/20. If local government is not given the fiscal freedoms and independence to address this problem, it will affect councils' ability to both provide services to help their local communities and contribute to the nation's prosperity. We have also emphasised that business rates are an important source of income for local government. The business rates system needs to be up to date, buoyant, fair and flexible for both ratepayers and councils. We called for a commitment to implementing further business rates retention if it can be done in a way that is positive for the sector by giving local government the maximum fiscal independence to address the funding gap, balancing needs and fairness with an incentive to grow local economies.

Fair Funding Review

6. At the time the general election was called, the Government's expected further consultation on the Fair Funding Review had not been published. It will be for the new Government to decide its priorities after the general election and whether to proceed with the review, although this reform is not dependant on new primary legislation.

Other Finance work

MiFID II

7. During the December meeting of Resources Board members considered the LGA's [response](#) to the Financial Conduct Authority's (FCA's) consultation on the implementation of the MiFID II regulations (Markets in Financial Instruments Directive). Since then, officers have had extensive discussions with officials at the FCA. The Board of the FCA was due to meet on 25 May to approve the final MiFID regulations.. The regulations are due to be published by 3 July at the latest, hopefully sooner. Local authorities will have to implement them fully by the end of December. It is now proposed that officers will work with the pensions scheme advisory board, Cipfa and the banking sector on formulating a common approach to implementation across the sector.

Cipfa Prudential code for capital finance

8. The [LGA's response](#) to this consultation as approved at the last meeting of the Resources Board, was submitted by 25 April. The revision of the code is now being considered by Cipfa's Treasury Management Panel and a draft revised code is expected to be consulted on over the summer.

Insurance discount rate consultation

9. On the 30 March the Ministry of Justice and the Scottish issued the consultation "[Personal injury discount rate: how it should be set in future](#)" on the process for setting the discount rate for personal injury insurance claims. This is the rate of interest used to calculate how much a personal injury award needs to be in order for it to be sufficient to cover the costs of the injured party for however long they are going to suffer (in many case for the rest of their lives). In simple terms the assumption is that they will receive a lump sum which they will be able to invest, and returns from that investment will be assumed to be based on the discount rate; so if the discount rate is low, the lump sum (the award) will need to be higher, costing the insurer or insured party (such as a council) more up front.
10. The rate was unchanged since 2001 and then a new (lower) rate was announced on 27 February this year and was implemented on 20 March. Councils are reporting that it is likely to result in increased costs in the form of higher premiums from insurance companies or higher pay-outs in the case of self-insurance arrangements; there is also the possibility of increased costs relating to historic cases insured by the old Municipal Mutual Insurance which ceased new business in 1992.
11. Resources Board Lead Members approved a [response](#) to this consultation (which closed on May 11th) that highlighted that the change in the rate will result in increased costs for local government and that this needs to be provided for. It also pointed out that £1.2 billion was put aside in the 2017 budget for increased NHS costs arising from this. Future work will include working with the sector to calculate how much these additional costs are.

Recommendations

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

13. Financial Implications

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

Implications for Wales

15. The proposals for business rates retention set out by DCLG, and the Fair Funding Review affect England only. MiFID, the Cipfa Prudential Code and insurance discount rate apply equally to Wales as to England.