

Provisional 2018/19 Local Government Finance Settlement

Purpose

For information and discussion.

Summary

This report provides an update on the 2018/19 Provisional Local Government Finance Settlement announced by the Government on 19 December 2017 and summarises the LGA's formal response.

Recommendation

That the LGA Executive note the report.

Action

Officers to proceed as directed.

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Provisional 2018/19 Local Government Finance Settlement

Introduction

1. The Secretary of State for Communities and Local Government delivered the provisional local government finance settlement on 19 December 2017, with a deadline for responses of 16 January 2018.
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 2018/19 and indicative figures for 2019/20.
3. The Government also used the settlement to announce that 75 per cent business rates retention and the Fair Funding Review will be introduced in April 2020. The Government also published a consultation on the Fair Funding Review. This is covered by a separate item on the agenda.
4. The LGA produced an [on-the-day briefing](#), providing a summary of all announcements and the LGA's immediate reaction. On 10 January the Chairman and Group Leaders (or their representatives) met with the Secretary of State and the new Local Government Minister to discuss the draft Settlement.

Key announcements

5. The following were the key announcements in the provisional local government finance settlement:
 - 5.1. Almost no new money from central government has been included in the settlement. The Government decided to not go ahead with a planned £15 million reduction to the rural services delivery grant in 2018/19.
 - 5.2. The general council tax referendum limit was increased from 1.99 per cent to 2.99 per cent for 2018/19 and 2019/20. This will not benefit the 88 shire district councils with lowest council tax levels as they already can increase council tax by 3 per cent or more due to the £5 flexibility.
 - 5.3. The Government decided not to change the housing growth threshold for calculating new homes bonus allocations and not to go ahead with further planned changes to bonus calculation methodology. This resulted in total new homes bonus payments £8 million above previously planned levels for 2018/19.
 - 5.4. The Government will consult on 'fair and affordable' options to address the 'negative revenue support grant' that affects almost half of all English councils in 2019/20.
 - 5.5. The flexibility for councils to use capital receipts to fund revenue costs of transformation projects has been extended to 2022.
 - 5.6. The Government announced 10 new 100 per cent business rates retention pilots for 2018/19, and that 75 per cent business rates retention will be introduced for all from

April 2020. The outcome of the Fair Funding Review will be implemented at the same time. The Government also published a consultation on the Fair Funding Review. These issues are covered by a separate item on the agenda.

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. Almost no new money from central government has been included in the settlement, although the Government has increased the general council tax referendum limit from 1.99 per cent to 2.99 per cent for 2018/19 and 2019/20. It is extremely disappointing that the Government has again chosen not to address the continuing funding gap for children's and adult social care. We have repeatedly warned of the serious consequences of funding pressures facing these services, for both the people that rely on them and the financial sustainability of other services councils provide. An injection of new money from central government is the only way to protect the vital services which protect children and support families and care for older and disabled people.
 - 7.2. Local services are facing a £5.8 billion funding gap in 2019/20, as well as a £1.3 billion pressure to stabilise the adult social care provider market today. Whilst we estimate the welcome additional council tax flexibility to be worth up to £540 million in 2019/20 if all councils use it in both 2018/19 and 2019/20, it is nowhere near enough to meet the funding gap. The Government needs to provide new funding for all councils over the next few years so they can protect vital local services from further cutbacks. Further business rates retention income could be used to meet the funding gap facing local government. In particular, we call on the Government to use the final settlement to provide additional resources for children's services.
 - 7.3. Further flexibility for local authorities in setting council tax levels will give some councils the option of raising extra money to offset some of the financial pressures they face next year. For 88 shire districts with the lowest council tax levels the new 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, with only 12 district councils able to benefit from the change in full. We call on the Government to offer further flexibility to shire district councils.
 - 7.4. No other national tax is subject to referenda. The council tax referendum limit needs to be abolished so councils and their communities can decide how under-pressure local services are paid for, with residents able to democratically hold their council to account through the ballot box. However, this is not a sustainable solution as increasing council tax raises different amounts of money in different parts of the country, unrelated to need. This also adds an extra financial burden on already struggling households.

- 7.5. The New Homes Bonus makes up a considerable part of funding for some councils, particularly shire district authorities. It is good news that the Government has accepted our call to avoid further increases to the threshold and no holdback for decisions on new homes approved by the Planning Inspectorate. We call on the Government to make it clear that they will not increase the housing growth threshold for any local authority in 2019/20 either and, if needed, provide additional resources for this to happen.
- 7.6. Ten further business rates retention pilots will enable aspects of the business rates retention system to be tested. At the same time, discussions will continue between Government officials, the LGA and councils on the introduction of further business rates retention for all in 2020/21. The Government has also confirmed that the Fair Funding Review will be completed in time for implementation in April 2020. We will continue to work with the Government on further business rates retention and the Fair Funding Review, including tackling the impact of business rates appeals on local authorities in time for the implementation of further business rates retention in 2020/21.
- 7.7. Councils will see their Revenue Support Grant cut in half over the next two years and almost phased out completely by the end of the decade. We acknowledge that the Government has recognised the need to find a way to help councils who will move into a negative Revenue Support Grant position in 2019/20. As stated above, we consider that the Government should use the final Settlement to provide funding to all councils over the next two years.
- 7.8. The four year deal runs out in March 2020. We 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 that date. 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.
- 7.9. We consider that Autumn Budgets need to happen earlier in the year so that the provisional Local Government Finance Settlement can be brought forward. We would recommend the process takes places at least two months earlier than the current timescales. This would allow councils to make robust and efficient medium term plans.

Implications for Wales ¹

8. The provisional local government finance settlement is applicable to English local authorities only. The Welsh Government has separate arrangements with Welsh local authorities.

Financial implications

9. This is core work for the LGA and is budgeted for within the 2017/18 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".