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LGA response to the technical consultation on the 2019/20 local government finance settlement

September 2018

The Local Government Association (LGA) welcomes the opportunity to respond to the technical consultation on the 2019/20 local government finance settlement.

The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.

This consultation response has been approved by the LGA's Leadership Board, Executive, and Resources Board.

Key points

- The LGA welcomes the Government's intention to continue with the four-year settlement to which 97 per cent of all local authorities signed up. However, local authorities are now facing rises in pay and prices, which were not forecast when local authorities signed up to the four year offer.
- Local services are facing a £7.8 billion funding gap by 2025 and solving this issue requires bold decisions from the Government.
- 2019/20 is a particularly challenging year for councils with a projected funding gap of £3.8 billion which includes £1.5bn to improve the financial sustainability of the care market. This assumes councils deliver all planned savings in 2018/19.
- Local government is concerned that there is no clarity over funding levels, both nationally and locally, after March 2020. This hampers meaningful financial planning at a time when government grant funding is the lowest it has been for decades
- The LGA has consistently argued against the principle of council tax referenda for any local authority. Referendums on council tax are an unnecessary and costly burden. Council tax should be a local decision and councils should be held accountable through the normal mechanism of the ballot box. If the Government does still introduce principles, adult social care authorities which cannot increase the adult social care precept further and fire and rescue authorities are likely to make a particular case for additional flexibility.

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- Those authorities affected by 'negative RSG' will welcome the Government's proposal to cancel the tariff/top-up adjustment in the 2019/20 settlement, meaning the 'negative RSG' will be paid for from central government resources.
- We would urge the Government not to increase the New Homes Bonus threshold again. This would risk putting the brakes on housebuilding schemes and growth-boosting projects at a time when our housing shortage is one of the biggest challenges facing the nation and it would further exacerbate the financial challenges facing some councils.

Responses to individual questions

Question 1: Do you agree that the Government should confirm the final year of the 4-year offer as set out in 2016-17?

The LGA welcomed the principle of the four year settlement offer made in December 2015. We have long called for local government to have a longer financial planning horizon. Certainty in the current financial environment is vital for local authorities.

However, local authorities are now facing rises in pay and prices, which were not forecast when local authorities signed up to the four year offer. In addition, although not confirmed local authorities were anticipating the introduction of 100 per cent business rates retention before the end of the four year settlement.

This is year 4 of the 4 year deal and there is no clarity over funding levels from April 2020 and beyond. This uncertainty hampers meaningful financial planning and is leaving councils in a perilous situation at a time when government grant funding is the lowest it has been for decades and local services are facing a £7.8 billion funding gap by 2024/25.

We continue to believe this certainty should include all the other main grants allocated to local authorities. In addition to the grants already included in the multi-year offer and more certainty over new homes bonus, it should be extended to include the following funding streams:

- Public Health Grant
- Improved Better Care Fund (the Government should also continue to ensure that existing Better Care Fund continues to support social care)
- Housing Benefit and Council Tax Administration Subsidy
- Extended Rights for Home to School Travel Grant
- Highways Maintenance Capital Grant (already announced up to 2020/21, but should be included in offer to improve transparency)

It is imperative that the Government provide a clear timeline for when local authorities can expect decisions over funding levels, both nationally and locally, in

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2020/21 and beyond and that the draft local government finance settlement and final local government finance settlement for 2019/20 are announced significantly sooner than they have been in recent years.

Question 2: Do you agree with the council tax referendum principles proposed by the Government for 2019-20?

The LGA has consistently argued against the principle of council tax referenda. Referenda on council tax are an unnecessary and costly burden. Council tax should be a local decision and councils should be held accountable through the normal mechanism of the ballot box.

The referenda also present exceptionally bad value for money, costing up to £1 million for an increase in council tax that might be as low as 40 pence per week.

Under the Localism Act 2011, the Secretary of State has the power *not* to determine a set of principles for a financial year. The Secretary of State has announced that he is minded not to set principles for mayoral combined authorities and parish and town councils. The LGA believes the Secretary of State should give all local authorities the freedom to set council tax levels at the right level. Councils can be trusted to make sensible decisions about council tax increases, taking into account the priorities and wishes of local residents.

If the Secretary of State is minded to set the principles as outlined in the consultation document we would make the following points:

- There is a particular impact on those social care authorities who cannot increase their precept further due to already being at the 6 per cent limit;
- For shire districts with the lowest council tax levels the 3 per cent 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. We call on the Government to offer further flexibility to shire district councils;
- Fire authorities have particular pressures due to the funding of pay increases. If there is not an increase in the grant for FRAs, we understand they have suggested that there be an increase in the referendum cap for standalone FRAs so they could budget for a pay increase from raising council tax.

Question 3: Do you agree with the Government's preferred approach that Negative RSG is eliminated in full via forgone business rates receipts in 2019-20?

Question 4: If you disagree with the Government's preferred approach to Negative RSG please express your preference for an alternative option. If you believe there is an alternative mechanism for dealing with Negative RSG not explored here please provide further detail.

Many councils have expressed concern, since 2016/17, about the adjustment of top-ups and tariffs as a result of 'negative Revenue Support Grant' in

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2019/20. Those affected authorities will welcome the Government proposal to cancel the adjustment in the 2019/20 settlement, meaning that the 'negative RSG' will be paid for from central government resources.

However, all councils face significant funding pressures in 2019/20 and beyond and huge financial uncertainty over the next few years and into the next decade. The LGA will look to the Autumn Budget and the 2019/20 local government finance settlement and then the 2019 Spending Review for a settlement which is sufficient to fund identified inflationary and demand pressures and fair to all authorities.

Question 5: Do you have any comments on the impact of the proposals for the 2018-19 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

The LGA refers MHCLG to responses from individual authorities.

New Homes Bonus

New Homes Bonus is covered in Section 3 of the consultation although there is not a specific consultation question.

Many authorities will have welcomed the Government's decision not to raise further the 0.4 per cent threshold in 2018/19. They will be concerned at the prospect of this being increased in 2019/20, as outlined in the consultation document. We would urge the Government not to increase the New Homes Bonus threshold again. This would risk putting the brakes on housebuilding schemes and growth-boosting projects at a time when the housing shortage is one of the biggest challenges facing the nation and it could further exacerbate the financial challenges facing some councils.

Authorities with New Homes Bonus income will also be concerned at the lack of certainty over the Bonus in 2020/21 and in future years. The consultation document states that it is the Government's intention to explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need.