

## **The Spending Review, Business Rates Retention and the Provisional Local Government Finance Settlement 2016/17 and Future Years**

### **Purpose of report**

For information.

### **Summary**

This report highlights the announcements in the Spending Review and Autumn Statement 2015 and the 2016/17 Provisional Local Government Finance Settlement. The LGA's submission to the consultation on the 2016/17 Local Government Finance Settlement is attached as **Annex A**.

### **Recommendation**

The City Regions Board is asked to note the update.

### **Actions**

Report for information only.

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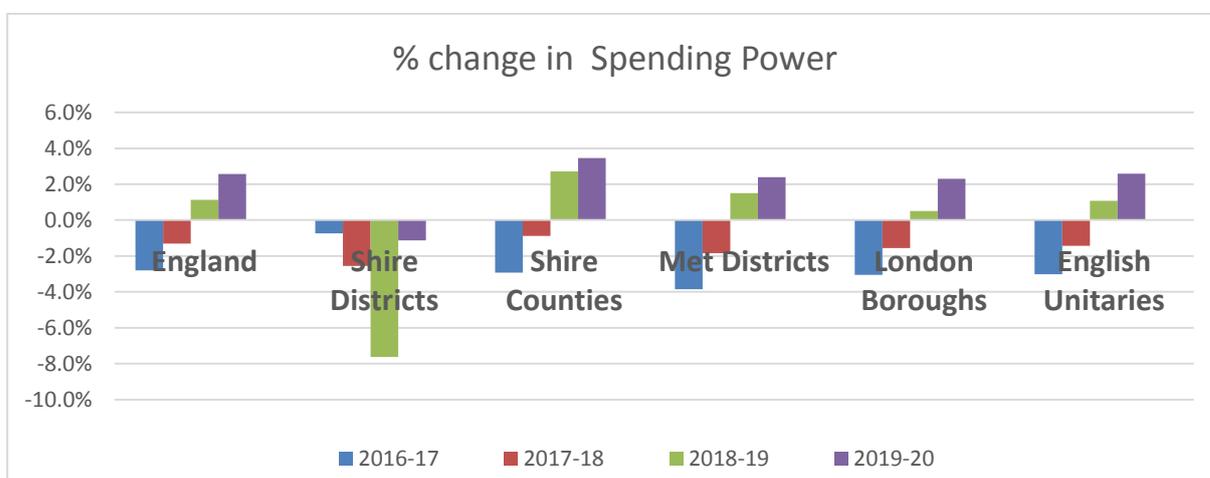
## The Spending Review, Business Rates Retention and the Provisional Local Government Finance Settlement 2016/17 and Future Years

### Background

1. On 25 November, the Chancellor announced the Spending Review and Autumn Statement 2015 to cover the life of the current Parliament. The Secretary of State for Communities and Local Government made a statement to Parliament on 17 December 2015 on the provisional local government finance settlement for 2016/17 and future years. The consultation on this closes on 15 January 2016.
2. The LGA's on-the-day briefings for both events summarise the proposals affecting councils and are available on the website [here](#) for information.

### Implications for Local Government Finance

3. In the Spending Review, the headline figures for local government were that core central government funding for local government, comprising business rates and revenue support grant, will fall by 24 per cent in real terms over the Spending Review period. When taking into account the Office for Budget Responsibility forecasts of other income raised locally by councils, the overall position is a 6.7 per cent real terms reduction. These figures are better than expected given that, in the run up to the announcement, all government departments were asked to model reductions of 25 and 40 per cent.
4. The headline figures announced in the provisional settlement are:
  - 4.1. Core Spending Power for councils as a whole will fall by 0.5 per cent over the four year period to 2019/20. Core spending power is a new measure defined by the government including: Revenue Support Grant (RSG); retained business rates; the new homes bonus; and income from council tax assuming specified levels of growth, as well as some other specific funding. The following graph shows core spending power by class of authority over the period to 2019/20.



- 4.2. The Government has also included a new definition of “settlement core funding” which is RSG plus retained business rates and council tax at the 2015/16 base level. The inclusion of base council tax is new compared to the “settlement funding assessment” used in previous years.
- 4.3. Taking into account the full range of ways councils can raise money, the settlement is “flat cash” in total for councils over the next four years.
- 4.4. The Government has taken expected council tax receipts into account when calculating core government funding (principally RSG) and has prioritised funding for social care authorities. RSG will reduce in a way that ensures that councils delivering the same set of services will receive the same percentage change in settlement core funding for these services. As a result the settlement proposes distributional changes and this impacts differently on each type of council.
- 4.5. The figures for 2017/18 and beyond are subject to councils publishing an efficiency plan.
- 4.6. In later years RSG will be reduced to below zero for some councils and these councils will have their funding adjusted via top-ups and tariffs. These councils will therefore lose some of their locally retained business rates. The total amounts involved nationwide are £2.27 million in 2017/18, £22.82 million in 2018/19 and £152.88 million in 2019/20. This represents about 0.02% of retained business rates in 2017/18 rising to about 1.2% in 2019/20.

5. The number of authorities going into negative RSG is shown by type and year in the following table.

Year	Shire Counties	London Boroughs	Shire Unitaries	Shire Districts	Metropolitan Districts	Fire Authorities	Total
2017/18	0	0	0	15	0	0	15
2018/19	2	1	2	51	0	0	56
2019/20	11	3	8	146	0	0	168

6. The settlement includes greater flexibility over council tax. Adult social care authorities will be able to increase their council tax by 2 per cent over the referendum threshold. This must be spent on adult social care. District councils whose council tax is currently in the lowest quartile will be able to increase their council tax by the higher of 2 per cent or £5.
7. Beyond this, the 2 per cent council tax referendum limit was confirmed, and a consultation on the review of new homes bonus was launched.

### **LGA Successes – announcements in spending review and settlement**

8. In line with LGA lobbying, a number of announcements in the spending review and the provisional settlement can be counted as wins for the LGA. These include recognition of the need to address the social care funding crisis, the extension of the better care fund, funding for additional nursery places, more flexible use of capital receipts, proposals for the Work and Health Programme, and rural funding amongst others. Details can be found in the two on-the-day briefings [here](#). The reduction in overall funding is less than widely expected and is a sign that our case had an impact on Government decisions on local

government funding. The announcement on Business Rates Retention is particularly significant and is outlined in the next paragraph.

### **Business rates retention**

9. The Spending Review and the provisional settlement both contained further information about the introduction of 100% business rates retention by 2020.
10. The Government will consult on the proposals. The key features are as follows:
  - 10.1. Local Government as a whole will keep all of business rates.
  - 10.2. Revenue Support Grant will be phased out.
  - 10.3. The reform will be fiscally neutral, so current grants and additional powers and responsibilities will be transferred to local government to match the additional base business rates funding. So far, these are proposed to include the public health grant and the housing benefit admin grant, together with the TfL's capital grant (announced in the Spending Review). This amounts to about £5 to £6 billion. It was announced in the Settlement that the transfer of support for people with care needs currently supported by Attendance Allowance is being considered.
  - 10.4. The system of top ups and tariffs will continue and after this all local growth will be retained.
  - 10.5. All local authorities will have the power to reduce business rates, but only area with a directly elected city wide mayor will be able to add a premium (increase) with the support of the Local Economic Partnership.

### **Communications / Public Affairs**

11. Our media lines in response to the Spending Review were covered extensively in the national media including in three separate **Guardian** pieces, **BBC online**, **Times**, **FT**, **Mirror**, **Mail**, and **Independent**. Cllr Sharon Taylor OBE was also interviewed by **BBC News**, **Chanel Four News**, **ITV news**, **Five Live** and **LBC**. Cllr Izzi Secombe also spoke on the **Today Programme** on the day following the Spending Review announcement to discuss the impact on social care.
12. A planned media briefing was held on the Friday following the Spending Review announcement to provide a chance to explain the figures to media. This was well attended and led to stories highlighting the LGA's analysis in the **Observer**, **Sun on Sunday**, **Sunday Express**, **Independent on Sunday**, **Sunday Times**, **BBC online**, **BBC news**, **ITV** and **Sky News**.
13. A media statement was issued on the day of the settlement with our initial analysis and reaction to what it means for councils. Chairman Lord Porter was interviewed live on the **BBC Daily Politics** on the day of the settlement and our statement was also reported as part of coverage in the **Guardian**, **FT**, **Express** and on **Mirror Online**.
14. Our on-the-day briefing for each event was circulated to Council Leaders, Finance Portfolio Holders, Chief Executives, senior local government officials and parliamentarians. For the Spending Review the on-the-day briefing was downloaded over

25 January 2016

**8000 times.** So far the on-the-day briefing for the provisional settlement has been downloaded 4,481 times.

**Next steps**

15. We will continue to brief MPs and Peers as the Finance Settlement is debated in Parliament in January and February 2016.
16. Members are asked to note the report and the content of the on-the-day briefings available on the website [here](#).

**Financial Implications**

17. This is core work for the LGA and is budgeted for within the 2015/16 LGA budget.