

Local Government Association Briefing

Debate on the Final Local Government Finance Settlement 2018/19

House of Commons

Wednesday 7 February 2018



KEY MESSAGES

- The final settlement includes an additional £190 million for local government, when compared to the indicative 2018/19 settlement announced this time last year. This is made up of:
 - An additional £150 million in 2018/19 for an Adult Social Care Support Grant.
 - An additional £31 million for the Rural Services Delivery Grant. This is £16 million more than proposed in the provisional settlement and will take the total grant to £81 million in 2018/19.
 - An increase in the region of £9 million for the New Homes Bonus.

Councils who will receive this money will welcome the additional funding from central government. However, local services are still facing a funding gap that will exceed £5 billion in 2019/20, as well as a £1.3 billion pressure to stabilise the adult social care provider market today. The Government needs to allow local government to keep every penny of business rates collected to plug this growing funding gap.

- We estimate the additional council tax flexibility in the settlement to be worth up to £540 million in 2019/20 if all councils use it in both 2018/19 and 2019/20. This will give some councils the option of raising extra money to offset some of the financial pressures they face next year, but this is nowhere near enough to meet the funding gap. This means many councils will have to ask residents to pay more council tax while offering fewer services. 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.
- For 88 shire districts with the lowest council tax levels the new council tax referendum 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 continue to call on the Government to offer further flexibility to these councils.
- The additional funding for adult social care is a recognition of our warning about the urgent need for the Government to further try and help councils tackle some of the immediate social care pressures they face. However, this is a temporary measure and is unlikely to have a significant positive impact on adult social care services when compared against an annual social care funding gap of £2.3 billion by 2020.

Briefing

- It is extremely disappointing that the Government has chosen not to address the continuing funding gap for children's 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. A substantial injection of new money from central government is the only way to protect the vital services which care for older and disabled people, protect children and support families.
- The New Homes Bonus makes up a considerable part of funding for some councils, particularly shire district authorities. It is positive 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.
- It is good that the Government has committed to find a way to help those councils who will no longer receive any core central government grant in 2019/20.
- An unhelpful error by the Valuation Office Agency means more than half of councils will have less income than they were planning for in 2018/19 following the allocations published in the provisional settlement. The revised allocations were published in mid-January, which has added to the challenge councils already face when trying to set a budget for next year. Councils should not be penalised for this error and we continue to call on the Treasury to use the central share of business rates to ensure that no council receives less than what they have been planning for.
- A recent ComRes poll commissioned by the LGA found that the vast majority of parliamentarians (MPs 86 per cent and Peers 89 per cent) agree that councils should have more financial powers and freedoms. The majority of parliamentarians (MPs 84 per cent and Peers 81 per cent) also agree that additional funding should go to councils' social care budgets to tackle the funding crisis.

BACKGROUND INFORMATION

Funding pressures facing local government

The final settlement includes an additional £190 million for local government, when compared to last year. The Government has also increased the general council tax referendum limit from 1.99 per cent to 2.99 per cent for 2018/19 and 2019/20. 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.

This additional council tax flexibility is estimated by our analysis to be worth up to £540 million in 2019/20 if all councils use it in both 2018/19 and 2019/20. This is nowhere near enough to meet funding gap facing local government by the end of the decade. Prior to the provisional settlement being published we estimated this funding gap to be £5.8 billion, and there is also a £1.3 billion funding pressure to stabilise the adult social care provider market today.

The additional £190 million in additional funding from central government, and the increased council tax flexibility, will helpfully provide some councils with extra income. However, this will not bring in enough to completely ease the financial pressures faced by local government. These are outlined in the table below:

Service area	Funding gap by 2019/20 (calculated prior to the provisional settlement being published)
Children's services	£2 billion
Adult social care (inclusive of the pre-existing pressure to stabilise the provider market)	£2.3 billion
Homelessness and temporary accommodation	£200 million
Other services funding from council core spending power	£2.4 billion
Apprenticeship levy	£200 million
Total	£7.1 billion (£5.8 billion funding gap + £1.3 billion to stabilise the adult social care provider market)

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. The Government should offer further flexibility to these councils.

Councils will see their core funding from central government cut in half over the next two years and almost phased out completely by the end of the decade. We have repeatedly warned that councils also face an unprecedented surge in demand for adult social care, children's services and homelessness support. This is leaving increasingly less money for councils to fund other services that keep our communities running.

It is good that the Government has recognised the need to find a way to help councils who will not receive a penny of Revenue Support Grant¹ funding in 2019/20 by consulting on 'fair and affordable' options ahead of next year's settlement. We continue to call on the Government to provide funding to all councils over the next two years.

The four year deal runs out in 2019/20. We remain 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 and demand pressures are increasing.

¹ Revenue Support Grant (RSG) is a grant paid to local authorities which can be used to fund revenue expenditure on any service.

Many councils will find themselves in a position where they receive no revenue support grant (RSG) by the end of the decade. On top of this, they will also have their tariffs adjusted upwards or top-ups adjusted downwards. This is known as 'negative RSG'.

Business Rates

In addition to announcing 10 new areas that will pilot 100 per cent business rates retention in 2018/19, the Government has confirmed its intention to introduce 75 per cent business rates retention for all in 2020/21. We welcome these announcements, but it is important that this does not affect other authorities now or when full business rates retention is implemented.

We are committed to engaging extensively in discussions with the Government on the implementation of further business rates retention. We remain clear that extra business rates income should go towards meeting the funding gap facing local government and no council should see its funding reduce as a result of a new distribution system.

There are still almost 200,000 business rates appeals outstanding from the 2010 list. We are working with the Government to find a better way to deal with business rates appeals under the business rates retention system and it is a positive sign that the consultation document indicates that reforms will be implemented in 2020/21. Separately, we call on the Government to ensure that all outstanding appeals from the 2010 rating list are dealt with as soon as possible through providing resources to the Valuation Office Agency and other relevant organisations.

The final 2018/19 Local Government Finance Settlement includes an increase of £25 million in 2018/19 (with a small reduction in 2019/20) for compensation for previous caps on the business rates multiplier. This is due to changes in calculation methodology and underlying data. It is not additional funding to councils, but compensation for the Government's previous decision to cap increases in the business rates multiplier. This compensation was previously outside of core spending power.

Adult social care

The new £150 million announced today is recognition of our warning about the urgent need for the Government to further try and help councils tackle some of the immediate social care pressures they face. However, this is a temporary measure and will be unlikely to have a significant positive impact on adult social care services when compared against an annual social care funding gap of £2.3 billion by 2020. It is also a one-off grant which means that councils cannot use it to establish extra long-term capacity or to pay providers more.

Councils, charities and care providers have repeatedly warned of the serious consequences of funding pressures on older and disabled people who use services, their carers and the provider market. It is unfair to shift the burden of tackling a national crisis onto councils and their residents. Our analysis shows that nearly 40p in every £1 of council tax paid in England will be spent on adult social care by the end of the decade.

The Government's commitment to publish a Green Paper on reform of care and support for older people by summer recess 2018 is encouraging. However, any proposals the Government may take forward will inevitably take time to

implement. It is therefore essential that adult social care receives the funding it needs in the interim period.

In the Spring Budget 2017, £2 billion was announced for adult social care. This funding stream reduces over time, from £1 billion in 2017/18 to £337 million in 2019/20, reducing councils' ability to support social care services. Since the announcement of this funding, there has been a considerable and, at times, deeply unhelpful focus on councils' use of the funding to reduced delayed transfers of care from hospital. Councils are doing all they can to get people out of hospital safely and quickly and delays attributable to social care are down 20 per cent since July. This is compared to the NHS's reduction by 8 per cent.

Children's services

It is extremely disappointing that the Government has failed to address the significant funding pressures facing children's services. Organisations from across the public and voluntary sector have joined our consistent warnings that the current situation is unsustainable, with ongoing cuts to national funding for preventative services leaving children and families entering the child protection system in record numbers. A child is referred to children's services every 49 seconds and, on average, councils started more than 500 child protection investigations every day last year. This figure was at 200 a decade ago.

Increasing demand-led pressures, combined with a projected £2 billion funding gap for children's services by 2020, means councils are finding it increasingly difficult to continue to provide high quality support to children and families who need it. It is time for the Government to give councils the resources they need to provide the support that vulnerable children and families need, when they need it.

The New Homes Bonus

The New Homes Bonus² 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.

Rural Services Funding

The final settlement increases the Rural Services Delivery Grant by £31 million compared to last year. This is £16 million more than proposed in the provisional settlement and will take the total to £81 million. Councils in rural areas will welcome this higher than planned funding.

ComRes polling on local government finances

In a ComRes poll commissioned by the Local Government Association (LGA) in October, November and December 2017, MPs and Peers were asked to what extent they agreed or disagreed with statements about fiscal devolution and

² The New Homes Bonus (NHB) is grant paid to reward local authorities for the number of homes built and brought back into use.

social care spending. The poll surveyed 155 MPs and 103 Peers.³ The poll found that:

- The vast majority of parliamentarians (MPs 86 per cent and Peers 89 per cent) agree that councils should have more financial powers and freedoms.
- The majority of parliamentarians (MPs 84 per cent and Peers 81 per cent) also agree that additional funding should go to councils' social care budgets to tackle the funding crisis.

³ ComRes interviewed 155 MPs between 14 November and 11 December 2017 and 103 Peers between 23 October and 21 November 2017 online and by paper self-completion questionnaire. Data have been weighted by party and region to be representative of the House of Commons, and by party to be representative of the House of Lords. ComRes is a member of the British Polling Council and abides by its rules. Further information available at: <http://www.comresglobal.com/>