The 2018/19 Provisional Local Government Finance Settlement
16 January 2018

1. The Local Government Association (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.

2. This response has been agreed by the LGA Political Group Leaders and LGA Resources Board Lead Members.

Key points

3. 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.

4. 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.

5. 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.

Submission

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6. 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. 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.

8. 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.

9. 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.

10. 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.

11. 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.

Overall pressures and the funding gap

12. Local services face a funding gap of at least £5.8 billion by 2019/20 as well as a £1.3 billion pressure to stabilise the adult social care provider market today. This is due to factors such as:

    - Local government has a significant number of lower paid staff in lower skilled roles, leading to a more significant impact of the National Living Wage than other parts of the public sector, including the requirement to adjust payscales to accommodate the change.
    - The last six years have seen a 44 per cent increase in the number of homeless households needing accommodation and a 102 per cent increase in rough sleeping.
    - Problems are particularly pressing in children's services and adult social care as outlined below.

13. Despite the above, between 2010 and 2020, local authorities will have seen reductions of £16 billion to core Government funding. Councils drew down more than £600 million in reserves in 2016/17 but this was not sufficient to meet the funding gap and can only ever be a short-term solution.

14. Most of what councils do is fulfilment of legal duties given by parliament, and that parliament has a responsibility to fund the obligations it has chosen to create. We have repeatedly warned of the serious consequences of funding pressures facing 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.

15. We consider that the Government should meet the £5.8 billion funding gap facing existing local services by 2019/20 through the settlement. The immediate £1.3 billion pressure to stabilise the adult social care provider market must be met today, either through further business rates retention or grant funding.

16. We consider that other unfunded pressures facing local government, such as the costs of essential refurbishing of council-owned tower blocks to reduce their fire risk or pay pressures due to the National Living Wage increases and national public sector pay policy, should be met by the Government in full.

Children's Services

17. It is extremely disappointing that the Government has chosen not to address the significant funding pressures facing children's services, although we acknowledge that the Government has recognised the concerns of local government over the funding of children's social care. 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. On average, councils started more than 500 child protection investigations every day last year – up from just 200 a decade ago – and the number of children entering the care system increased at the fastest rate since 2010. This can cost up to £260 million each year including the provision of associated support.

18. Children who are experiencing, or are at risk of, neglect or abuse deserve the very best support to make sure they are safe and well and councils are committed to ensuring every child has the best start in life. 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. Last year, councils spent £605 million more than planned on children's services because of these pressures. 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 alternative means risking more and more families reaching a critical stage where councils have no choice but to intervene to keep everyone safe, within a system that is already struggling to cope with unprecedented levels of demand.

19. We call on the government to use the final settlement to provide additional resources for children's services.

Adult Social Care

20. Local adult social care services face a £2.3 billion funding gap by the end of the decade. By 2025 there will be another 350,000 vulnerable or elderly people needing high levels of care. In 2017/18 council budgets for the care and support of working age adults exceed budgets for care and support for older people by £1 billion while the reverse was the case in 2010/11.

21. The Government has confirmed it will publish a Green Paper on adult social care by summer recess 2018. We note that there are no new other announcements on adult social care or its funding, although as per flexibilities introduced in the 2017/18 Local Government Finance Settlement, social care authorities will be able to increase their council tax by up to 3 per cent (over the existing basic referendum threshold of 3 per cent) in 2018/19 as long as adult social care precept increases do not exceed 6 per cent over the 3 year period between 2017/18 and 2019/20. The Settlement also confirms that the 2017/18 adult social care support grant, worth £241 million, has been discontinued.

22. It is extremely disappointing that the Government has again chosen not to address the continuing funding gap for adult social care with an injection of new money from central government. 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.

23. 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 adult social care council tax precept policy also has

a different effect in different areas as authorities with a weaker tax base will not be able to raise as much income through this flexibility than those authorities with a stronger tax base. In addition, the ability to collect council tax is unrelated to need.

24. Recent Government correspondence confirms that only a handful of councils will face the threat of conditions being applied to their additional 2018/19 improved Better Care Fund (iBCF) allocations (i.e. their share of the £2 billion for social care announced in the Spring Budget). They could be subject to up to a third of this funding being targeted at reducing pressures on the NHS or spent on recommendations set out by a CQC local system review, if applicable. Councils should be free to use both iBCF and the social care precept without conditions imposed by the Government. If any assurance is required the Government should ensure the administrative burden is kept to a minimum.

25. The Government's commitment to publish a Green Paper on reform of care and support for older people by summer recess 2018 is encouraging. The parallel work promised on working age adults is equally critical 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.

26. An additional £2 billion for adult social care was announced in Spring Budget 2017. 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 reduce 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 12 per cent since July. This compares to NHS delays which, form a larger proportion of the delays, and have fallen by 4 per cent. Furthermore, and as the CQC's interim report of its 'local system reviews' makes clear, focusing just on delayed transfers "will not resolve the problems that local systems are facing". We fully support the CQC's view that wider system change is required to keep people safe and well, including effective prevention and integration of primary, secondary and community care.

Council Tax and the Social Care Precept

27. 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. We acknowledge that 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. However, the additional council tax flexibility, estimated by our analysis to be worth up to £260 million in 2018/19 and £550 million in 2019/20 if all councils use it in both years, whilst welcome, falls significantly short of addressing the funding gap of £5.8 billion in 2019/20.

28. The Government's council tax income assumptions in Core Spending Power continue to include an expectation that the tax base will grow by 350,000 Band D households liable to pay full council tax in each of the two remaining years of the multi-year offer. We would challenge whether these projections are realistic given historic house building levels given that over 40 per cent of recent growth was due to the restrictions to

council tax support and improved collection rather than new homes. To meet the assumptions, councils would have to focus on fewer affordable homes or withdraw council tax support from more households receiving it currently.

29. With no other national tax 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 to meeting the funding gap as increasing council tax, or introducing a social care precept, 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.

30. 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.

New Homes Bonus

31. We note that the provisional amount of £946 million for the New Homes Bonus (NHB) has been included in Core Spending Power in 2018/19 and this is an increase of £8 million when compared to the indicative figures included in core spending power for 2018/19 published with the 2017/18 settlement in February 2017. The provisional settlement confirms that, as consulted on in 2016, the length of time that the bonus is paid for will reduce from five years to four years in 2018/19 and thereafter.

32. The threshold over which the bonus will be paid will remain at 0.4 per cent, as it was in 2017/18. The Government has also decided not to go ahead with the changes consulted on which would have meant bonus being withheld for homes which have been approved by the Planning Inspectorate.

33. The NHB makes up a considerable part of funding for some councils particularly shire district authorities. The baseline of 0.4 per cent reduces the incentive to grow in relatively low growth areas. It is good news that the Government has listened to our calls to not increase this even further, and has committed to not pressing ahead with further adjustments to bonus awards which it consulted on earlier in 2017.

34. We note that the amount in the indicative figures for 2019/20 for the New Homes Bonus is a decrease of £46 million. 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 be the case.

Business Rates and Fair Funding

35. Along with individual councils, the LGA will continue to engage extensively in discussions with the Government on the implementation of

further business rates retention. As stated above, 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.

36. We welcome the clarification that the Government's intention to introduce 75 per cent business rates retention for all in 2020/21. This will be through rolling in Revenue Support Grant, GLA Transport Grant, the Rural Services Delivery Grant and the Public Health Grant. This further retention will, however, do nothing to address the funding gap or assist with the implementation of the Fair Funding Review. The Government will also continue to work with the sector to improve the way the local government finance system works, such as tackling the impact of business rates appeals on local authorities.

37. Certain aspects of further retention can be tested through pilots and it is positive that ten new pilots have been announced, in addition to the pilot covering London and the continuation of the 2017/18 pilots. If the Government introduces further pilots in 2019/20, the no-detriment clause should apply to those pilots as well. At the same time it is important that the existence of pilots do not affect other authorities now, or when further business rates retention is implemented. The Government also needs to add clarity about what happens to the pilots when 75 per cent retention is introduced.

38. 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 the impact of 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. This will be very important once the proposals for revaluations to take place every three years, after the next one in 2022, are implemented.

39. It is positive that councils will continue to be fully compensated for the loss of income from the centrally imposed reliefs, such as rural rate relief and small business rate relief. However, this reduces the buoyancy of the tax base by impacting upon the amount of business rates income and the growth in business rates. For example, this means that any growth in small businesses in a local area may not result in more business rates retained locally. This is one of the issues to discuss with the Government as we move to further business rates retention.

40. We continue to work with the Government on its Fair Funding Review. The publication of the consultation, and confirmation that the results of the Review will be implemented from April 2020, are important steps in this process, as well as important ways to reinforce the trust of our members that the Review has not stalled and will be delivered.

41. The LGA will be submitting a full response to the Fair Funding Review consultation by the deadline of 12 March 2018.

Public Health

42. Councils continue to face significant public health funding reductions up to 2020/21. The public health grant will have been cut by the Government by £531 million (nearly 10 per cent) from 2015/16 to 2019/20.

43. These reductions to the public health budget will have a significant impact on the essential prevention and health protection services provided by councils. Given that much of the local government public health budget pays for NHS services, including sexual health, drug and alcohol treatment and Health Visitors, this will be a cut to the NHS in all but name.

44. It is crucial that councils are given a free hand in how best to find the savings in public health budgets and we seek the Government's reassurance on this point. Anything less will make the task of finding the reductions more difficult. Councils are best placed to decide how reduced resources should be used to meet our public health ambitions locally.

Capital Receipts

45. The announcement that the flexibility to use capital receipts to help meet the revenue costs of transformation programmes will continue for a further three years is welcome. We called for this repeatedly including in our submission in advance of the 2017 Autumn Budget.

'Negative RSG'

46. 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. We look forward to the consultation in early 2018.

Clarity on funding and predictability

47. 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.

48. We consider that Autumn Budgets need to be earlier in the year so that the provisional Local Government Finance Settlement can be brought forward. This would allow councils to make robust and efficient medium term plans that reflect longer term local priorities.

Funding for Fire and Rescue Services

49. As with councils, Fire and Rescue Authorities will be able to raise their precept by 3 per cent in 2018/19; however funding for fire and rescue services through RSG will decrease by £56 million in 2018/19.

50. The fire and rescue service has a track record of improving safety while making the service more efficient and effective through increasing collaboration within the service and with other parts of the public sector.

51. Without changes to the funding of the fire and rescue service in 2018/19, there will continue to be pressure put on the delivery of fire and rescue services, and their ability to respond to the full range of risks it faces and is expected to address. The reductions in funding the fire and rescue service continue to face will have an impact on national and local resilience as well as operational capacity, and the ability of fire and rescue to respond to unpredictable events.

52. The fire and rescue service needs to be funded to take account of the risks and demands the fire and rescue service faces, such as increased fire safety inspections since the summer. To assist the fire and rescue service address the financial challenges it faces, the referendum cap on the fire and rescue service precept should be removed, additional funding should be made available to enable the fire and rescue service to drive transformation in the way they deliver their services and the capital funding issues faced by some services addressed.

53. It is disappointing that the Government has not recognised the issue of rewarding fire employees to reflect the positive impact that the broader work of fire and rescue services in collaborating with health and other partners could have. Work on developing the funding case continues and we look forward to it being presented to government to deliver the best outcomes for fire and rescue services, their communities, partners and employees.

Local Government Association
January 2018

Annex

The detailed responses to the DCLG questions in the consultation are:

Question 1: Do you agree with the methodology for allocating Revenue Support Grant in 2018/19?

We note that the methodology for allocating Revenue Support Grant in 2018/19 is unchanged from 2016/17. In our response to the 2016/17 settlement consultation we said that this is a new methodology which takes into account council tax at 2015/16 levels so that councils delivering the same set of services have the same or similar percentage change in 'settlement core funding'. The LGA did not take a formal view on this pointing to arguments on both sides.

There will still be adjustments to top-ups and tariffs in 2019/20 (so called 'negative RSG') due to the new methodology of distributing RSG introduced in 2016/17; this is of concern to authorities which have such adjustments. These authorities will welcome the fact that the Government is to consult further on this in early 2018.

Question 2: Do you agree with the Government's proposal to fund the New Homes Bonus in 2018/19 with £900 million from Revenue Support Grant and any additional funding being secured from departmental budgets?

The LGA has always considered that New Homes Bonus should be funded from outside of the settlement. As stated above, we welcome the fact that the Government has listened to our calls to not increase the housing growth threshold even further, and has committed to not pressing ahead with further adjustments to bonus awards which it consulted on earlier in 2017.

As stated above, we note that the amount in the indicative figures for 2019/20 for the New Homes Bonus is a decrease of £46 million. 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.

Question 3: Do you agree with the Government's proposed approach of paying £65 million in 2018/19 to the upper quartile of local authorities based on the supersparsity indicator?

We note that this is an unchanged methodology from last year and that the consultation states that it is funded by a top-slice from RSG. Authorities which are in receipt of this funding will welcome it and the fact that the Government decided not to go ahead with the previously planned reduction in the Grant, however the funding should come from the Government and not at the expense of other councils.

Question 4: Do you agree with the Government's proposal to hold back £35 million to fund the business rates safety net in 2017-18, on the basis of the methodology described in paragraph 2.6.2?

The LGA agrees with the principle of the safety net but considers that it should be funded from outside the system. The LGA considers that the government should fund the £35 transfer to the levy account by grant rather than by top-slice for 2018/19.

The main reason for the safety net is business rates appeals; the LGA looks forward to progress on reducing the number of speculative appeals through the new Check Challenge Appeal system and calls for the Valuation Office Agency and others to be given resources in order for all outstanding appeals from the 2010 list to be resolved as soon as possible. Working with the Government on changes to the way appeals are dealt with in Business Rates Retention, including a central provision for appeals, is a priority and we welcome the Government's commitment to improve this.

Question 5: What are your views on the council tax referendum principles proposed by the Government for 2018/19?

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 to meeting the funding gap facing local government 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.

Question 6: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.5.1 to 3.5.6?

It is technically correct to adjust each authority's tariff or top up following a revaluation to ensure, as far as is practicable, that their retained income is the same after revaluation as immediately before. We note that the Government proposes to slightly revise the methodology used in 2017/18 to remove the impact of one-off changes to appeal provisions in 2016/17.

Question 7: Do you have any comments on the impact of the 2018/19 local government finance settlement on those who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide supporting evidence.

The Government's Equality Assessment notes that a detailed assessment was carried out in 2016-17. In this earlier assessment it was recognised that if local authorities were unable to unable to make efficiency savings there could be cases in which funding reductions indirectly had a greater impact on persons who share a protected characteristic or are members of one or more protected groups (such as children and young people, older people or disabled people).

The methodology adopted for 2018/19, which is unchanged from that adopted in 2016/17 and 2017/18, reduces settlement core funding by the same or a similar percentage for authorities delivering the same services.