Local Government Association briefing, House of Commons debate, final Local Government Finance Settlement 2016/17
10 February 2016

Local Government Association

Briefing

KEY MESSAGES

The LGA has been working closely with Government on behalf of all councils to highlight the financial challenges they are facing over the Spending Review period. This has led to the welcome announcement of £416 million of new money for councils.

This extra funding will go some way towards easing the financial pressure on those local authorities who were adversely affected by the new method of allocating reductions in Revenue Support Grant (RSG). It will also ensure that no council will be subject to an adjustment to their business rates tariff or top up to reflect negative RSG within the next three years. But most councils will continue to have serious funding gaps despite this improved Settlement.

The final Local Government Finance Settlement 2016/17 confirmed that core government funding to councils known as Revenue Support Grant (RSG) would reduce by 28 per cent (£2.7 billion) in 2016/17. There has been no change to the method of distributing central funding (locally retained business rates and RSG) compared to the provisional Settlement.

The Government has made a number of changes in the final Settlement compared to the provisional Settlement:

- **Transitional grant:** The Government has provided additional funding in the form of a transitional grant of £150 million in both 2016/17 and 2017/18 for councils that were most adversely affected by the change in the distribution of RSG.

- **Negative grant funding:** The Government has made available £2.3 million in 2017/18 and £22.8 million in 2018/19 to remove the additional tariff/top-up adjustment. We called for this to be addressed and the measure will ensure no council will move into a negative grant funding position within the next three years.

- **Council tax:** As requested by the LGA all shire district councils will be given the flexibility to raise Band D council tax by the maximum of £5 or two per cent.

- **Rural authorities:** The Government has increased the Rural Services Delivery Grant by £60.5 million in 2016/17 and £30 million in 2017/18.

- **Increase in spending power:** The additional funding announced, including the assumed full use of the £5 council tax flexibility for eligible authorities each year, will mean a spending power increase of £525 million (compared to the provisional Settlement) in total across the four year period.

In 2016/17, there will be a reduction in 'core spending power' of 2.3 per cent. This is based on an assumption by the Government that the council tax taxbase will continue to grow at the same rate as it did from 2013/14 to 2015/16. This seems ambitious.

The Government forecasts the total funding available for council services to be broadly similar in 2019/20 as it is now. We have already raised concerns with HM Treasury in our submission ahead of Budget 2016 on the rising cost pressures and demand on local government, from policies such as the National Living Wage, and how this will impact on the delivery of local public services.

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The cost pressures, and reductions in the first two years of the Settlement, will mean that many councils will still need to find savings elsewhere, make significant reductions to meet funding gaps and may have to ask residents to pay more council tax.

Councils support the offer of four-year funding settlements, which local government has long called for. This needs to be put in the context of uncertainty due to specific grants for 2016/17 still to be announced; the outcomes of reviews into the New Homes Bonus and the improved Better Care Fund; and diminishing RSG, with council tax and localised business rates playing a more important role than RSG.

There is a continuing lack of proportionality between additional funding for the NHS and adult social care. While much of the funding for the NHS is frontloaded, additional resources from the Better Care Fund will not be available until 2017 and only £105 million will be available in 2017/18. This, with the incremental nature of the new adult social care council tax precept, means a further two years of pressure on a system that is already under significant strain. To ease this pressure the £700 million of new funding in the Better Care Fund must be brought forward to 2016/17.

In the longer term, it is critical that the move to full business rates retention is done in a well-considered, informed and collaborative way. We will work with Government to ensure it is implemented in a way that ensures there is a balance between equalisation and incentivisation and addresses concerns of the sector on areas such as improvements to the system of valuation and appeals. The Government has announced a consultation on planning fees.

BACKGROUND INFORMATION

Local government funding

On 8 February 2016, the Department for Communities and Local Government published the final Local Government Finance Settlement for 2016/17. The provisional Settlement published in December 2015 confirmed that core government funding (RSG) to councils would reduce by 28 per cent (£2.7 billion) in 2016/17. It also proposed a new methodology for allocating reductions in RSG to take into account councils' ability to raise income through council tax.

In effect, the new system now accounts for the differing extent to which councils rely on grants, locally retained business rates and council tax, making reductions smaller than they would otherwise have been to those that are more reliant on the grant as a proportion of their total income.

As a result, local authorities able to raise more of their own revenue from council tax will receive bigger grant funding reductions than they would have received under the previous methodology. This would have been difficult to predict and left a number of authorities facing adjustments to their tariffs or top-ups from 2017/18 to reflect negative RSG.

Government has addressed our concerns about the unpredictability of this change by providing additional funding in the form of a transitional grant of £150 million in England in both 2016/17 and 2017/18 for the councils most adversely affected by the change. It has also made available £2.3 million in 2017/18 and £22.8 million in 2018/19 to remove the additional tariff/top-up adjustment.

Council tax

The general council tax referendum limit will remain at 2 per cent. Social care authorities will be able to increase council tax by a further 2 per cent (3.99 per cent in total). Income from this additional precept must be spent on adult social care. Whilst the LGA is in principle against council tax referendums believing councils should be held accountable through the ballot box, we welcome this increased flexibility. However it comes with risks, particularly concerning the taxbase assumptions already mentioned.

The Government assumption is that the council tax base will continue to grow at the same rate as it did from 2013-14 to 2015-16. This assumption means that for England as a whole the rise in the council tax base accounts for almost £1.8 billion over the four years, and also that the council taxbase rises by an average of 1.9 per cent annually. These figures seem optimistic. They may incorporate rises in taxbase due to decisions on council tax support or discounts which would not be expected to be repeated over the period. If they fall short in practice, councils will not receive their full core spending power even if they take full advantage of the flexibilities offered by the Government.

The decision whether to raise council tax is of course one that each council will have to take. Some councils have in place manifesto commitments to freeze council tax for a given period and they will be in a difficult position. The LGA would expect the Government's messaging to support councils that take up the option to raise council tax to the maximum permitted without a referendum; and they would not seek to blame councils for raising council tax after a long period where it has been stable.

As lobbied for by the LGA, the final Settlement confirmed that all shire district authorities will be given the flexibility to raise council tax by the maximum of £5 or 2 per cent not just those in the lower quartile of Band D council tax. According to DCLG numbers, this is an additional £39.2 million in council tax in 2019/20 if all shire districts use this flexibility every year of the four year period.

Business rates

The LGA will work with the Government to ensure that the proposal to move to 100 per cent business rates retention is done in a well-considered, informed and collaborative way. The key issues for local government are:

- Ensuring there is an effective system of equalisation between local authorities following the move to full retention and that this is transparent. Local government is keen to work with the Government on this issue. Any solution must take into account decisions on which grants and responsibilities will be funded from business rates.

- A consideration of a situation where demand for services over time outstrips the rate at which business rates can grow.

- Ensuring clarity on the additional responsibilities local government will take on with 100 per cent retention. This has to be taken in the context of the reductions that have already been confirmed to the Revenue Support Grant and other grants.

- Creating an improved system of valuation and appeals to ensure more financial certainty for councils. The impact of appeals is a significant issue for local authorities which needs to be addressed prior to the introduction of 100 per cent business rates retention.

- Consideration of a sub-national risk sharing arrangement as well as how safety nets can be funded.

- Giving all councils the powers to vary business rates up as well as down.

Social care funding

The Settlement confirms the continuation of the Better Care Fund (BCF) and additional funding for adult social care through the BCF worth £1.5 billion by 2019/20. In the interim years, the additional funding through the BCF will be worth £105 million in 2017/18 and £825 million in 2018/2019.

The Government has proposed to distribute this funding so that the grant acts as a method of equalising the relative needs for social care services and the maximum possible impact of the social care council tax precept. This would lead to some social care councils receiving no additional BCF money.

The introduction of the BCF has marked an important change in how care and health interact within a place. The fact that the nationally mandated £3.8 billion BCF in 2015/16 was increased by an additional £1.5 billion from local care and health budgets demonstrates that local areas are ambitious about integration. We welcome the continuation of the BCF and the additional money within it for adult social care.

The Settlement confirms that there are no changes to the amounts available through the Improved Better Care Fund. This, together with the incremental nature of the council tax precept policy, means a further two years of significant pressures on a system that is already under strain.

As with any conditions attached to the council tax precept, any conditions attached to the use of additional funding through the BCF should be kept to an absolute minimum. Councils will face a completely different mix of council tax and BCF income within the overall support package. Those with a higher proportion of BCF funding should not face tighter constraints.

Distribution of funding across the public sector

The Spending Review announced a 56 per cent cumulative real terms reduction in government grant funding for local government. When taking into account OBR forecasts of income raised locally by councils (council tax and business rates) the overall position is a 6.7 per cent real terms reduction in local government spending. This has translated into the provisional Local Government Finance Settlement offer for future years, which set a reduction in core spending power of 0.4 per cent before inflation by 2019/20.

This contrasts sharply with funding for the NHS, which will receive £10 billion more in real terms by 2020/21 than in 2014/15. A majority of this will be frontloaded, with £6 billion available by the first year of the Spending Review period. NHS spending will increase from £101 billion in 2015/16 to £120 billion by 2020/21. It is clear that despite the rhetoric of integration and a ‘single’ or ‘whole’ system of care, the two component parts of that system face dramatically different funding outlooks.