

'What does the Fair Funding Review and Business Rate Retention mean for us

LGA Independent Group Annual Conference
23 November 2018

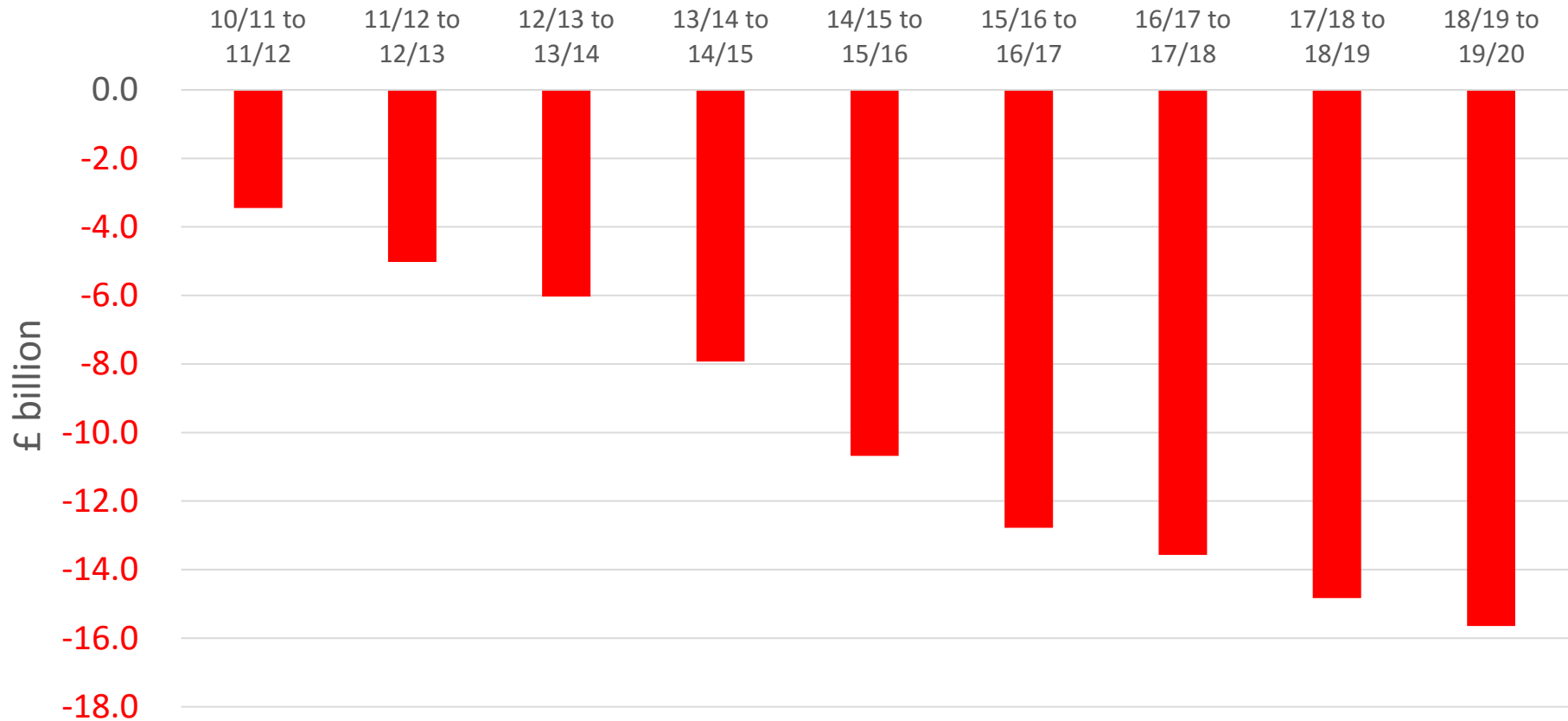
Cllr Clarence Barrett and
Mike Heiser, Senior Adviser - Finance

Outline



- Part 1 - National financial picture
- Funding gap, Budget, Spending Review 2019 and economic outlook
- Part 2
- Business Rates Retention
- The Fair Funding Review
- What does it mean for you

Reduction in core government funding £16 billion



NB – pre budget announcements

Autumn Budget 2018 - announcements

Funding announcements – revenue

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£ million					
Revenue funding						
Social care funding	240	650	0	0	0	0
Children’s Social Care: Improvement pilots	0	38	20	13	13	0
Total revenue funding	240	688	20	13	13	0

Funding announcements – capital

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£ million					
Capital funding						
Schools capital	400	0	0	0	0	0
Local roads maintenance	420	0	0	0	0	0
Disabled Facilities Grant (DFG)	55	0	0	0	0	0
Total capital funding	875	0	0	0	0	0
Air quality (not clear if Revenue or Capital)	8	12	0	0	0	0

Total extra funding for local government in 2018 budget

	2018/ 19	2019/ 20	2020/2 1	2021/ 22	2022/2 3	2023/ 24
	£ million					
Total revenue funding	240	688	20	13	13	0
Total capital funding	875	0	0	0	0	0
Plus Air Quality	8	12	0	0	0	0
Total funding	1,123	700	20	13	13	0

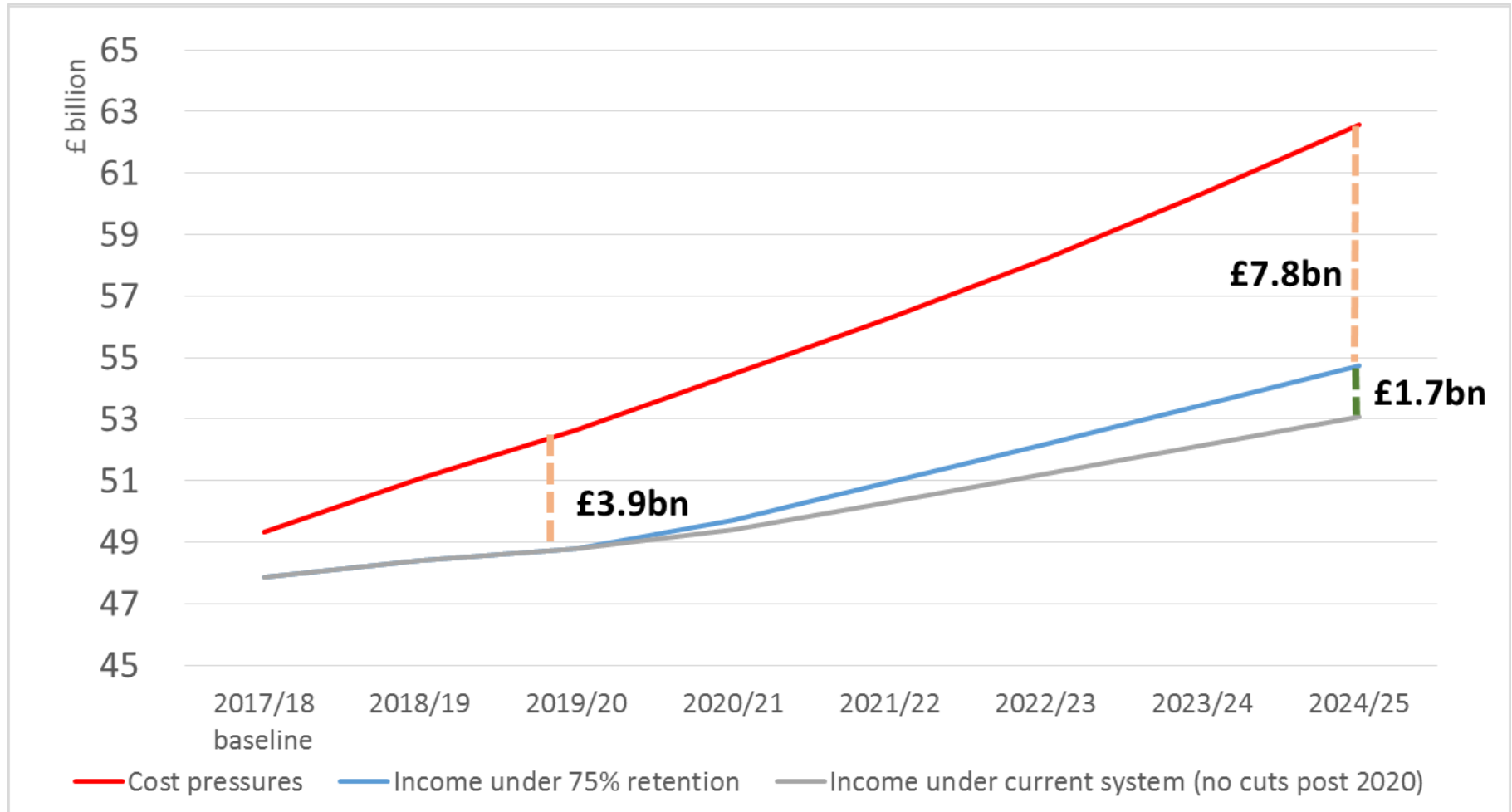
Conditions attached to additional funding

- £650 million for social care 2019/20 includes:
 - £240 million for winter pressures.
- Speculation in press that remaining £410 million will be ringfenced to children's
- But budget announcement made it clear it was both adults and children's – and first call would be *“to ensure that adult social care pressures do not create additional demand on the NHS”*

Other announcements in budget affecting local government

- Reconfirmed lifting of the HRA cap
- £675 million Future High Streets Fund.
- £150 million National Productivity Investment Fund for small improvement works, such as roundabouts.
- £240 million Transforming Cities Fund extended to 2022/23 for the six metro mayors for transport investment
- £440 million bid funding shortlisted city regions.
- £10 million funding between 2019/20 and 2022/23 for local community street trees and urban trees.

Council funding gap 2025





LGA updated funding gap (£ billion)

	2019/20	2024/25
Adult social care (including pressure to stabilise the adult social care provider market)	1.5	3.6
Children's services	1.1	3.0
Homelessness	0.1	0.4
Public Health	0.5	0.6
All other services funded through core spending power	0.6	0.2
<i>Less announcements in Autumn Budget</i>	<i>(0.688)</i>	
Revised funding gap (rounded)	3.2	7.8

Spending Review 2019



Spending Review 2019 – what do we know?

It's in 2019!

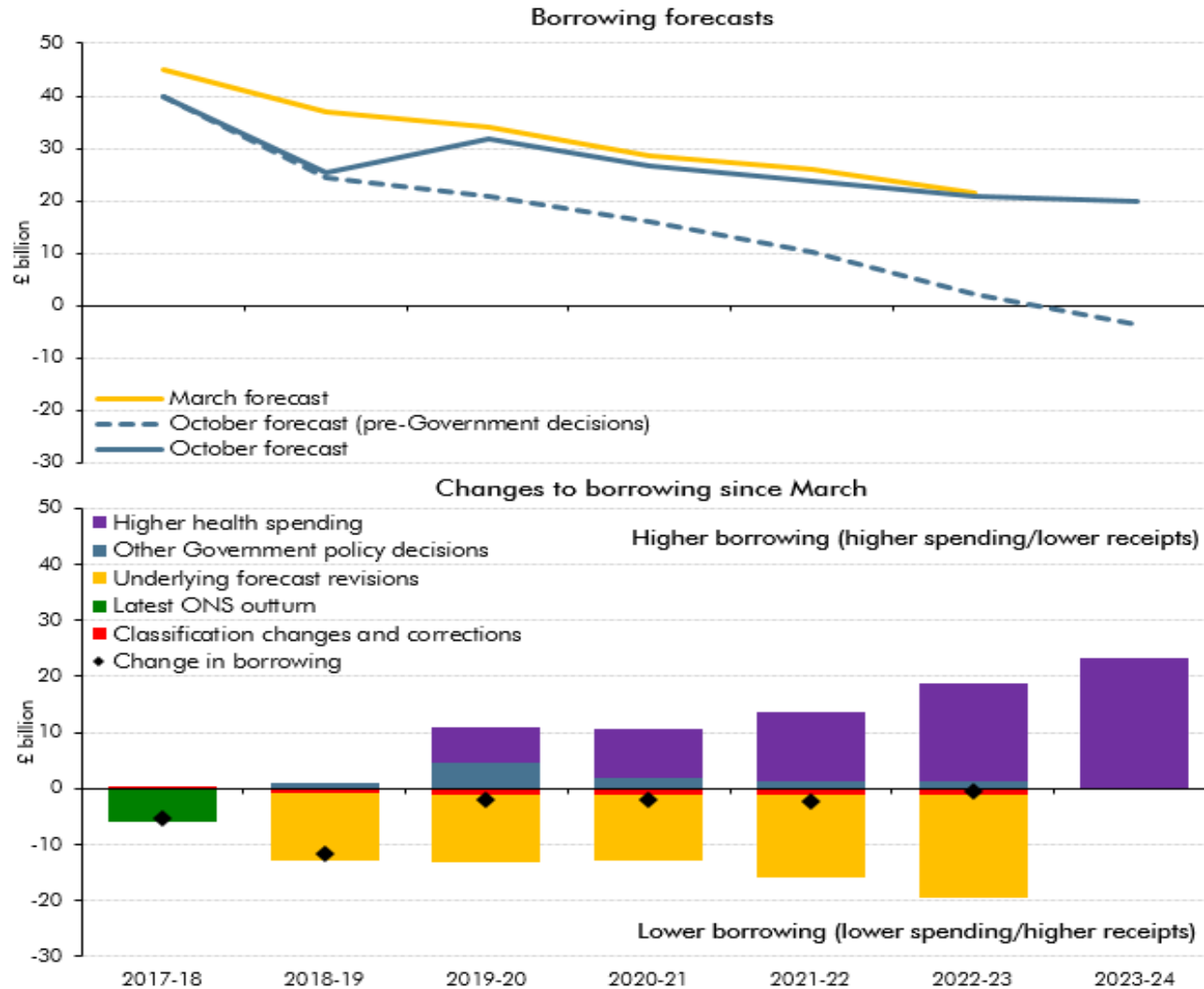
Spending Review 2019 – what do we know?

- Current spending round ends April 2020
- Government announced a 2019 Spending Review
- Chancellor referred to spending review in Autumn Budget but no formal announcement (or informal) on:
 - period to be covered?
 - timeline for submissions?
 - Date of SR announcement?
- Chancellor's comment to Treasury Committee 5 November points to Autumn 2019

SR 2019 – any clues from Autumn Budget?

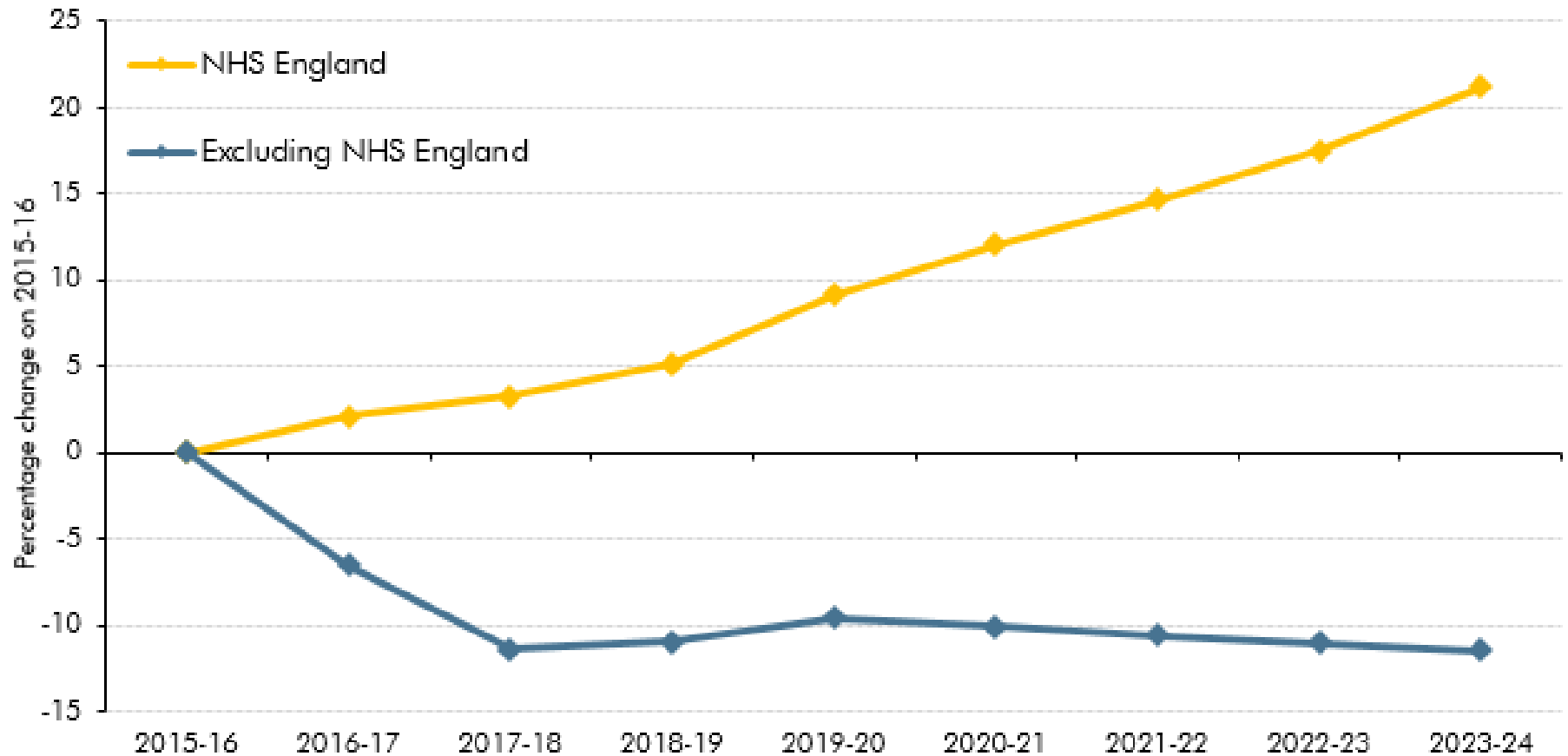
- Update on economic forecasts from OBR
- Chancellor said:
 - The Spending Review will confirm the government’s priorities for the years ahead, ensuring the provision of high quality public services while bringing down debt. In conducting this review, the government will build on experience and lessons learnt from previous Spending Reviews. It will aim to ensure that policy issues are considered across departmental boundaries, and that performance and outcomes achieved for the money invested in public services are tracked systematically.

Public sector net borrowing



Source: ONS, OBR

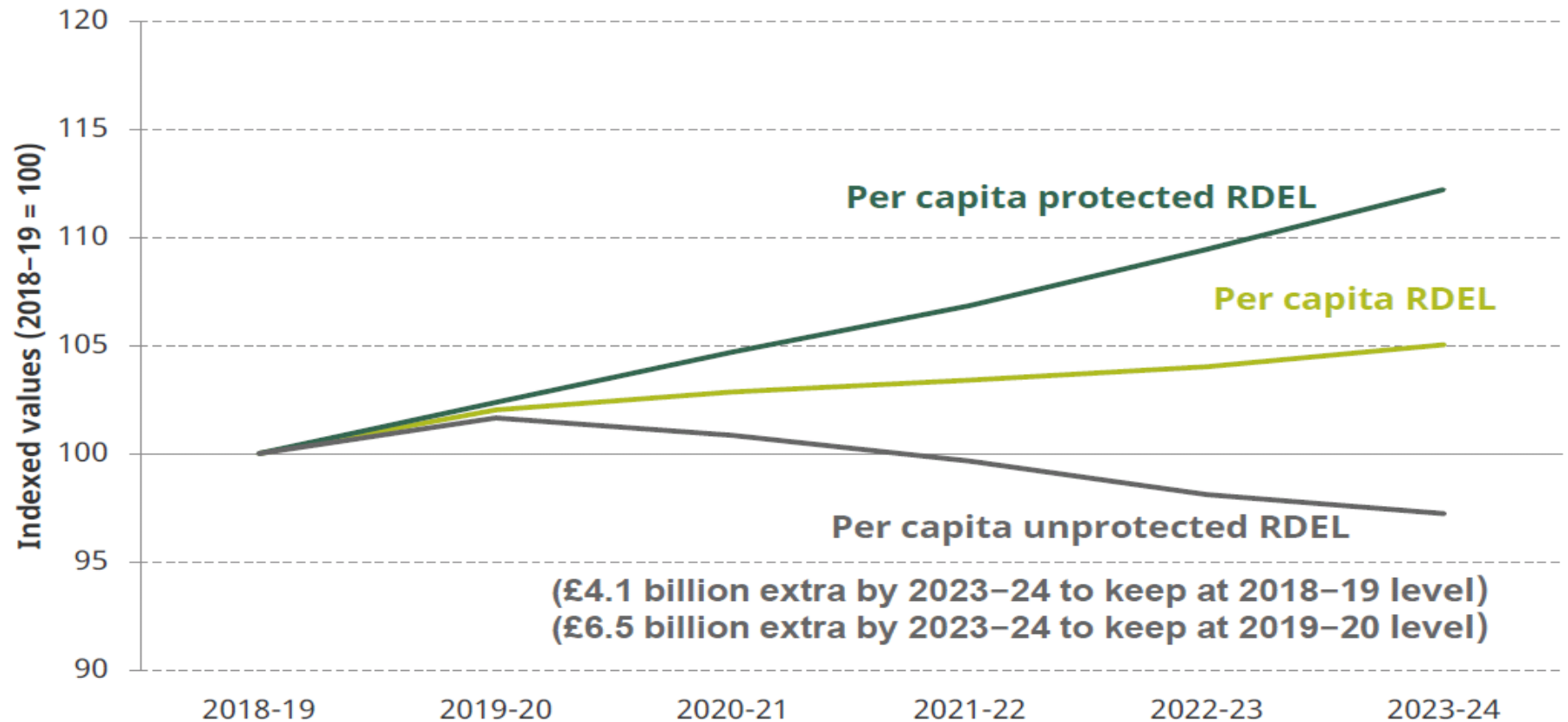
Change in real RDEL limits per capita from 2015-16: NHS and rest of public sector



Note: RDEL ex - the basis on which HM Treasury sets Departmental plans - rather than PSCE in RDEL

Source: OBR

SR2019 context - Unprotected spending still set to fall (per capita)



(£4.1 billion extra by 2023-24 to keep at 2018-19 level)
(£6.5 billion extra by 2023-24 to keep at 2019-20 level)

Note: RDEL refers to Public Sector Current Expenditure in Resource Departmental Expenditure Limits (PSCE in RDEL).
Source: Author's calculations using OBR Economic and Fiscal Outlook, October 2018

Spending Review 2019



- What about local government?:
 - Some additional funding in autumn budget – mostly one off
 - and no long term indications for SR
- Forecasts suggest additional flexibility minimal at best because of:
 - Long term settlement for NHS (£20 billion)
 - Protections for other departments (Education, International Development, Health protected in past Defence more recently)

Spending Review 2019 – the case for local government

- The LGA has already started its work on SR2019:
 - Updated funding gap
 - Proving local government is a good investment – efficiency and savings elsewhere
 - Explaining variation
 - LGA liaising with sector, SIGs, government departments
- Priorities to be:
 - Adult Social Care
 - Children’s Services
 - Housing and homelessness
 - And more – welcome your thoughts



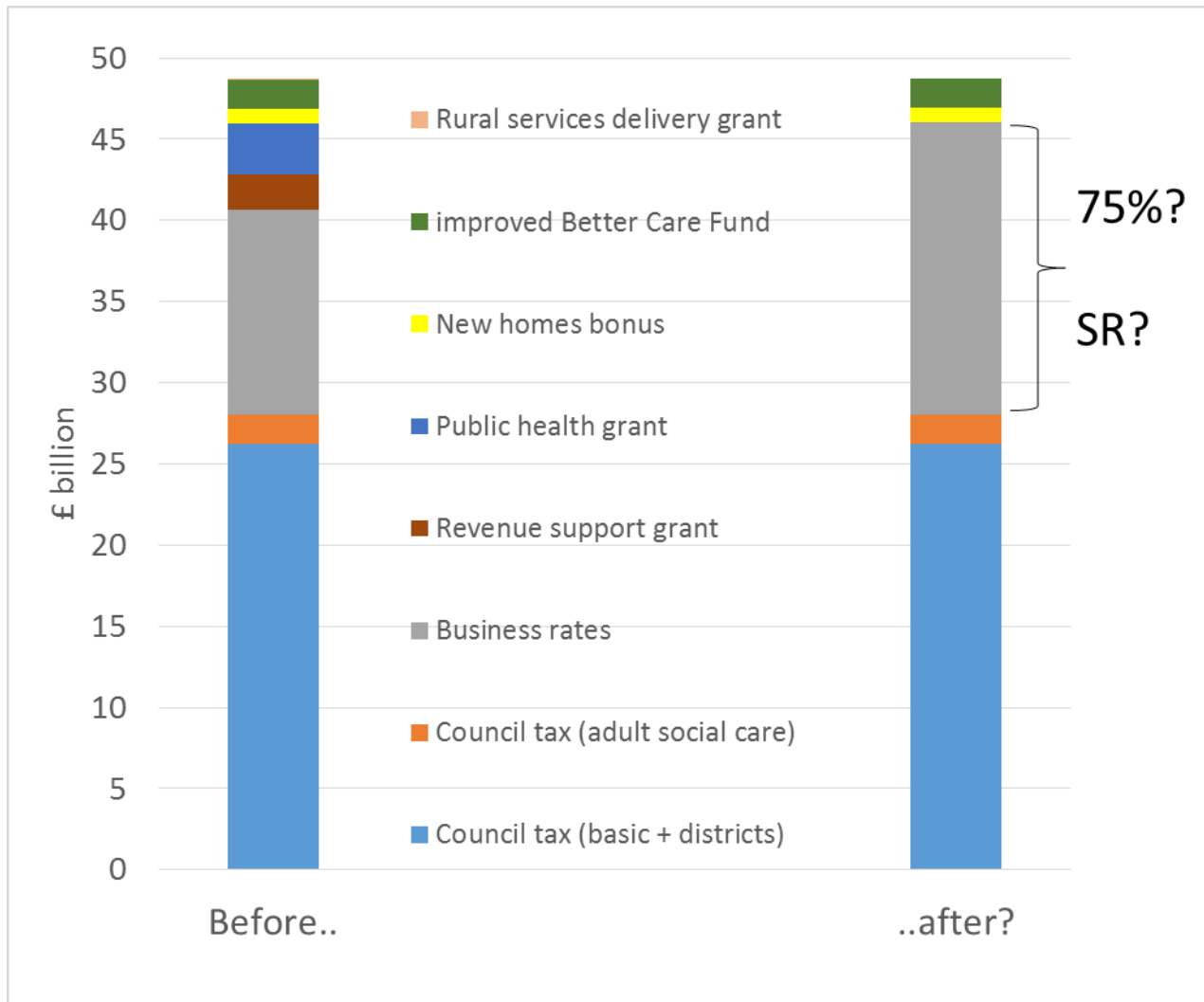
Business Rates Retention – where are we heading?

- 75% Business Rates Retention in 2020/21
- Devolving £6.5 billion Central Government grants to local government
 - RSG
 - RSDG
 - Public Health
 - TfL Capital
- Full resetting of business rates baselines alongside baseline funding levels
- 75 per cent retention pilots in 2019/20
- What about the 100% devo deal pilots from April 2020?

Business Rates Retention – where are we now?

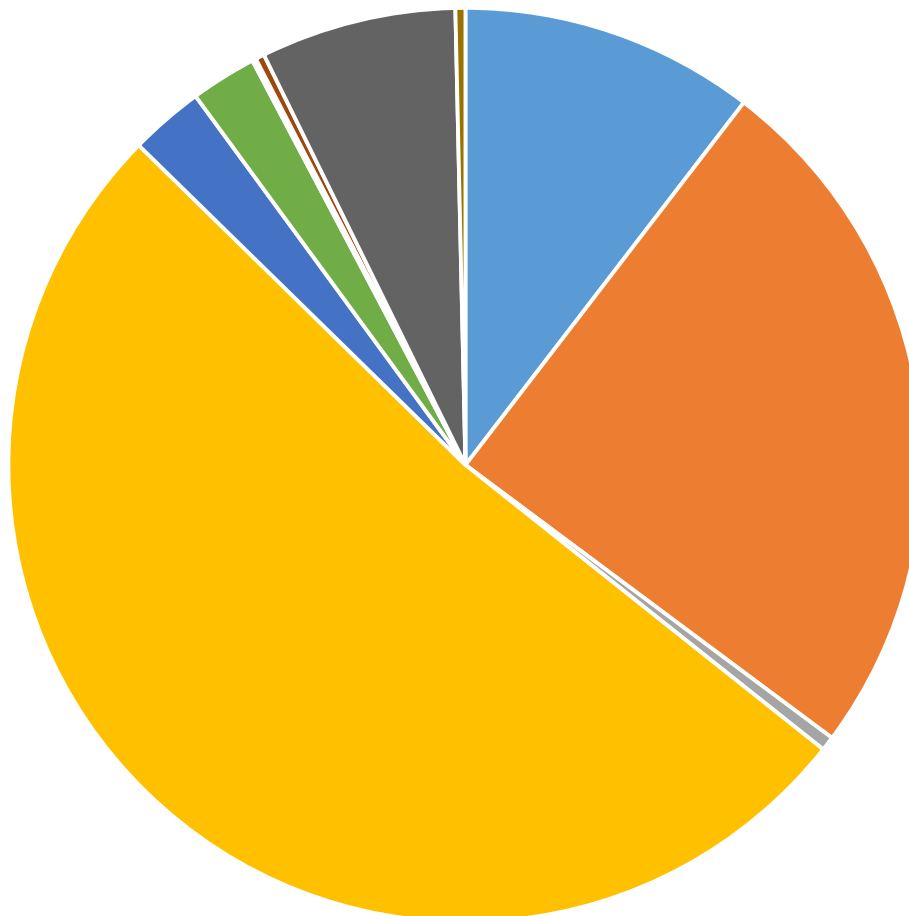
- System design consultation – Autumn 2018
- Simplified model?
- LGA BRR model – **just published**
- Link to 2019 SR

Business rates retention – 19/20 scenario?



Core council funding 2017/18

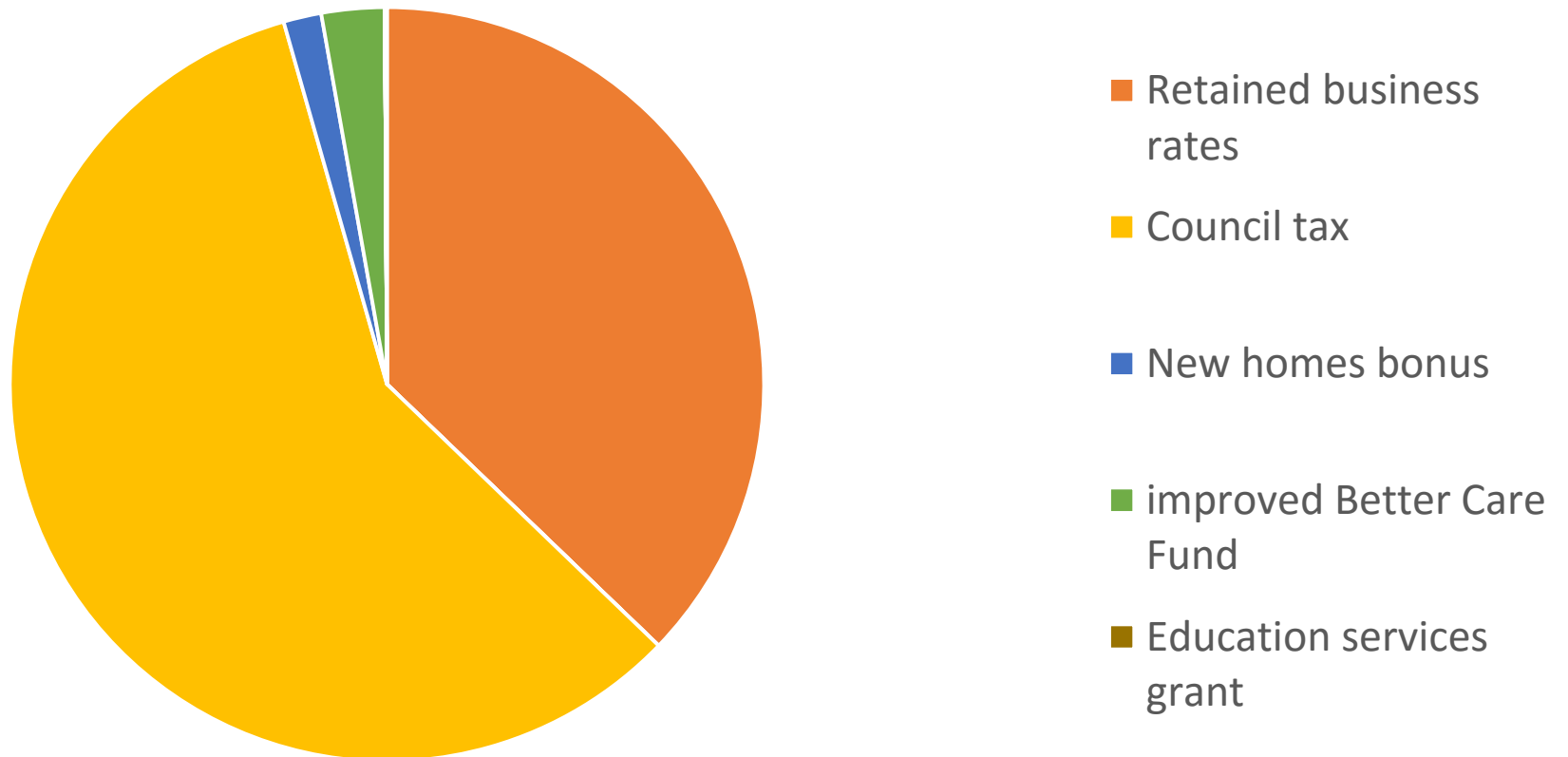
2017/18



- Revenue support grant
- Retained business rates
- Adult social care support grant
- Council tax
- New homes bonus
- improved Better Care Fund
- Rural services delivery grant
- Transition grant
- Public health grant
- Education services grant

Core council funding forecast 2024/25

2024/25



Fair Funding Review Update



Fair Funding Review – where are we heading?

- New needs baseline in April 2020
- Foundation formula, service specific formulae, transition
- Finalise options for needs and resources – spring 2019
- Children’s Services research concludes – summer 2019
- New Index of Multiple Deprivation – summer 2019
- Set baseline funding levels and finalise transitional arrangements - autumn 2019

Fair Funding Review – LGA work

- More regional workshops to come
- Additional work – good progress
 - Key criteria for assessing proposed models - **complete**
 - Consider the impact of divergence of relative needs over time - **complete**
 - Needs model - **complete**
 - Council tax equalisation model - **complete**
 - Assessment of options on transition and model – **nearly complete**

Any Questions?

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BRR Hub:

<https://www.local.gov.uk/topics/finance-and-business-rates/business-rates-retention>