# Motion relating to the Local Government Finance Report 2019/20

House of Commons debate
Tuesday 5 February 2019

Local Government Association

Briefing

## KEY MESSAGES

- Councils are central to building communities that are inclusive, cohesive and promote people's life chances. They do this by tailoring more than 800 local services to the needs of their residents. Investing in local services is good for the nation's prosperity, economic growth and overall health and wellbeing.

- The local government finance settlement contained some new money for councils. This included £18 million to ensure there were no changes to the New Homes Bonus threshold and £152.9 million to cancel out the adjustment known as negative Revenue Support Grant (RSG).

- The Government also made an extra £16 million available through the Rural Services Delivery Grant, and returned £180 million to local government that had been top sliced to fund the business rates retention safety net.[1]

- The announcements in the finance settlement follow some positive news in the 2018 Budget. The Budget included £650 million for social care, £420 million for roads funding, and money for high streets.[2] This shows the Government is listening to our call for investment to ease some of the pressures facing local services next year.

- Despite the new money, councils will still face an overall funding gap in excess of £3 billion next year. We estimate this will rise to £8 billion by the middle of the next decade. In order to preserve critical services for local residents, the Government must take urgent steps to plug this gap.

- It is absolutely vital that the Government uses the 2019 Spending Review to deliver truly sustainable funding for local government. There is currently no clarity over funding levels, nationally and locally, after March 2020.

- As our campaign to influence the Spending Review gets under way, we will continue to work with councils, the Government, Parliament and stakeholders to make the case for sustainably funding councils.

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## FURTHER INFORMATION

### *The local government finance settlement 2019/20*

The local government finance settlement is the annual determination of funding to local government from central government. The 2019/20 provisional local government finance settlement was announced on 13 December 2018.[3] Following the consultation on the provisional settlement, the final settlement was published on 29 January 2019.

The final settlement for 2019/20 confirms an overall increase in councils' Core Spending Power of 2.8 per cent compared to 2018/19, and 3.8 per cent for the four-year settlement period as a whole.[4] These assumptions are on the basis that every council will raise their council tax by the maximum permitted without a referendum. The statement is broadly in line with the indicative figures for 2019/20 published in February 2018, with the following changes:

- The additional resources of £240 million for Adult Social Care and £410 million, for both adults and children's social care, announced in the Budget in October 2018, have been incorporated into Core Spending Power;

- Council tax figures have been updated to reflect decisions local authorities made in 2018/19, revised tax base growth assumptions, and assumptions on council tax increases as set out in the 'Core Spending Power' section below;

- The Government has removed the downward adjustment to tariffs and top-ups for authorities which would otherwise have been in 'negative Revenue Support Grant' (RSG) for 2019/20. This is being funded by central government;

- New Homes Bonus allocations have been revised to reflect actual housing growth. The Government has not increased the New Homes Bonus threshold; the government is committing £18 million to maintain this;

- £180 million of surplus on the levy account will be distributed to all councils, based on the 2013/14 Settlement Funding Assessment;

- Fifteen local authority areas have been selected to pilot 75 per cent Business Rates Retention in 2019/20, as well as all London boroughs and the City of London Corporation (previously 100 per cent in 2018/19). The five 100 per cent business rates pilots which started in 2017/18 will continue at 100 per cent in 2019/20. This should have no financial effect on non-pilot authorities.

It is disappointing that there is not more new money from central government in the settlement, other than an extra £16 million of rural services delivery grant, and £18 million of new homes bonus, and £152.9 million to cancel negative RSG. It is right that the £180 million surplus on the levy account is returned to local government.

The resources announced in the final settlement, coupled with local authority council tax income, are nowhere near enough to meet the £3.1 billion funding gap facing councils next year. This gap reflects the minimum funding needed to sustain services at current levels and does not assume the reinstatement of services that have been cut, or significant service improvements.

The four year deal ends 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. Local authorities face an £8 billion shortfall in funding by 2024/25.

### *Raising revenue*

*Business rates*

Business rates is a local tax, raised from local businesses, which is spent on local services across the country. Alongside council tax, business rates represent the largest source of income for councils.[5] In 2018/19 business rates are forecast to raise a total of £24.8 billion, of which £12.4 billion is expected to be retained by councils under the current 50 per cent business rates retention scheme. Councils want to see a reformed business rates retention system that commands confidence across the public and private sectors. In particular, it is crucial that the business rates system is responsive to local needs, fair, incentivises local growth and removes the impact of business rates appeals on local authorities.

We have long called for further business rates retention. It is positive that the local government finance settlement for 2019/20 announced new further business rates retention pilots in 15 areas. These will enable aspects of 75 per cent business rates retention system to be tested prior to implementation in all areas in 2020/21. However, it is important that the ongoing pilots do not affect other authorities now or when further Business Rates Retention is implemented.

Consultations on further business rates retention and the Fair Funding Review were published alongside the 2019/20 provisional finance settlement. We welcome the opportunity to contribute towards reform of the business rates retention system and will be submitting responses in due course.

We remain clear that remaining 25 per cent of business rates income should also be retained by councils to go towards meeting the funding gap facing local government and to ensuring that no council sees its funding reduce as a result of a new distribution system.

*Council tax*

The setting of the referendum threshold at 3 per cent will will give some councils the option of raising money to offset some of the financial pressures they face next year. For all shire district authorities[6], the limit will be the higher of either 3 per cent or £5 (on a Band D bill) applies. For shire districts with the lowest council tax levels the setting of the limit at 3 per cent rather than 2 per cent 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 call on the Government to offer further flexibility to these councils.

No national tax is subject to a referendum. The council tax referendum limit needs to be abolished so councils and their communities can decide how local services are paid for, through the ballot box. On its own, council tax flexibility is not a sustainable solution to the funding crisis. 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 households.

### *The Fair Funding Review*

The Government has confirmed that it is looking to implement the outcome of the Fair Funding Review from April 2020 and is currently consulting on the emerging shape of the new system of assessing local authorities' relative spending needs and relative resources.[7] The consultation sets out the Government's preferred options on the structure of the relative needs assessment, including tier-specific foundation formulas and formulas to assess specific services. It also outlines the Government's preferred

options for taking council tax into account. The LGA is currently finalising its response. We continue to engage extensively with councils and the Ministry of Housing, Communities and Local Government to ensure that the Review is objective and transparent.

Local authorities must receive as much advance notice as possible of their provisional funding baselines to enable proper financial planning. Any outcome of the Fair Funding Review will not be sustainable unless it is introduced alongside sufficient additional resources to meet the funding gap facing local authorities.

***New Homes Bonus***

New Homes Bonus allocations have been revised to reflect actual housing growth. The Government has not increased the New Homes Bonus threshold, and is committing £18 million to maintain this. We are pleased that the Government has committed to maintain the threshold at current levels. The New Homes Bonus makes up a considerable part of funding for some councils, particularly shire district authorities.

***Adult social care***

The Government has confirmed the allocations of £240 million adult social care winter pressures funding in 2018/19 and 2019/20, as well as a £410 million social care grant in 2019/20. The latter grant can be used for children's and adults' social care. Social care authorities will be able to increase their council tax by up to 2 per cent (over the existing basic referendum threshold of 3 per cent referred to above) in 2019/20 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. There are 40 social care authorities which have the full 2 per cent flexibility left, whilst 67 have no flexibility left to increase the adult social care precept.

Adult social care faces a funding gap of £1.0 billion in 2019/20 and £3.6 billion in 2024/25. The Government has provided helpful extra short term funding to tackle some of the immediate pressures facing these vital services, and this will be welcomed by councils. However, short term measures are not enough and the funding does not address the full extent of all immediate pressures, let alone pave the way for a sustainable, long-term future.

We are disappointed that the Government has still not published its social care green paper, which was due in 2018. In response to our own green paper on social care and wellbeing, we are calling on the Government to make the case for national tax rises or a new social insurance scheme so that current and future generations can be confident they will have the care and support they need.[8]

***Children's services***

As mentioned above the £410 million announced in the 2018 Budget can be used for both children's and adults' social care. Whilst flexibility in the use of resources is welcome, the £410 million additional funding allocated to support social care can only be spent once and the combined funding gap for adult and children's social care in 2019/20 is £1.9 billion meaning that very significant pressures remain.

The announcement of £84 million over five years to expand children's social care programmes in 20 areas is a small step in the right direction, but councils in England face a £950 million shortfall in the next year alone just to keep services running at current levels.

***Schools and children with special educational needs and disabilities (SEND)***

We are pleased that the Government has listened to our concerns and a few days after the settlement announced an emergency injection of £350 million for Special Educational Needs and Disabilities capital investment, and high needs budgets, over the next two years.[9] However, it will only partially address the funding gap councils face in providing SEND support, which is estimated to be up to £1.6 billion by 2021.[10]

While the new money announced for SEND and high needs will help under-pressure budgets in the short term, there remains an urgent need to sustainably fund schools and SEND support. The introduction of the National Funding Formula for Schools, combined with changes to High Needs Funding, is exacerbating existing shortfalls in funding to support children and young people with SEND, by reducing council flexibility to move funding between the schools and high needs funding blocks. It is clear that the Spending Review absolutely must provide additional resources to help meet the growing demand for these services.

***Table 1: the local government funding gap***

The table below sets out the LGA analysis of the funding gap facing local government:

| **Totals - figures in** | **2017/18 baseline** | **2018/19** | **2019/20** | **2024/25** |
|---|---|---|---|---|
| Adult social care | -1.4bn | -1.2bn | -1.026bn | -3.6bn |
| Children's services | 0 | -708m | -948m | -3.067bn |
| Homelessness | 0 | -58.m | -109m | -421m |
| Public health | 0 | -296m | -473m | -655m |
| All other services funded from core spending power | 0 | -523m | -535m | -294m |
| Total Funding gap (17/18 corresponds to pre-existing adult social care provider market pressure) | -1.45bn | -2.8bn | -3.1bn | -8bn |

[1] https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2019-to-2020
[2] https://www.gov.uk/government/publications/budget-2018-documents
[3] https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2019-to-2020
[4] https://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2019-to-2020
[5] Further information available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/684793/NNDR1_2018-19_Stats_release_-_revised.pdf
[6] In addition, Northamptonshire County Council has a general referendum threshold of 5 per cent.
[7] https://www.gov.uk/government/consultations/review-of-local-authorities-relative-needs-and-resources?utm_source=b8314d99-0434-4782-b68f-b0325166b085&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate
[8] https://futureofadultsocialcare.co.uk/
[9] LGA response to additional SEND funding; https://local.gov.uk/about/news/lga-responds-special-needs-funding-announcement
[10] http://www.isospartnership.com/uploads/files/LGA%20HN%20report%20corrected%2020.12.18.pdf