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DEBATE PACK

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Local Government Finance Settlement 2018-19

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Summary

There will be a debate on Government motions relating to the Local Government Finance Settlement in the Commons Chamber on Wednesday 7 February 2018. The motion will ask the House of Commons to approve the finance settlement for the 2018-19 financial year. The motions will apply to England only.

This Debate Pack covers various aspects of the settlement, including: business rate pilots; council tax referendum thresholds; and the recent coverage of Northamptonshire County Council's decision to issue a 'Section 114 notice'. It also provides links to supplementary information related to the local government finance settlement.

1. Background

1.1 The Local Government Finance Settlement

Each year, levels of central government grant, and the distribution of business rate revenue, for local authorities in England are decided via the annual Local Government Finance Settlement. The draft settlement for 2018-19 was published on 19 December 2017. The Secretary of State for Communities and Local Government gave an oral statement to the House of Commons.[1] The Government consults on the settlement, and then presents a final settlement to the House. The 2018-19 settlement is to be debated on 7 February 2018.

The annual settlement covers all county, district and unitary authorities in England, plus fire and rescue authorities and the Greater London Authority. It has also recently included mayoral combined authorities.

Documentation for the provisional settlement can be found on the MHCLG website. A webpage providing the final documentation will be published following the debate on 7 February.

The House of Commons must approve the settlement for it to take effect. The relevant legislation is silent on what happens if the House fails to approve the settlement.[2]

In December 2015, for the first time in recent decades, the Government published indicative funding levels for the following four financial years (2016-20). Local authorities were given the opportunity to 'sign up' to a four-year settlement:

> The Government will offer any council that wishes to take it up a four-year funding settlement to 2019-20. As part of the move to a more self-sufficient local government, these multi-year settlements can provide the funding certainty and stability to enable more proactive planning of service delivery and support strategic collaboration with local partners. Councils should also use their multi-year settlements to strengthen financial management and efficiency, including by maximising value in arrangements with suppliers and making strategic use of reserves in the interests of residents.[3]

Funding levels for individual authorities agreed at this time can be found on the website of the Department for Communities and Local Government (DCLG).[4]

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1 HCDeb 19 Dec 2017 c633&ff
2 See sections 78 and 79 of the Local Government Finance Act 1988
3 DCLG, *The provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years*, December 2015, p. 24
4 See the spreadsheet entitled *Core Spending Power: supporting information*.

1.2 Supplementary information

The Government publishes two useful spreadsheets as part of the finance settlement documentation:

'Key information for local authorities' includes totals for each local authority from 2016-17 to 2019-20. It includes figures for each authority's 'Settlement Funding Assessment', which comprises Revenue Support Grant and business rates baseline funding.[5] It also indicates the tariff or top-up applying to each authority, the levy rate, and the safety net threshold. The spreadsheet has a frontsheet allowing users to select a single local authority and see all relevant information at a glance.

'Core spending power' includes figures for Settlement Funding Assessment; forecast council tax revenue; and additional grants sitting outside the Settlement Funding Assessment:

- Improved Better Care Fund;
- New Homes Bonus;
- Rural Services Delivery Grant;
- Transition Grant;
- 2017-18 Adult Social Care Support Grant.

A further spreadsheet is entitled 'Visible Lines of Funding'. This lists funding commitments made by the Government where local authorities have full freedom to spend the funding as they see fit. This funding forms part of SFA: it is not a separate source of money. It indicates that the Government believes that particular sums should be spent on particular matters, but it will not oblige councils to do so. The visible lines of funding are:

- Homelessness Prevention
- Learning Disability and Health Reform
- Care Act Funding
- Local Welfare Provision
- Early Intervention
- Lead Local Flood Authorities
- Sustainable Drainage Systems

1.3 Business rates pilots

The Secretary of State announced ten areas that will pilot 100% business rate retention from the 2018-19 financial year. This followed a consultation, issued in September 2017, inviting authorities to apply.[6] The successful areas were:

- Berkshire
- Derbyshire

[5] These two figures are listed separately alongside Settlement Funding Assessment in the spreadsheet. For each authority, Revenue Support Grant plus business rates baseline funding equals total Settlement Funding Assessment.

[6] DCLG, 100% business rates retention pilots 2018 to 2019: prospectus, September 2017

- Devon (including Plymouth and Torbay)
- Gloucestershire
- Kent & Medway
- Leeds City Region
- Lincolnshire (plus North Lincolnshire, but not North-East Lincolnshire)
- Solent (Portsmouth, Southampton and Isle of Wight)
- Suffolk
- Surrey.

A full list of the participating authorities can be found on pages 61-62 of the draft Local Government Finance Report. This list also includes the proportions of rate revenue to be retained respectively by county and district authorities in two-tier local government areas. The standard proportions are 20% for county councils and 80% for district councils. The consultation encouraged pilot areas to propose alternative 'tier splits'.[7]

These pilots will run alongside the pilots that began in 2017-18, in Greater Manchester, Liverpool City Region, Tees Valley, West Midlands and Cornwall.

An explanation of business rate retention, and the pilots, can be found in the Library briefing paper Reviewing and reforming business rates. In a nutshell, the 2018-19 pilot areas will retain 100% of business rates collected locally. They will then forego Revenue Support Grant and Rural Services Delivery Grant.

These grants will, in each case, be less than the additional 50% of revenue to be retained locally. Therefore, the pilot areas' tariffs will be increased, to reflect the fact that they are retaining more funds locally than they had access to before the pilot.

As a result, the pilot authorities' financial exposure to both rises and falls in business rate revenues will increase.[8]

1.4 Council tax referendums

Each year the Secretary of State must set thresholds relating to council tax rises. Local authorities wishing to raise council tax by more than the stated threshold must have the rise approved in a local referendum. A formal report must be produced and approved by the House of Commons.[9]

7 Ibid., p.11. In legal terms the pilots are all 'pools', with one tariff / top-up payment, and it is for them to decide how to distribute revenues amongst themselves.

8 Further explanation of how the pilots work, including figures for each participating area, can be found at DCLG, Supplementary information for pilots: provisional local government finance settlement 2018 to 2019, 19 December 2017

9 The draft can be viewed at DCLG, *Draft Council Tax Reports 2018-19*, December 2017

Draft thresholds for 2018-19 were published alongside the draft Local Government Finance Settlement on 19 December 2017.[10] These may be amended at the final settlement. The draft thresholds for categories of local authority are as follows:

- Local authorities with responsibility for social care (county and unitary authorities) must hold a referendum if council tax is to be increased by **6% or more**. Council tax for general spending requires a referendum if it rises by 3% or more, alongside a maximum 3% 'social care precept'.
- For district councils: if council tax is to be increased by **3% or more and more than £5.00** on a Band D property – i.e. an increase of more than 3% is permitted as long as it does not exceed £5.00 on a Band D property;
- For Police and Crime Commissioners (PCCs): if council tax is to be increased by **more than £12** on a Band D property;[11]
- For fire and rescue authorities, if council tax is to be increased by **3% or more**;
- For the Greater London Authority: if council tax is to be increased by **3% or more, or by more than £12** on a Band D property.

No thresholds will be set for parish and town councils for the next three years i.e. 2018-2021. In his statement to the House of Commons, the Secretary of State said:

> This is subject to the sector taking all available steps to mitigate the need for council tax increases, and the Government seeing clear evidence of restraint in the increases set by the sector as a whole.[12]

In his speech on 19 December, the Secretary of State described the shift from a core threshold of 2% to one of 3% as "bringing the core principle in line with inflation".[13]

1.5 Section 114 notices

On 2 February 2018, the chief financial officer of Northamptonshire County Council issued a 'section 114 notice'.

What is a section 114 notice?

This is a procedure within the *Local Government Finance Act 1988*. The chief financial officer must issue a section 114 notice if s/he believes the council cannot set a balanced budget for the forthcoming financial year:

> The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure

[10] Ibid. Initial proposals, which differ in a number of ways from the December drafts, were published in September 2017 in the publication *Local government finance settlement 2018-19: technical consultation*.

[11] This also applies to the PCC-related precept set by the Mayor of Greater Manchester.

[12] HCDeb 19 Dec 2017 c919

[13] Ibid.

> of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.[14]

The chief financial officer must consult with the chief executive and the monitoring office before issuing a section 114 notice. A copy must be sent to all councillors and the council's auditor. The council must then consider the notice and decide what action to take within 21 days of the issue of the notice.[15]

Issuing a section 114 notice severely limits the financial commitments that may be made by the council:

> (6) If the report was made under section 114(3) above, during the prohibition period the authority shall not enter into any new agreement which may involve the incurring of expenditure (at any time) by the authority unless the chief finance officer of the authority authorises it to do so.
>
> (6A) The chief finance officer may only give authority for the purposes of subsection (6) above if he considers that the agreement concerned is likely to—
>
> (a) prevent the situation that led him to make the report from getting worse,
>
> (b) improve the situation, or
>
> (c) prevent the situation from recurring.[16]

Issuing a section 114 notice is a rare event. Prior to Northamptonshire, the most recent issue of a section 114 report was by the London Borough of Hackney in October 2000.[17] CIPFA's guidance to local authority financial officers states:

> To be at the point where a Section 114 report is a real possibility would suggest that the organisation has failed to heed or act effectively on the warnings of the CFO about the seriousness of the budgetary position. Warnings and conversations that CIPFA would expect to have been taking place at the highest level of the organisation. Facing a difficult financial outlook is not a reason in itself to expect a rush of Section 114 reports.[18]

Issues in Northamptonshire

The issue of the section 114 notice follows the Government's decision, on 10 January 2018, to commission a Best Value report into

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14 *Local Government Finance Act 1988* section 114 (3). See also Agent 151, "Anyone for a section 114 notice?", *Room 151*, 26 January 2016

15 Ibid., section 114A (1B) and (1D)

16 Ibid., section 115 (6), (6A), (6B). The 'prohibition period' is the period until the authority has concluded its consideration of the notice: see section 115 (9).

17 Milton Keynes Borough Council issued a section 114 notice in respect of its housing budget in January 2001

18 CIPFA, *Balancing local authority budgets*, 2016

Northamptonshire County Council's finances. Sajid Javid, the Minister for Housing, Communities and Local Government, said:

> For some time there have been concerns about financial management and governance at Northamptonshire County Council, and in recent months a number of reports have been published, which have led me to question whether the authority is failing to comply with its best value duty. Particular reports include the external auditor's (KPMG) "adverse" value for money opinion in relation to the 2015/16 and 2016/17 accounts, publically available budget documents, and the September 2017 Local Government Association peer review into the council's financial planning and management.
>
> Having carefully considered the evidence available to me, I have today decided to exercise the powers granted to me by Parliament under the Local Government Act 1999 to appoint an inspector to carry out an inspection to better understand the authority's compliance with its best value duty. The matters to be covered initially by the inspection will in particular relate to the authority's corporate governance and financial management systems.
>
> I have asked the inspector to report findings to me by 16 March 2018, or such later date as the inspector agrees with me..... If it shows that the council is in breach of its best value duty I will then consider whether or not to exercise my powers of intervention under section 15 of the 1999 Act.[19]

The local authority finance officers' website *Room 151* said:

> In a statement to Room151, Paul Carter, chairman of the County Councils Network, and leader of Kent County Council said: "Northamptonshire, like other counties, has worked hard to balance the books. But this first 114 notice issued by a council demonstrates the severe financial pressures counties are facing."
>
> "County authorities face the deepest reductions in funding and demand-led pressures in adult social care. This is placing immense strain on local budgets after years of financial restraint.
>
> "We must remember that not only is Northamptonshire the lowest funded county authority, the council tax freeze grant policy, encouraged by the previous government, hasn't helped their finances, leaving the county an additional £23.6m worse off each year."[20]

The chief executive of CIPFA, Rob Whiteman, was reported in the *Local Government Chronicle* as follows:

> Mr Whiteman said although Northamptonshire was a "traditionally low-spending county and they have less reserves

19 HCWS 394 2017-19, 9 January 2018. The final sentence is a reference to the power of intervention (sending in appointed commissioners). More detail on this is available in a Library blog post Intervention in local government.

20 Colin Marrs, "Northants first to reach tipping point as council issues section 114 notice", *Room 151*, 5 February 2018

and not favourable treatment through grant distribution", the county "aren't in a unique position".

He was critical of the council's decision to draw down on its reserves, stating: "This is a warning to every council that a strategy to draw down on reserves to balance the budget is a very risky strategy indeed.

"Northamptonshire has drawn on its reserves without delivering the savings. Other councils in a similar position have managed their finances better. Northamptonshire has not made the sorts of decisions we've seen elsewhere."[21]

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21 Nick Golding, "Whiteman: Councils need to act now to avoid Northants repeats", *Local Government Chronicle*, 2 February 2018

2. Press Articles and journal articles

Please note: the Library is not responsible for either the views or accuracy of external content.

Tory authority becomes first UK council in 20 years to impose emergency spending ban

Tony Diver, The Telegraph

3 Feb 2018

A council in Northamptonshire has become the first in 20 years to impose emergency spending controls - just four months after opening its new £53m headquarters.

Tory county council runs out of cash to meet obligations

The Guardian

2 Feb 2018

Northamptonshire county council issued a section 114 notice on Friday afternoon imposing financial controls and banning expenditure on all services except for its statutory obligations to safeguard vulnerable people

Tory MPs threaten to rebel over social care funding

Robert Cusack, Local Government Chronicle (subscription required)

1 Feb 2018

Government faces embarrassing loss in a Commons vote next week, as a number of backbench MPs have demanded extra cash to fund adult social care.

Most counties to add extra 1% on council tax

David Paine, Local Government Chronicle (subscription required)

24 Jan 2018

Allowing counties to add an extra 1% on council tax bills will only raise a tenth of the money that they will lose due to cuts, according to research.

Data errors sparks finance settlement concerns

David Paine, Local Government Chronicle (subscription required)

19 Jan 2018

The amount of money councils were allocated in the provisional local government finance settlement was wrong, it has emerged.

Funding cuts pile pressure on vital public services

Rural Services Network

17 Jan 2018

Rural local authorities are set to lose one third of their funding from central government – in a move which will pile further pressure on already over-stretched public services, the Rural Services Network (RSN) has warned.

Javid sends inspector into 'failing' Northamptonshire Council

Mark Smulian, Public Finance

10 Jan 2018

Sajid Javid has sent an inspector into Conservative-controlled Northamptonshire County Council following allegations of financial management failures.

Councils respond to Local Government Finance Settlement

Local Government Association

19 Dec 2017

Lord Porter, Chairman of the Local Government Association, said: "Years of unprecedented central government funding cuts have left many councils beyond the point where council tax income can be expected to plug the growing funding gaps they face. Local government faces an overall funding gap of £5.8 billion by 2020."

Javid announces overhaul of local authority funding

Corin Williams, Public Finance

19 Dec 2017

Communities secretary Sajid Javid has today announced a shake-up of the formula for distributing funding to local authorities in England. He has also set out plans to allow councils to retain 75% of their business rates and a 1% increase in council tax raising powers.

Settlement: extra 1% on council tax and 75% business rates retention

Sarah Calkin, Local Government Chronicle (subscription required)

19 Dec 2017

Councils will be able to raise council tax by a further 1% next year while the sector will retain 75% of business rates by 2020-21, the communities secretary has announced.

Settlement: council tax 1% branded inadequate

Jon Bunn, Local Government Chronicle (subscription required)

19 Dec 2017

Leading local government figures have criticised the communities secretary's decision to allow councils to raise council tax by a further 1%

without a referendum in 2018-19, claiming it fails to address long-term funding pressures.

LGC's Council Tax Tracker

Jon Bunn, Local Government Chronicle (subscription required)

8 Dec 2017

An overwhelming majority of councils are set to raise council tax next year, with three-quarters proposing to increase bills by the maximum amount, the first results from LGC's annual council tax tracker suggest.

3. Parliamentary material

3.1 Statements

Written statement by the Secretary of State for Housing, Communities and Local Government on the final local government finance settlement for 2018 to 2019

6 Feb 2018

Yesterday, I laid before the House, the 'Report on Local Government Finance (England) 2018-19', which represents the annual local government finance settlement for local authorities in England.

I would like to thank all colleagues in the House, council leaders and officers, who contributed to the consultation after the provisional settlement was published before Christmas.

My ministers and I have engaged extensively with the sector, including offering a teleconference to all local authorities, and holding meetings with representative groups including the Local Government Association and with councils and MPs. Representations from almost 160 organisations or individuals have been carefully considered before finalising the settlement.

This settlement is the third year of a 4 year offer which was accepted by 97% of councils in return for publishing efficiency plans. This settlement sees 2 years of real terms increases in available resources to local government: £44.3 billion in 2017 to 2018 to £45.6 billion in 2019 to 2020.

The current business rates retention scheme is yielding strong results. Local authorities estimate that in 2017 to 2018 they will keep around £1.3 billion in business rates growth, which we expect will be maintained into 2018 to 2019 and 2019 to 2020. This is on top of the core settlement funding I am announcing today (6 February 2018).

I commend local authorities for their work in securing efficiency savings supported by the long term certainty of the multi-year settlement. Councils continue to seek to maximise public value for every pound invested in public services. Of course, there is further for all councils to go.

To help this, I am extending the capital receipts flexibility programme for a further 3 years. This scheme gives local authorities the freedom to use capital receipts from the sale of their own assets to support transformation and unlock efficiency savings. We will also continue to work with the sector to help them increase transparency and share best practice supporting greater progress in delivering increased efficiency over the coming year. I expect this to have a tangible impact on the steps councils take to promote efficiency by 2019 to 2020.

Social care

I recognise the need to prioritise spending on social care services that councils provide to our elderly and vulnerable citizens. This is why we announced an additional £2 billion at Spring Budget 2017 for adult social care over the 3 years from 2017 to 2018. This year we have seen how this money has enabled councils to increase provider fees, provide for more care packages and reduce delayed transfer of care.

And, having listening to representations since the provisional settlement, I am today announcing a further £150 million in 2018 to 2019 for an Adult Social Care Support Grant. This will be taken from anticipated underspend in existing departmental budgets, and will not affect existing revenue commitments made to local government. This will be allocated according to relative needs and we will expect to see councils use it to build on their progress so far in supporting sustainable local care markets.

With this, and other measures, the government has given councils access to £9.4 billion dedicated funding for adult social care over 3 years.

This is a long-term challenge that requires a sustainable settlement for the future. The publication of a green paper this summer setting out our proposals for reform sets us on the path to securing a resilient and sustainable system.

In children's social care too, it is important to understand cost drivers as well as service quality and efficiency in a highly complex and critical service area. The government has invested £200 million since 2014 in the Innovation Programme and Partners in Practice Programme, as well as £920 million in the Troubled Families Programme, to help the children's social care sector innovate and re-design service delivery to achieve higher quality, improve family outcomes and secure better value for money.

I also recognise the good work that local authorities do in caring for unaccompanied asylum seeking children. I have therefore made £19 million available to local authorities in 2017 to 2018 from within existing budgets, including the Controlling Migration Fund, to develop the skills and capacity to be able to support these very vulnerable children.

Protecting residents from excessive Council Tax rises

Under the Localism Act 2011 and as re-affirmed in the government's 2017 manifesto, councils can set whatever Council Tax rates they wish, but they need the direct consent of local people if they wish to impose an excessive rise.

This year, that referendum threshold is set in line with inflation at 3%. In addition, local authorities with responsibility for social care may levy a precept to spend exclusively on adult social care. As announced last year, this precept equates to up to 6% over 3 years, from 2017-18 to

2019-20, with a maximum increase of 3% in the first 2 years and 2% in the final year.

This settlement strikes a balance on Council Tax between the need to relieve pressure on local services, including social care, while also recognising that many households face their own pressures.

New Homes Bonus

Local authorities are instrumental in ensuring the building of homes this country needs. By the end of 2018 to 2019, we will have allocated £7 billion in New Homes Bonus payments to reward the building of 1,400,000 homes since the scheme was introduced in 2011.

We recognise the need for continuity and certainty on New Homes Bonus, and therefore for the year ahead there will be no new changes to the way New Homes Bonus works. The New Homes Bonus baseline will be maintained at 0.4% and £947.5 million in New Homes Bonus payments will be paid in 2018 to 2019.

Rural funding

I am committed to ensuring the needs of rural areas are met and recognise the particular costs of providing services in sparse rural areas. So in 2018 to 2019, in response to representations made since the provisional settlement, I will increase the Rural Services Delivery Grant by £31 million - £16 million more than proposed in the provisional settlement. This will take the total to £81 million, a little over the 2016 to 2017 level and the highest it has ever been.

2019 to 2020 and later years

To meet the challenges of the future we need an updated and more responsive distribution methodology. We have published a formal consultation on a review of relative needs and resources and aim to implement its findings in 2020 to 2021. There have been widespread calls for a thorough, evidence-based review, and we will deliver this. The review will examine the cost of delivering services across the country, including rural areas, and will consider which factors should be taken into account when considering a local authority's relative resources.

Following the delay to the implementation of 100% business rates retention and reforms to the local government finance system, I acknowledge concerns around 'negative RSG'. We will be looking at fair and affordable options that will address the problem of negative RSG that occurs in 2019 to 2020, and will formally consult on proposals ahead of next year's settlement.

We will also work towards implementing the next phase of our business rates retention reforms in 2020 to 2021 to support the long held objective for local authorities of greater self-sufficiency and financial sustainability. This will give local councils the levers and incentives they need to grow their local economies.

Local authorities will be able to keep more business rates, to the value of the Revenue Support Grant, the Greater London Authority Transport Grant, the Rural Services Delivery Grant and the Public Health Grant. Overall, this is equivalent to 75% retention at 2019 to 2020 levels. Local authorities will then be able to keep the equivalent share of business rates growth on their baseline levels from 2020 to 2021, when the system is reset. The government intends to use the intervening period to develop a set of measures that support a smooth transition of funding for public health services from a grant to retained business rates.

Ahead of this, we will continue to test out aspects of the future business rates retention system in a broad range of authorities right across the country. And, to help us take forward our continued long-term plan to let local government keep 100% of its business rates, in 2018 to 2019 we will continue to pilot 100% business rates retention in Greater Manchester, Liverpool City Region, the West Midlands, West of England and Cornwall, introduce a London pilot, and will take forward 10 further 100% business rates retention pilots.

These are Berkshire, Derbyshire, Devon, Gloucestershire, Kent and Medway, Leeds City Region, Lincolnshire, Solent Authorities, Suffolk and Surrey. The 10 pilot areas will cover 89 local authorities in total.

I recognise that there is disappointment among those areas that were unsuccessful in their pilot applications this year and I am pleased to confirm that I intend to open a further bidding round for pilots in 2019 to 2020. Further information on this will be published in due course.

Conclusion

Local government delivers vital services at the heart of the communities they serve. This settlement strikes a balance between relieving growing pressure on local government whilst ensuring that hard-pressed taxpayers do not face excessive bills. We have listened to representations made and delivered on these requests: two years of real terms increases in resources, more freedom and fairness, and greater certainty to plan and secure value for money.

Commons statement and questions on funding for local authorities in England next year

The Secretary of State for Communities and Local Government (Sajid Javid): With permission, Mr Speaker, I would like to make a statement on funding for local authorities in England next year.

From 2015 to 2020, councils in England have access to over £200 billion to deliver the high-quality services their local communities need. They deserve no less; local government is on the frontline of the country's democracy, with councillors and officers working at the heart of the communities that they serve. But to make the most of that local knowledge, councils need greater control of the money they raise: they need greater freedom to tackle challenges in their areas, and they need the certainty and stability that will allow them to plan ahead.

This Government are committed to delivering that, and today I am publishing a draft local government finance settlement that marks an important milestone in the journey to doing so. It comes in the third year of a four-year deal that was accepted by 97% of councils in return for publishing efficiency plans. We will continue to work with the sector to help councils increase transparency and share best practice, supporting greater progress in delivering increased efficiency over the coming year. I expect this to have a tangible impact on the steps that councils take to promote efficiency from 2019-20.

Local government operates in a society that is constantly changing, and the system of financing local government needs to reflect that. The current formula of budget allocations has served local councils and communities well over the years, but to meet the challenges of the future we need an updated and more responsive distribution methodology that gives councils the confidence to face the challenges and opportunities of the future. So I am today publishing a formal consultation on a review of relative needs and resources. I aim to implement a new system based on its findings in 2020-21.

Alongside the new methodology, in 2020-21 we will also be implementing the latest phase of our business rates retention programme, a scheme that gives local councils the levers and incentives they need to grow their local economies. The aim is for local authorities to retain 75% of business rates from 2020-21. That will be done through incorporating existing grants into business rates retention, including the revenue support grant and the public health grant. Local authorities will be able to keep that same share of growth on their baseline levels from 2020-21, when the system is reset. So from 2020-21 business rates will be redistributed according to the outcome of the new needs assessment, subject to suitable transitional measures.

A number of 100% retention pilots have already been announced and they will continue. A further pilot will begin in London in 2018-19, and we had intended that a further five pilots would begin that same year. However, interest in the scheme was such that we will now be taking forward twice as many as planned. I am pleased to announce today that the new pilots will take place in Berkshire, Derbyshire, Devon, Gloucestershire, Kent and Medway, Leeds, Lincolnshire, Solent, Suffolk, and Surrey.

The first batch of pilots are taking place largely in urban authorities; the second wave will mainly cover counties. This ensures that councils right across the country will benefit, that the scheme can be tested in a wide range of environments, and that the benefits of growth are broadly comparable between London, existing pilots and new pilots. We received so many applications to take part that we will continue the pilot business rates retention programme in 2019-20, and further details will be published in due course.

Over the past year, my Ministers and officials have been listening to councils of all shapes and sizes, understanding their concerns and working together to develop ways of tackling them. The result of those conversations is reflected in this draft settlement. For example, rural councils have expressed concern about the fairness of the current system, with the rural services delivery grant due to be reduced next year. So today I can confirm that I will increase the rural services delivery grant by £15 million in 2018-19, meaning that the total figure will remain £65 million for the remainder of the current four-year settlement.

We have also heard concerns about the proposed changes to the new homes bonus. To date, we have made almost £7 billion of new homes bonus payments to reward the building of 1.4 million homes. Over £946 million in new homes bonus payments will be allocated in 2018-19, rewarding local authorities for their work on fixing our broken housing market. I have consulted on proposals to link new homes bonus payments to the number of successful planning appeals, and considered raising the NHB baseline. Following conversations with the sector, I have been persuaded of the importance of continuity and certainty in this area. So today I can confirm that in the year ahead no new changes will be made to the way in which the new homes bonus works, and that the NHB baseline will be maintained at 0.4%.

As I set out in the housing White Paper, local authorities will be able to increase planning fees by 20% when they commit to investing the additional income in their planning services. This is a significant step towards addressing the widespread concerns about under-resourcing in local planning authorities. Following discussions with the sector, I am also announcing a continuation of the capital receipts flexibility programme for a further three years. This scheme gives local authorities the continued freedom to use capital receipts from the sale of their own assets. This will help to fund the costs of transformation and release savings.

One particular issue causing concern for some councils is so-called negative revenue support grant. This is where changes in revenue support grant have led to a downward adjustment of some local authorities' business rates top-up or tariff for 2019-20. I recognise the strength of feeling in local government on this issue, and I can confirm that my Department will be looking at fair and affordable options for dealing with negative RSG. We will formally consult on proposals in the spring, so that the findings will be in ahead of next year's settlement.

Of course, anyone who has spoken to anyone in local government will be aware of concerns about funding for adult and children's social care. That is why, over the past 12 months, we have put billions of pounds of extra funding into the sector, and why the Department for Education is spending more than £200 million on innovation and improvement in children's social care. In the spring Budget, an additional £2 billion was announced for adult social care over the next three years. Along with the freedom to raise more money more quickly through the use of the social care precept that I announced this time last year, we have given councils access to £9.25 billion of dedicated funding for adult social care over the next three years. However, we also need to find a long-term solution to challenges that are not going away. That is why we have already announced that a Green Paper on future challenges within adult social care will be published in the summer of 2018.

Finally, I am conscious of calls for further flexibility in the setting of council tax. We all want to ease growing pressure on local government services, but I am sure that none of us wants to see hard-working taxpayers saddled with ever-higher bills. This settlement needs to strike a balance between those two aims, giving councils the ability to increase their core council tax requirement by an additional 1% without a local referendum, bringing the core principle in line with inflation. We have abolished Whitehall capping. Under the Localism Act 2011, local government can increase council tax as it wishes, but excessive rises need to be approved by local residents in a referendum. This provides an important check and balance against the excessive increases that were seen under the last Labour Government, when council taxes more than doubled.

This change, combined with the additional flexibility on the adult social care precept that I confirmed last year, gives local authorities the independence they need to help to relieve pressure on local services such as adults' and children's services, while recognising that many households face their own pressures. In addition, directly elected mayors will decide the required level of precept by agreement with their combined authorities. I am sure that voters will be watching closely, as I will, to ensure that that freedom is not abused.

I can also confirm that the Government intend to defer the setting of referendum principles for town and parish councils for three years. This is subject to the sector taking all available steps to mitigate the need for council tax increases, and the Government seeing clear evidence of restraint in the increases set by the sector as a whole. I have also agreed measures with the Home Secretary to make it easier for police and crime commissioners to meet local demand pressures by allowing a £12 council tax flexibility for police services, raising an additional £139 million next year.

This settlement recognises the need to keep spending under control while also tackling many of the issues that have been raised by local government over the past year. Two years of real-terms increases in resources being made available to local government will give local authorities the funding and freedom they need to make decisions in the best interests of the communities they serve. It is a settlement that offers councils the resources they need, the stability they have requested and the fairness they deserve, and I commend it to the House.

HC Deb 19 Dec 2017 cc917-933

Deposited Paper (DEP2017-0819)

I. Letter dated 19/12/2017 from Sajid Javid MP to colleagues regarding provisional local government finance settlement. 2p. II.

II. The provisional 2018-19 local government finance settlement. Consultation Paper. 27p.

3.2 Oral questions

Local Government Finance

Yvonne Fovargue (Makerfield) (Lab): The local government finance settlement descended into a complete and utter shambles last week. The figures sent to local authorities were wrong. Back in March 2017, the National Audit Office was concerned that there was not the capacity within the Department for Communities and Local Government and the Valuation Office Agency to handle the Secretary of State’s plans. This new error will certainly not engender confidence in the Department. What steps are being taken to ensure that the error is not repeated?

Rishi Sunak (Ministry of Housing, Communities and Local Government): The Valuation Office Agency made a mistake with the initial calculations. That was corrected and the Department has moved swiftly to provide accurate information to local authorities. I gently point out that overall the error meant that local authorities will receive an increase in the business rates retention forecast for this year.

HC Deb 22 Jan 2018 c15

Topical Questions

Vernon Coaker (Gedling) (Lab): Councils such as Gedling Borough Council and Nottinghamshire County Council are setting their budgets now, and they face a funding crisis. What are the Government going to do about it?

Elizabeth Truss (Treasury): We have given councils the power to raise more funds in the draft local government finance settlement, but councils also need to look at how they can become more efficient, share back offices and use modern technology.

HC Deb 16 Jan 2018 c723

3.3 Written questions

Local Government Services: Greater London

Joan Ryan: To ask the Secretary of State for Housing, Communities and Local Government, what account his Department takes of the relatively high cost of delivering local services in London in determining the local government finance settlement.

Rishi Sunak (Ministry of Housing, Communities and Local Government): The most recent assessment of local authorities' relative needs and resources took place in 2013-14 alongside the introduction of the 50 per cent business rates retention system. The demand for local services was assessed through funding formulas which took into account the relative cost of delivering services across the country, including London.

The costs of providing comparable services differ between areas partly because of their differing characteristics (such as numbers of elderly people, or lengths of road) and partly because of differences in the costs of inputs which local authorities need to buy. An area cost adjustment is included in the current assessment to allow for the latter of these differences, and reflects two sources of differences in costs between areas: differences in labour costs; and differences in business rates paid on local authority premises.

At present the Government is carrying out a fair funding review of local authorities' relative needs and resources, and we are working closely with the Local Government Association and representatives from across local government to ensure that we consider all the issues that impact on authorities' relative need to spend on services and their capacity to fund these from local resources.

Amongst the issues we will consider are the impact of geographical factors such as area-related costs and rurality, and how to account for these within a new methodology.

29 Jan 2018 | PQ 124247

Local Government Finance

Valerie Vaz:

To ask the Secretary of State for Housing, Communities and Local Government, what assessment he has made of the effect of the local government finance settlement on the ability of local authorities to meet their statutory responsibilities.

Rishi Sunak (Ministry of Housing, Communities and Local Government): The Government periodically assesses resourcing requirements for local government as part of each spending review, ensuring a sustainable basis for local authorities to discharge their functions.

17 Jan 2018 | PQ 122432

Local Government Finance

Andrew Gwynne: To ask the Secretary of State for Communities and Local Government, how many representations he received from business groups prior to the announcement of the local government finance settlement; and if he will publish those representations.

Rishi Sunak (Ministry of Housing, Communities and Local Government): A summary of responses to the Local Government Finance Settlement 2018-19 technical consultation can be found here: https://www.gov.uk/government/consultations/local-government-finance-settlement-2018-to-2019-technical-consultation

15 Jan 2018 | PQ 120643

4. Further reading and useful links

Commons Library briefing, Council tax: local referendums, 20 Dec 2017

Gov.uk, Provisional local government finance settlement: England, 2018 to 2019

Documents relating to the provisional local government finance settlement.

LGA, Annual local government finance settlements

Local Government Association work on provisional and final local government finance settlement since 2013/14.

Each year local authorities' core funding allocations for the forthcoming financial year are announced by Government in the provisional local government finance settlement, usually in December. Following consultation, allocations are confirmed in the final settlement, usually in February

The money local government has to operate services is running out fast and councils face an overall £5.8 billion funding gap in just two years. Our submission to the 2017 Autumn Budget set out what powers and funding we wanted to be awarded to local government to ensure that councils can continue to lead their local areas.

The majority of these demands were not met by the Autumn Budget meaning that the Government needs to use the upcoming Local Government Finance Settlement to set out its plan for how it will fund local services both now and in the future. We remain clear that local government as a whole must be able to keep every penny of business rates collected to plug funding gaps while a fairer system of distributing funding between councils is needed.

Only with fairer funding and greater freedom from central government to take decisions over vital services in their area can local government generate economic growth, build homes, strengthen communities, and protect vulnerable people in all parts of the country.

DEBATE PACK
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5 February 2018