2018-19 Provisional Local Government Finance Settlement

19 December 2017

Introduction

The provisional local government finance settlement was announced by the Secretary of State Communities and Local Government, Sajid Javid MP, in an oral statement to the House of Commons on Tuesday 19 December. Full details of the settlement can be found on the Department for Communities and Local Government (DCLG) pages on the GOV.UK website. A summary of the main announcements was published in a press release by DCLG. The announcement set out provisional allocations for 2018-19. These were originally announced in December 2015 as part of the multi-year settlement offer, accepted by 97% of local authorities.

The publication of the Draft 2018-19 Local Government Finance Report marks the start of the consultation spanning the Christmas period and ending with the **deadline for submissions on 16 January 2018**. The Technical Support Team will assist the NFCC in responding to the consultation.

This briefing provides a summary and analysis of the day's main announcements with specific focus on those funding streams of particular relevance to fire authorities.

Headlines

- Increased council tax referendum principle from 2% to 3% for 2018-19 ***and*** **2019-20** for all Fire Authorities, Shire Counties, Single Tier Unitaries, Metropolitan Districts and London Boroughs. The maximum £5 increase was maintained for district councils.

- Announcement of the Government's "aim" to **localise 75% of business rates** from 2020-21 and implementation of the **new needs assessment.**

- **Consultation** in the Spring on "fair and affordable options" **to tackle negative RSG** in 2019-20 (applies to some counties with fire responsibility but no stand-alone fire authorities)

- In addition to those already announced; **ten new 100% business rates retention pilots** have been accepted for 2018-19.

- **No Transition Grant in 2018-19**

- A **national increase in the 2018-19 core spending power of 1.5%** compared to 2017-18. NFCC members (including counties and unitaries with fire) see an increase in Spending Power of 2.5%, with stand-alone fire authorities seeing an average increase of 3.2%.
  CAVEAT: this does not include the effects of pilot authorities forgoing their RSG and RSDG allocations. The TST will do further work on this in the coming days.

- **RSG no longer a comparable measure of funding**: those authorities taking part in 100% Business Rates Retention pilots will not receive RSG as the funding will be reflected in an increased baseline funding level.

- Increase in **Rural Service Delivery Grant for 2018-19 to £65m** in line with 2017-18 and 2019-20. However, piloting authorities forgo this grant.

- **£946m** paid in **New Homes Bonus.** Further **reduction in the number of payment years** from 5 years in 2017-18 to 4 years in 2018-19. NHB will continue to be paid on housing growth above 0.4% (0.4% in 2017-18). (Applicable to counties and unitaries with fire responsibility)

- Continuation of capital receipts flexibilities for a further 3 years.

Council Tax Referendum Principles
The Secretary of State announced the Government's proposed referendum principles for 2018-19 in the draft principles report. These were first outlined in the September 2017 technical consultation on the 18-19 Settlement where the consultation also asked whether further flexibilities were required for particular categories.

One major change has been announced today regarding LAs' council tax, which applies to fire authorities and those with responsibility for fire. Specifically, referendum principles will apply to council tax increases in in excess of 2.99% for 2018-19 and 2019-20. This is an increase on the 2017-18 referendum limit of 1.99% and brings council tax in line with current levels of inflation (CPI).

Today's draft principles include:

- **3% council tax referendum trigger for fire authorities, counties, unitaries, London boroughs and GLA (up from 2%)**
- **Continuation of the ASC precept** at 2% with the flexibility to increase the precept by 1% to 3% in 2018-19 provided that increases do not exceed 6% between 2017-18 and 2019-20
- For shire districts 3% council tax referendum trigger or £5, whichever is higher (up from 2%)
- Police precepts can be increased by up to £12. This equates to between 5.34% and 12.20% for English PCCs. This compares to allowing a £5 increase for those in the lowest quartile of PCCs and a 2% threshold otherwise in 2017-18.

Last year, the Government asked parish and town councils to "exercise restraint" and transparency when deciding precept increases. The Technical Consultation said that this arrangement could continue into 2018-19 as long as the Government had evidence that this was being adhered to. Today, Mr Javid confirmed that the government intends to defer the setting of referendum principles for town and parish councils for three years.

Business Rates Retention and Negative RSG

Following the 2017 General Election and the omission of the Local Government Finance Bill in the Queen's Speech, the Government moved from its pursuit of 100% Business Rates Retention to *increased* Business Rates Retention. Due to the General Election the implementation date of 2019-20 was delayed to 2020-21.

In today's announcement, the Communities Secretary announced the Government's aim to increase the local share of business rates retention to 75% in 2020-21. This will be through incorporating existing grants into business rate retention including the Revenue Support Grant, and the Public Health Grant. The remaining 25% central share will be returned to HM Treasury and recycled back to local government but this will not be visible.

Local authorities will be able to keep that same share of growth on their baseline levels from 2020-21, when the system is reset. Nonetheless, existing and newly announced pilots will be based on a 100% local share of business rates assuming that they are allowed to continue past 2018-19.

The much anticipated Fair Funding Review consultation has also been published today for implementation in 2020-21. The Technical Support Team will circulate a briefing on the consultation shortly.

The Secretary of State acknowledged LAs' concerns regarding negative RSG in 2019-20 saying that the Government was looking for "fair and affordable options". The Government will publish a consultation on these in spring 2018 in order to complete the process before publication of the 2019-20 provisional settlement.

Pilots

The Government had already announced that the 2017-18 pilots[1] would be extended into 2018-19. The 2017 Autumn Budget also announced 100% business rates retention for London councils in 2018-19.

On 1 September 2017 the DCLG published a prospectus inviting local authorities to submit proposals to pilot 100% business rates retention in 2018-19. 24 SCT members submitted plans, or were part of plans, to become a pilot area in 2018-19. Authorities selected as pilots for 2018-19 will forego Revenue Support Grant (RSG) and Rural Services Delivery Grant – the combined value of which will be taken into account in setting revised baseline funding levels and tariffs and top-ups. This will ensure that the changes are cost neutral, except for the value of any growth retained. These new pilots were not given the option to take on additional responsibilities.

The Technical Support Team understands that it was never likely that all of these pilot plans would be approved due to the costs involved.

[1] Greater Manchester CA, Liverpool City Region, West Midlands, West of England CA, Cornwall and GLA

Today's announcement states that from 2020-21 the Government intends to implement 75% Business Rates Retention. Despite this, pilots will be based on a 100% local share of business rates – but, so far, are only for one year only.

Due to the large number of pilot applications a total of just ten have been accepted for 2018-19 with further applications expected for 2019-20 (details on the process and timeline are yet to be determined). Of these ten, two stand-alone fire authorities (Kent and Derbyshire) are included, in addition to Surrey, Suffolk, Lincolnshire and Gloucestershire and Suffolk being new pilot authorities with fire authorities. Today's announcement confirms the following successful pilots in:

- Berkshire
- Derbyshire
- Devon
- Gloucestershire
- Kent and Medway
- Leeds
- Lincolnshire
- Solent
- Suffolk
- Surrey

At least three DCLG officials independently scored each pilot based on the application criteria originally set out. This in combination with ministerial judgement (which included the need for more rural pilots) and Treasury cost limits, lead to aforementioned decision.

Transition Grant

Prior to 2016-17 changes to RSG were carried out by comparing the current year's RSG allocation to the previous year. Each local authority therefore received the same flat rate reduction.

The 2016-17 provisional settlement was the first year in which the DCLG took actual precept into account when applying the cuts to core funding. This impacted some authorities more than other and eventually, in the final 16-17 settlement there was the announcement of additional funding worth £150m in both 2016-17 and 2017-18 "for councils with the sharpest reductions in Revenue Support Grant". Of the £150m national total available in 2017-18 NFCC members (including counties and unitaries) received £44.5m in Transition Grant, but stand-alone fire authorities received just £1.8m.

No further transitional funding was announced for 2018-19.

Four-Year Settlement Offer

The 2016-17 settlement included a 4 year offer of 'a guaranteed budget to every council which desires one and which can demonstrate efficiency savings'.

The 4 year offer included RSG, Transitional Grant (2016-17 and 2017-18), and the Rural Services Delivery Grant. Baseline funding level is dependent on the business rates multiplier so was not included in the 4 year offer.

Only 10 authorities decided against accepting the offer – none of which are stand-alone fire authorities, although one was Surrey which holds responsibility for fire.

The 2017 Technical Consultation discussed ways in which the multi-year settlement offer could be expanded to include further grants but so far, no further announcements have been made.

Core Spending Power
The Minster confirmed Core Spending Power (CSP) figures today. These are slightly different to those published in recent years in that they include Section 31 grant compensation for capped multipliers.

For 2018-19 Core Spending Power consists of:

- Settlement Funding Assessment (RSG and Baseline Funding)
- S31 compensation grant for changes in the uprating of the business rate multiplier from RPI to CPI
- Council Tax (the product of the maximum council tax precept that the LA can raise with an ASC precept of 2%)
- Improved Better Care Fund
- New Homes Bonus (including returned funding)
- Rural Services Delivery Grant

The 2018-19 provisional settlement today announced 1.5% increase nationally in the Core Spending Power (CSP) compared to 2017-18 settlement. NFCC members (including counties and unitaries with fire) see an increase in Spending Power of 2.5%, with stand-alone fire authorities seeing an average increase of 3.2%.

CAVEAT: this does not include the effects of pilot authorities forgoing their RSG and RSDG allocations. The TST will do further work on this in the coming days

A table by class of authority and NFCC member can be found below.

NFCC Settlement Tables.xlsx

Settlement Funding Assessment
Baseline Funding Level and Tariff/Top-up Adjustments
Baseline funding has been increased by the increase in the small business rates multiplier.
The Autumn Budget announced that in 2018-19 the small business rate multiplier would begin to be linked to CPI rather than RPI. The 2018-19 small business rate multiplier (SBRM) is therefore calculated as *0.480.*

Had DCLG still been using RPI the respective indices would have been 275.1 and 264.9 giving an increase of 3.9%. Local authorities have been compensated as usual (section 31 un-ring-fenced grant) for this under-indexation but also for the under-indexation in the 2014-15 and 2015-16 multipliers. The DCLG previously indicated that the compensation factor will be 10/490 or in other words, the multiplier would have been 10p higher in 2018-19 if it hadn't been for the cumulative under-indexing.

Compensation will be via a section 31 (unringfenced grant) based on NNDR1s and paid in 12 monthly instalments. Payments will then be reconciled by means of one payment following the NNDR3s being received by DCLG.

Rural Services Delivery Grant
2018-19 allocations of the Rural Services Delivery Grant (RSDG) have been published totalling £65m. 2018-19 allocations had been expected to fall by £15m from £65m in 2017-18; however, this reduction has been cancelled. Allocations remain at £65m in 2019-20.

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The RSDG is distributed to the top-quartile of authorities ranked by super-sparsity, as per the distributional methodology for the Rural Services Delivery Grant indicator in 2015-16. In 2018-19 the grant is payable to 14 SCT members who receive a total of £49.5m.

Capital Flexibilities
Sajid Javid announced the continuation of capital receipts flexibility programme for a further three years enabling local authorities to use capital receipts from the sale of their own assets.

Local Authority Mergers
Sajid Javid recently announced that he was "minded to" support the following mergers:

- Taunton Deane Borough Council and West Somerset District Council to merge into a single district council
- Forest Heath District Council and St Edmundsbury Borough Council to merger into a single district council
- Bournemouth (Unitary), Poole (Unitary) and Christchurch district to form a larger unitary authority
- Remaining Dorset districts and county to form a second unitary authority
- Suffolk Coastal district and Waveney district council to become a new single district council

These are currently all being consulted on with a final decision not expected until the New Year.