Leaders' Committee

Finance Update (Budget and Business Rates Devolution) — Item 6

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Summary

On 16 March 2016, Chancellor George Osborne delivered his eighth Budget. It contained a number of policies which are likely to impact on local government.

Most notably, no specific further cuts to local government funding were announced; additional funding was announced for the transition to a National Schools Funding Formula; and there were some significant announcements in relation to business rates, with government committing to explore with London options for moving to 100 per cent retention ahead of the full roll-out of the business rates reforms.

London Councils officers will continue to work closely with Leaders, through the business rates devolution working group and GLA colleagues to establish what the business rates announcements in the Budget mean for London Government.

Recommendations

Leaders are asked to note the contents of the report and appended member briefing.

Finance Update (Budget and Business Rates Devolution)

Budget 2016

1. On 16 March 2016, Chancellor George Osborne delivered his eighth Budget. It built on the previous announcements made in Autumn Statement/Spending Review 2015 last November, and provided an update on the economic outlook and updated plans for both public spending and taxation up to 2020-21.

2. The Budget contained a number of policies, which are likely to impact on local government. Most notably:

    - it confirmed further cuts of £3.5 billion to departmental spending in 2019-20, although there was nothing to suggest this would impact in the 4 year funding allocations set out in the recent local government finance settlement;
    - additional funding of £500 million was announced to help in the transition to a national schools funding formula; and
    - there were significant announcements on business rates – both in terms of changes to the tax itself (indexation to CPI inflation from 2020, and changes to Small Business Rates Relief), and with regard to 100 per cent retention the Government will explore with London options for moving to 100 per cent retention ahead of the full roll-out of the business rates reforms and the GLA's share of retained business rates will be increased to fund the transfer of responsibility for TfL's capital projects in April 2017.

Business rates devolution

3. London Councils officers will work closely with GLA colleagues to establish what the business rates announcements in the Budget mean for London Government. The Leaders working group will meet for the second time after Leaders' Committee on 22 March to discuss and consider this further.

4. DCLG and the LGA will publish shortly a series of open discussion papers with regard to the different aspects of business rates devolution. London Councils will respond to these papers in due course in order to inform the more detailed summer consultation.

5. The attached member briefing provides a detailed summary of the business rates announcements in the Budget 2016, and any others that impact on London local government.

Recommendations

6. Leaders Committee is asked to note the contents of the report and the appended member briefing.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Budget 2016

On 16 March 2016, Chancellor George Osborne delivered his eighth Budget. It built on the previous announcements made in Autumn Statement/Spending Review 2015 last November, and provided an update on the public finances, including the overall economic outlook and future plans for both public spending and taxation up to 2020/21. The Budget contained a number of policies that are likely to impact on local government. At this stage, it is too early to confirm what the exact impact on local government will be and more detail is likely to emerge over time. The key headlines for London Local government are summarised below.

Key Headlines

- An efficiency review will identify a further £3.5 billion of departmental spending cuts in 2019/20. No changes were announced to local government funding allocations set out in the 2016/17 LGF settlement.

Business Rates:

- Government will explore with London options for moving to 100 per cent business rates retention **ahead of the full roll-out of the business rates reforms.**
- The **GLA's share of retained business rates will be increased** and responsibility transferred for funding **TfL's capital projects** in April 2017.
- **Small Business Rate Relief will be permanently doubled to 100 per cent** and the thresholds moved (this will cost £1.5 billion a year from April 2017)
- Business rates will be **indexed to CPI rather than RPI** from April 2020
- A discussion paper will be published in March 2016 on moving to **three year business rates revaluations.**

- All schools expected to become, or be in the process of becoming, **academies by 2022.**
- £500 million of additional funding to be provided to accelerate **the transition to National Funding Formula**
- **Crossrail 2** has been endorsed and government will contribute £80 million to fund its development
- TfL is invited to bring forward proposals for **financing infrastructure projects from land value increases**
- A **taper will be introduced within Pay to Stay,** so that rents rise gradually above the minimum income thresholds of £40,000 in London and £30,000 outside of London.

Economic Outlook

Alongside the Budget, the independent Office for Budget Responsibility (OBR) published new forecasts for the economy and the public finances, taking into account Budget policy measures. It has assessed whether the government is on course to meet its medium-term fiscal objectives outlined in the *Charter for Budget Responsibility*. These are:

- The government's **fiscal mandate** requires a surplus on public sector net borrowing by the end of 2019/20 and in each subsequent year.
- A **supplementary target** for public sector net debt to fall as a percentage of GDP in each year to 2019/20 (after which it would continue to do so if the mandate is met).
- A **cap on a subset of welfare spending**, at cash levels set out by the Treasury for each year from 2016/17 to 2020/21 in the July 2015 Budget.

The government is "on course to meet its fiscal mandate but miss its supplementary target". In the absence of any policy measures the fiscal mandate would not have been met, but policy measures raise £13.7 billion in 2019/20 and £13.1 billion in 2020/21.

The supplementary target is missed as a result of the small rise in public sector net debt between 2014 and 2015; it will then fall in all subsequent years.

Welfare cap spending is forecast to exceed the cap in every year by more than a 2 per cent margin, in line with the November 2015 assessment.

Key Economic and Fiscal Indicators

Table 1 below outlines the key economic and fiscal indicators underpinning the Budget.

Table 1 – Key Economic and Fiscal Indicators

	2014	2015	2016	2017	2018	2019	2020
Gross domestic product (GDP)	2.9	2.2	2.0	2.2	2.1	2.1	2.1
Public sector net borrowing (£bn)	91.9	72.2	55.5	38.8	21.4	-10.4	-11.0
Public sector net borrowing (deficit % of GDP)	5.0	3.8	2.9	1.9	1.0	-0.5	-0.5
Public sector net debt (%)	83.3	83.7	82.6	81.3	79.9	77.2	74.7
LFS unemployment (% rate)	6.2	5.4	5.0	5.0	5.2	5.3	5.3
Employment (millions)	30.7	31.2	31.6	31.7	31.9	32	32.1
CPI Inflation (%)	1.5	0.0	0.7	1.6	2.0	2.1	2.0

Source: HMT – Summer Budget 2015; OBR - Economic & Fiscal Outlook, July 2015

The budget deficit is expected to fall this year to £55.5 billion. This is a £5.6 billion increase since the OBR's estimate in Spending Review 2015 (SR15). Public sector net borrowing will decrease each year until 2019/20, when there will be a surplus of £10.4 billion. This is forecast to increase to £11 billion in 2020/21.

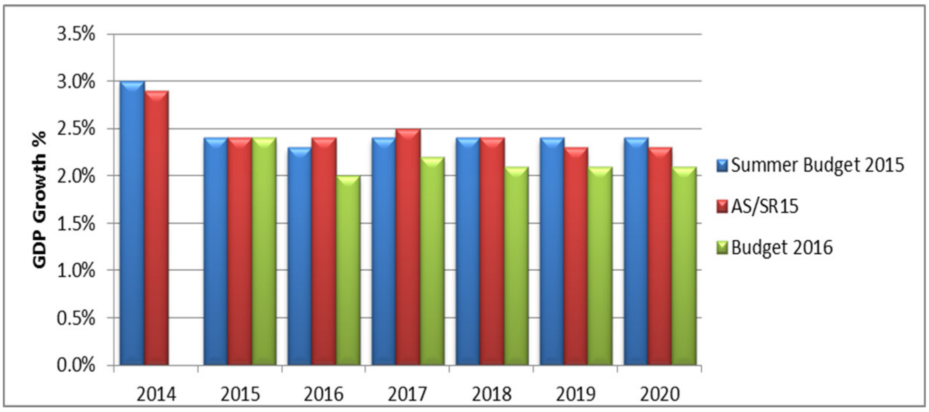
The OBR's CPI inflation forecast is unchanged since July and sits at 0.0 per cent in 2015, rising to 0.7 per cent in 2016. This is forecast to rise to 1.6 per cent in 2017, more slowly than anticipated at SR15, before returning to the 2 per cent target in 2019/20.

Unemployment is estimated to continue to fall from 5.4 per cent in 2015 to 5.0 per cent in 2017, before rising to 5.3 per cent in 2019. Employment will increase to 32.1 million by the end of the period.

Growth

GDP growth figures for 2015 have been revised downwards to 2.4 per cent since SR15, falling to 2.0 per cent in 2016. The green bars in Chart 1 below show that figures for the remainder of the period are also lower than previously forecast at 2.2 per cent in 2017 and staying at around 2.1 per cent per annum for the final three years.

Chart 1 - Change in GDP growth forecasts since Summer Budget 2015



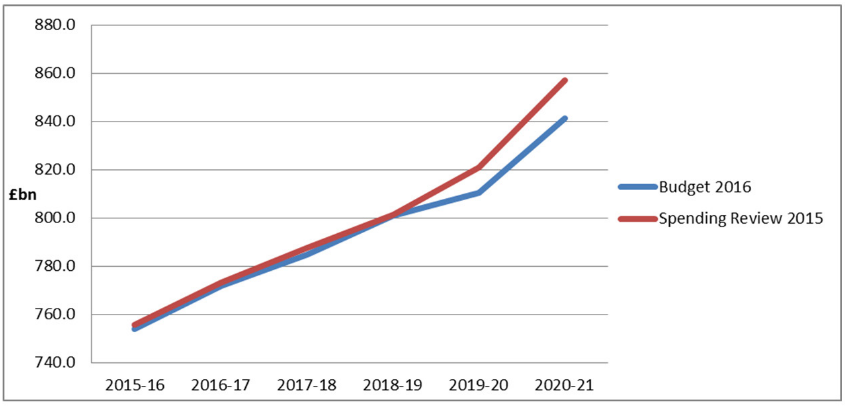
Source: Office for Budget Responsibility; Economic and Fiscal Outlooks

Key Announcements

Public Spending

- The government will conduct a **departmental efficiency review** (reporting in 2018), which will help deliver a **further £3.5 billion of savings** from public spending in 2019/20, while maintaining the protections set out at the Spending Review and Autumn Statement.
- Overall public spending (**Total Managed Expenditure) will be £16 billion lower than previously forecast** by 2020/21.

Chart 2 – Total Managed Expenditure Forecasts (£bn) – change Spending Review 2015 to Budget 2016



Note: Figures are outturn rather than real terms

Business Rates

100 per cent retention

- The government will explore with London options for **moving to 100 per cent business rates retention ahead of the full roll-out of the business rates reforms.**
- The government will **increase the share of London's business rates retained by the Greater London Authority** and transfer responsibility for funding **TfL's capital projects**. This will give the Mayor of London control over almost £1 billion more of locally raised taxes.

Reliefs and indexation

- **Small Business Rate Relief (SBRR) will be permanently doubled** - from 50 per cent to 100 per cent.

- **SBRR thresholds will be increased** - businesses with RV of £12,000 and below will receive 100 per cent relief, and businesses an RV between £12,000 and £15,000 will receive tapered relief. 600,000 small businesses, occupiers of a third of all properties, will pay no business rates at all and an additional 50,000 will benefit from tapered relief.
- **Standard business rates multiplier threshold to increase to RV of £51,000** - this will take 250,000 smaller properties out of the higher rate.
- From April 2020, business rates **annual indexation to be switched from RPI to CPI**. Worth £370 million to businesses in 2020/21 alone.

Business rates administration

- Government will aim to **revalue properties more frequently (at least every three years**) and will publish a **discussion paper in March 2016** outlining options on how to achieve this.
- Billing and collection, by 2022 local authority business rate systems will be linked to HMRC digital tax accounts. As a first step, government will work with local authorities to **standardise business rate bills** and ensure ratepayers have the option to receive and **pay bills online** by April 2017.
- Once local authority and HMRC systems are linked, the **government will consider the feasibility of replacing SBRR with a business rates allowance for small businesses** – this would apply to a business's total property portfolio across local authority areas allowing businesses that grow and acquire more property to benefit from relief.

Costs

- **Local government will be compensated for the loss of income** as a result of the business rates measures above, and the impact considered as part of the government's consultation on the implementation of 100 per cent business rate retention in summer 2016.
- Total cost implications are set out in Table 2 below – amounting to a **cumulative £6.7 billion by 2020/21**. It is not known how the additional £1.5 billion cost will be funded, but this reduction in the taxbase is likely to mean the overall quantum of business rates will be lower at the point of 100 per cent retention.

Table 2 - Cost implications of Business Rates policy changes (£bn)

	2016-17	2017-18	2018-19	2019-20	2020-21	Change 16-17 to 20-21
Permanent doubling of SBRR & extension of thresholds	0.000	-1.575	-1.410	-1.420	-1.460	-5.865
Increased threshold for higher multiplier to £51,000	0.000	-0.125	-0.110	-0.110	-0.115	-0.460
Switch from RPI to CPI in April 2020	0.000	0.000	0.000	0.000	-0.370	-0.370
Total	**0.000**	**-1.700**	**-1.520**	**-1.530**	**-1.945**	**-6.695**

Source: HMT; Table 2.1: Budget 2016 policy decisions

Employers Pensions

- The government will reduce the public service pension scheme discount - this will **increase the contributions employers pay to the schemes from 2019/20** onward.

Education

- **Full academisation –** all schools expected to become, or be in the process of becoming, academies by 2022.
- **Accelerated transition to National Funding Formula –** the current system will be replaced by the National Funding Formula from 2017/18, with the government aiming for 90 per cent of schools who gain funding to receive the full amount they are due by 2020. Around £500 million of additional core funding will be provided over SR15 period, on top of the commitment to maintain per pupil funding in cash terms.
- **Mentoring –** £14 million over the Spending Review period will be used to deliver a

mentoring scheme for disadvantaged young teenagers.

- **Post-16 maths –** Government to consult on making the study of maths compulsory for 16 to 18 year-olds.

Housing

- **Right to Buy pilot** – As announced at Autumn Statement, the government is piloting the Right to Buy with five housing associations, to inform the design of the final scheme.
- **Pay to Stay taper** – The government will introduce a taper within Pay to Stay, so that rents rise gradually above the minimum income thresholds of £40,000 in London and £30,000 outside of London.
- **Making Pay to Stay voluntary for housing associations** – As announced as part of the government's deregulatory strategy for the housing association sector, Pay to Stay will be implemented on a voluntary basis by housing associations.
- **Social rent reduction deferral for supported housing** – the 1 per cent annual reduction in social rents announced at the Summer Budget will not apply to supported housing in 2016/17.
- **Local Authority land** – Local Authorities will collaborate with central government on a local government land ambition, working with their partners to release land helping to support the government's policy of regenerating council housing estates.
- **Starter Homes** – the Starter Homes Land Fund prospectus launched today. It invites Local Authorities to access the £1.2 billion of funding to remediate brownfield land to deliver Starter Homes.
- **Investment in low-cost homeownership** – The government will explore options for encouraging private investment in low-cost homeownership, including the scope to use guarantees.
- **Help to Buy: Shared Ownership** – The government will launch a prospectus in April which will invite private developers to come forward and bid for funding to build Shared Ownership homes.
- **Homeownership** – The government will explore ways to extend homeownership to social tenants who cannot afford to take advantage of existing schemes.
- **Private Rented Sector (PRS) Guarantee** – The government will extend the PRS guarantee scheme until December 2017 to encourage long term institutional investment in the private rented sector.

Homelessness

- **Rough sleepers** – government will:

  - Invest £100 million to deliver low-cost 'second stage' accommodation places for rough sleepers leaving hostel accommodation and domestic abuse victims and their families moving on from refuges.
  - invest £10 million over two years in initiatives to support and scale-up innovative ways to prevent and reduce rough sleeping, particularly in London, building on the success of the No Second Night Out initiative
  - double funding for the Rough Sleeping Social Impact Bond announced at the Spending Review, from £5 million to £10 million, to drive innovative ways of tackling entrenched rough sleeping, including through 'Housing First' approaches
  - Help rough sleeping EU migrants to return to their home countries.

- **LHA caps** - on 1 March 2016 the government confirmed that the date from which Local Housing Allowance caps apply to new tenancies in the supported accommodation sector will be delayed by one year. It will now apply to tenancies in this sector signed after 1 April 2017.
- **Supported housing** - the evidence review of the supported accommodation sector, due to report in the spring, will provide a foundation to support further decisions on protections for the supported housing sector in the long term.

Planning

- **Moving to a more zonal planning system** – The government will bring forward measures to enable a more zonal and 'red line' planning system.
- **Speeding up the process for assessing housing need** – The government intends to accelerate the preparation and adoption of Local Plans. The government welcomes the report by the local plans expert group and will consult on the recommendations.
- **Streamlining the use of planning conditions** – To minimise delays caused by the use of planning conditions the government intends to:
  - legislate to ensure that pre-commencement planning conditions can only be used with the agreement of the developer
  - review the process of deemed discharge for conditions, to ensure it is effective and its use maximised
- **Transparency of the land market** – The government will consult on proposals to increase transparency in the property market, including by improving the visibility of information relating to options to purchase or lease land.
- **Secretary of State planning decisions** – The government will set statutory 3 month deadlines for Secretary of State decisions on called-in applications and recovered appeals to prevent time-delays on decisions on infrastructure, housing and regeneration projects.
- **Compulsory Purchase Order reforms** – The government will consult on a second wave of Compulsory Purchase Order reforms with the objective of making the Compulsory Purchase Order process clearer, fairer and quicker.

Health, Social Care and Welfare

- **Soft drinks industry levy –** a sugar levy on 'excessively' sugary drinks, to be implemented in 2018/19. This will raise £520 million in its first year, which will be used to double the primary school PE and sport premium to £320 million per year, provide up to £285 million a year to give 25 per cent of secondary schools increased opportunity to extend their school day by one hour, and provide £10 million of funding a year to expand breakfast clubs for children.
- From autumn 2016, and as has previously been announced, the government will introduce **exemptions for recipients of Guardians Allowance, Carer's Allowance and the carers element of Universal Credit from the household benefit cap**, which is set at £23,000 for Greater London.
- **"Tampon Tax" -** £90,000 of the £12 million committed by the government will be used to support the Birth Companions charity, which provides support to women in prison and the community through pregnancy, birth and early parenting, in London and Peterborough.

Culture

- **Museums** – from 1 April 2017, the government will introduce a new tax relief for museums and galleries who take their exhibitions on tour, as well as broadening the eligibility criteria for the VAT refund scheme for museums and galleries.
- **Royal College of Art** – the government will help fund the expansion of the Battersea Campus by contributing £54 million funding to 2021/22.
- The government will support the **British Library's** ambition to develop the land to the north of its St Pancras site, subject to business care approval.

London Transport and infrastructure

- **Crossrail 2** - The government accepts the National Infrastructure Commission's recommendations and is giving the green light for Crossrail 2 to proceed to the next stage. The government will provide a contribution of £80 million to fund the development and a funding package to be developed that involves London funding more than half of the cost of the project.

- **Old Oak Common** - The government has agreed a Memorandum of Understanding with the Old Oak and Park Royal Development Corporation on transferring government and Network Rail land into the Development Corporation's ownership, on the condition that the Development Corporation develops a plan for funding, financing and delivering the regeneration.
- **TfL -** The government invites TfL to bring forward proposals for financing infrastructure projects from land value increases, which could support schemes like the proposal for 'flyunder' tunnels to replace busy main roads and support redevelopment in Barking, Hammersmith or other town centres. The government is also supporting TfL to generate revenue from its property assets including by consulting on reforms to compulsory purchase orders.
- **Outer London -** The government will provide £5 million to establish a fund to support smaller local infrastructure projects in outer London boroughs.
- **Brent Cross** – full business case for a new Thameslink station at Brent Cross has been approved.
- The government will establish a £15 million '**connected corridor'** from London to Dover to enable vehicles to communicate wirelessly with infrastructure and potentially other vehicles.
- The government will carry out a feasibility study on upgrades to the M1 to provide a **continuous smart motorway** from London to Yorkshire.

Local Government and Devolution

- The government will open negotiations on **new city deals** with Edinburgh and Swansea.
- Cardiff has agreed a £1.2 billion **city deal**, including a £500 million contribution from the government.
- East Anglia Combined Authority and the West of England Authority have agreed **mayoral devolution deals** worth £1 billion each.
- Lord Heseltine will lead the **Thames Estuary 2050 Growth Commission**, which will develop a plan for North Kent, South Essex and East London for supporting the development of high productivity clusters in specific locations.
- The government has agreed a further devolution deal with **Greater Manchester**, including the transfer of criminal justice powers.
- The government will establish a small number of **British Wealth Funds** by combining the assets of several Local Government Pension Scheme administering authorities into much larger investment pools, which will deliver savings of at least £200 million per annum from 2018.
- As previously announced, local authorities will have **the flexibility to spend capital receipts** from asset sales on the revenue costs of reform projects.
- The number of civil servants working in central London will reduce significantly, as part of a programme to relocate part of the Whitehall workforce to the London suburbs.

Commentary

It is too early to be able to say with certainty what the impact of the Budget 2016 announcements will be on local government funding. However, the fact that the additional cuts to departmental spending of £3.5 billion will not materialise until 2019/20 (following a departmental "efficiency review" that will report in 2018) means at least the first three years of the four year funding allocations set out in the 2016/17 local government finance settlement will not be affected.

The government's plans to introduce a National Schools Funding Formula could potentially have an adverse impact on funding for London's schools. The £500 million of additional funding over the Spending Review period, announced in the Budget, to accelerate the transition to the National Funding Formula is therefore welcome. However, a similar level of funding would be required nationally on an annual basis in order to protect pupil funding for all local authorities in the longer term.

Budget 2016 contained some very significant announcements for London local government relating to Business Rates: some welcome and others less so. The announcement of a change in indexation of the tax from RPI to CPI inflation is effectively a reduction in the overall amount of potential funding for the sector once the government introduces 100 per cent retention by 2020. The more immediate changes to Small Business Rates Relief will see around £1.5 billion a year less business rates collected (nationally) from April 2017 onwards. It isn't clear how local government will be "fully compensated" for the loss of income, but more information will be provided as part of the government's consultation on the implementation of 100 per cent retention over the summer.

More encouraging was the announcement that the government will explore with London options for moving to 100 per cent business rates retention ahead of the full roll-out of the business rates reforms (due by 2020). London Councils has repeatedly called for 100 per cent retention of business rates. Provided the problems with the existing system (notably the impact of business rates appeals) are dealt with, this offers a genuine opportunity for London to take control of its own destiny and deliver genuine economic growth that the current system does not deliver.

London Councils is working with the GLA and government to ensure that we get the best deal for Londoners from these fundamental changes in how local government services are funded.

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Links:

Further details of the Budegt can be found on the Treasury's website

This member briefing has been circulated to:

Portfolio holders and those members who requested policy briefings in the following categories: Local Government Finance