

Leaders' Committee

Local Government Finance update

Item 6

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Summary

This report updates Leaders' Committee on the latest local government finance developments following the final 2020-21 Local Government Settlement in February and the Budget on 11th March.

It also looks ahead to the major events in the next 12 months that will shape the local government finance system from 2021-22: the Comprehensive Spending Review (due in July), the Fair Funding Review and wider reforms to business rates. An update on the London business rates pool forecast is also provided.

Recommendations

Leaders' Committee is asked to:

- note the progress on finance lobbying with respect to the key events outlined in the report; and
 - write to local MPs to promote London Council's key Fair Funding Review lobbying priorities prior to the spring consultation.
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Local Government Finance update

Introduction

1. This report updates Leaders' Committee on the latest developments and lobbying activity with regard to local government finance, following the final 2020-21 Local Government Finance Settlement and Budget on 11th March 2020.
2. The next year continues to hold a huge amount of financial uncertainty for London local government, with the conclusion of the Fair Funding Review and reforms to 75% business rates retention due by April 2021; a Comprehensive Spending Review (CSR) due in July; and a fundamental review of business rates due to conclude by the Autumn Budget. The CSR will set departmental expenditure limits for three years and determine the overall quantum of central government funding to local government. The Fair Funding Review will determine the distribution of core funding within the 75% business rates retention scheme from 2021-22 onwards.

Local Government Finance Settlement

3. The final 2020-21 LGFS, published on 7th February, confirmed the proposals set out in Spending Round 2019 (SR19) for Core Spending Power to increase by £2.9bn (6.3%) nationally and £446m (6.5%) across London boroughs. The main Council Tax referendum threshold will reduce from 2.99% to 1.99% in 2020-21, whilst the flexibility to raise the Adult Social Care Precept (ASCP) will be 2% for relevant authorities. All London local authorities have now set their budget and will increase council tax, with all but 4 increasing their main rate by the maximum level permitted 1.99%, and all raising the ASCP by the maximum.
4. The settlement confirmed the continuation of all existing specific grants at 2019-20 levels, as well as an additional £1 billion for both children's and adult social care, of which London will receive £223m. The Government has confirmed this funding will recur in each year of the parliament (i.e. will be built into the baseline rather than an *additional* £1 billion each year). Allocations have not yet been published for the Public Health Grant which the Government intended to increase by 1% above inflation at SR19. The New Homes Bonus will continue in 2020-21 but won't attract legacy payments and the Government will consult this year on the future of the scheme.
5. Despite the overall uplift in funding, London Boroughs still plan to make savings in 2020-21 of around £400 million, as part of around £2 billion over the current four-year medium-

term financial plan period. Core funding has fallen on a like-for-like basis by around 63% in real terms, with overall resources down by around a quarter since 2010-11.

Budget 2020

Pre-Budget lobbying

6. London Councils' Budget representation focussed on economic growth priorities, calling for investment in London's vital transport, environmental and housing infrastructure, and its people through skills devolution and the UK Shared Prosperity Fund (UKSPF) to boost falling productivity levels and a greater role in management of the NHS primary care estate.
7. It urged the Government to align the fundamental review of business rates with the wider 75% BRR and Fair Funding Review reforms and called for broader reform of local government finance including both business rates and council tax, as well as providing local government with access to a broader range of revenue raising powers. It restated longstanding calls for greater fiscal devolution to cities and called for the Devolution White paper to include fiscal as well as functional devolution, whilst not overlooking areas with mature governance arrangements in place such as London. It also set out London Councils' broad Spending Review priorities (see paragraph 22)¹.
8. Several press releases relating to the key Budget asks were published, including a joint release with Core Cities highlighting the shared needs, challenges, and requirements of England's largest urban areas, and jointly calling for the UK's major cities to be supported to deliver sustainable economic growth².

Budget 2020 - outcome

9. The Budget was delivered on 11th March within the context of the developing Covid-19 pandemic and consequent economic uncertainty. Even before Covid-19, the OBR's underlying economic forecast had been downgraded compared with March 2019. Despite this, the Budget confirmed overall increases in public spending of £203 billion over the next five years across the UK including significant increases to current and capital spending. This will be largely funded by increases in borrowing with £125 billion (4.6% of GDP) added to public sector net debt by 2024-25.

¹ The full submission can be found here: <https://www.londoncouncils.gov.uk/node/37048>

² <https://www.londoncouncils.gov.uk/press-release/10-february-2020/influential-group-urban-authorities-call-devolution-end-hand-outs>

10. At the time of drafting, the details of the Budget are still emerging, however the main headlines for London Local Government are set out below.

- The Chancellor confirmed the **Comprehensive Spending Review (CSR20) will be published in July**. London Councils had called for the CSR timetable to be set out in our submission. The CSR will set departmental resource spending for three years to 2023-24, and capital spending for four years to 2024-25. The Budget outlined the overall envelope for public spending for the CSR20 period, implying that day-to-day spending on public services will grow by 2.8% on average over the three- year period (lower than the 4.1% increase set out in SR19, but higher than the reductions set out in each of the last three Spending Reviews). The impact on local government funding will not be known until the CSR in July.
- The Budget made **£12 billion available in response to the COVID-19 pandemic** in 2020-21, including a £5 billion emergency response fund for the NHS and local authorities, and a £500 million hardship fund likely to be linked to existing Council Tax Support schemes. The allocations for both are yet to be decided.
- It also included **reductions in business rates** to support businesses affected by COVID-19, including: 100% relief in 2020-21 for those with a rateable value (RV) under £51k in the retail, leisure, and hospitality sectors; a grant of £3k to businesses eligible for Small Business Rates Relief (with an RV of under £15k) or Rural Rate relief; and the discount for pubs with an RV under £100k will be extended from £1k to £5k. All reliefs will be funded by S.31 grant and billing costs will be subject to new burdens funding. The Government estimates that these reliefs, which are for 2020-21 only, are worth £3 billion.
- **The fundamental review of business rates** will conclude by the Autumn Budget and its ToR published (further detail is set out at paragraph 17).
- **The National Infrastructure Strategy** will be published later in the spring and Treasury Green Book rules will be reviewed to ensure investment spreads opportunity across the UK. will be published later in the spring and set out plans for the UK's economic infrastructure, responding to the recommendations of the National Infrastructure Commission's (NIC) National Infrastructure Assessment. Treasury Green Book rules, which set out how decisions on major investment programmes are appraised, will be reviewed in order to ensure investment spreads opportunity across the UK. However, headline £27 billion of investment in roads was announced
- There were several relevant housing announcements including an **additional £9.5 billion for the Affordable Homes Programme** and £1.1 billion of Housing

Infrastructure Fund allocations, although it is not yet known how much will come to London. At the CSR, the Government will launch a new long-term Single Housing Infrastructure Fund to unlock new homes in areas of high demand across the country and a new £400 million brownfield fund for which bids will be invited shortly. An additional **£1 billion was announced for the removal of unsafe cladding** from residential buildings above 18 meters to ensure people feel safe in their homes. A Planning White Paper will be published in the spring.

- A total of **£637 million will be invested to reduce rough sleeping** across the UK, although the Government hasn't confirmed over what timescale or how it intends to allocate funding.
- **A discounted PWLB rate for social housing was announced** – one of London Councils' key housing asks prior to the Budget. However, alongside the Budget, the Government published a consultation on reforms to the PWLB to ensure borrowing is not used for property investments, in response to a minority of councils using cheap finance to buy very significant amounts of commercial property for rental income³.
- Despite increased funding to address the public health risks of coronavirus, **Public Health Grant allocations for 2020-21 are still to be published.**
- **A package of environmental measures was announced** to promote the use of ultra-low and zero emission vehicles, improve air quality and reduce plastic pollution, including £500 million over the next five years for electric vehicle charging infrastructure and a review of electric vehicle charging infrastructure; an additional £304 million to reduce nitrogen dioxide emissions; the launch of a further consultation on the detailed design and implementation of the plastic packaging tax.
- In relation to education and skills, **£1.5 billion will be provided over 5 years for FE capital investment across England**; a new £2.5 billion National Skills Fund was announced to improve the technical skills of adults across the country, with consultation due in the spring details confirmed in the CSR; and a **Youth Investment Fund worth £500 million** will fund the building of new, and refurbishment of existing, youth centres to provide high-quality services for young people across the country (although no specific details have been published).

³ Available here: <https://www.gov.uk/government/consultations/public-works-loan-board-future-lending-terms-consultation>

11. London Councils published two press releases in response to the Budget: one in relation to the housing announcements⁴; and an overarching response, which welcomes the investment on COVID-19 and the broader public sector investment, some of the housing commitments and the fundamental review of business rates, while raising concerns that the Budget could need to go further to ensure London is able to deliver at maximum capacity to help power the national economy, particularly in relation to infrastructure investment⁵.

Fair Funding Review update

12. The Fair Funding Review will set new funding baselines for all local authorities from 2020-21 onwards, determining the distribution of an estimated £20 billion across England. A detailed briefing note setting out London Councils' priorities and next steps was sent to Leaders on 28th February and discussed by London Councils' Executive on 3rd March.
13. It set out a range of planned lobbying activity between now and the end of the review that includes:
- **Technical arguments** – working closely with London treasurers to make technical arguments and supply evidence to the TWG meetings due in the spring, including three specific papers on the ACA, homelessness and population.
 - **Increased media attention** – to include several articles on key issues identified in this paper for trade and, where possible, national media. The Budget in March will also provide a natural focus for media attention on funding issues and a chance to reiterate key messages.
 - **Utilising London MPs** – continuing to brief the London APPG and through supplying London MPs with potential parliamentary questions to table in appropriate debates.
 - **Briefing London business and VCS groups** – building on the successful engagement with representative groups as part of the *Investing in the Future* campaign, we will seek support to raise awareness of the potential impact of the Fair Funding Review and the specific funding pressures facing London boroughs as part of our CSR20 lobbying.
 - **Working with the GLA and other areas** - seeking opportunities to work with the GLA and other local authority groups that have similar characteristics on particular issues

⁴ <https://www.londoncouncils.gov.uk/press-release/11-march-2020/government-has-listened-many-our-housing-concerns-todays-budget-hasnt>

⁵ <https://www.londoncouncils.gov.uk/press-release/12-march-2020/budget-reaction-london-councils-it-needed-go-further>

within the review, most notably with other major urban areas (e.g. Core Cities /SIGOMA), and with the wider south east in relation to area costs.

14. To increase the level of political pressure on the Government regarding the potential impact of the review, the briefing proposed that Leaders reflect the lobbying narrative set out in the briefing in any media interviews they undertake on the subject of local government funding and in discussions they might have with MPs or Ministers, alongside individual borough priorities. It also **proposed that a template letter would be sent to all Leaders for them to send to London MPs before the consultation due in the spring.**

Business Rates

London Pool

15. The final LGF Settlement confirmed the confirmed the London Business Rates Pool for 2020-21 that will include all 34 London authorities. The City of London will continue to act as Lead Authority and administer the pool. The most recent estimate of the net financial benefit to London authorities of the pool in 2020-21 is approximately £35 million. Appendix A provides indicative amounts of the pool's benefit to each authority based on most recent estimates.

75% retention reforms

16. The Government intends to simplify the business rates retention system while moving to 75% retention from April 2021. In short, the "alternative model" proposal seeks to simplify the scheme by separating out the baseline element from the calculation of any growth reward, and by removing the direct impact of business rates appeals.
17. The Government has indicated it will consult on the reforms later in the year, and there are still a number of policy decisions to be made regarding how the new scheme will operate. One of the key priorities for London Councils will be to influence the design of the new scheme so that there are financial incentives for areas to pool business rates.

Fundamental Review

18. The Budget confirmed the Government's intention to undertake a fundamental review of the business rates system starting with a call for evidence in the spring and concluding by the Autumn Budget. The overall objectives of the review are to:
 - reduce the overall burden on businesses;
 - improve the current business rates system; and
 - consider more fundamental changes in the medium-to-long term.

19. The terms of reference (ToR), published alongside the Budget, state the review will focus on 4 main areas including:
- improvements to the Transitional Relief Scheme from April 2021;
 - reforms to make the system more sustainable including the basis of valuation, how the business rates multipliers should be set and who pays the tax;
 - the administration of business rates;
 - exploring alternatives to business rates, particularly within the taxation of land and property.
20. Importantly, the ToR have committed the review to have particular regard to “the role of business rates in the funding of local government and local services, and the impact of any changes on business rates retention, the delivery of existing reforms to the business rates system” (which London Councils lobbied for ahead of the Budget).
21. London Councils will respond to the review and use it to set out a vision for business rates reform, building alliances and a cross sector coalition with London Government and business representative groups for greater devolution of business rates in London.

Comprehensive Spending Review 2020

22. As set out in paragraph 10, the Budget confirmed the timetable for the Spending Review (now officially being referred to as a Comprehensive Spending Review). The Budget launched the CSR process with a deadline of 20th May for representations ahead of the publication of the review in July.
23. Building on the overall priorities outlined in the *Investing in the future* campaign ahead of the SR19, it is proposed that London Councils' CSR20 priorities will focus on:
- The need for a sustainable increase in funding for the sector to ensure no council is worse off as a result of the Fair Funding Review.
 - The urgent need for the recent short-term adult social care investment to continue and for progress on a sustainable long-term funding solution to be set out as soon as possible.
 - Investment to address London's children's social funding gap which will exceed £400 million by 2025, with a specific focus on sufficient funding rates for UASC and former UASC Care leavers.
 - A long-term solution to the rising costs of children with SEND, where London boroughs have 30% of the national accumulated deficits

- A significant increase in homelessness funding recognising the unique drivers of London's homelessness crisis.
- Recognition (whether through specific grant funding or funding for housing or social care) of the financial pressures created by supporting vulnerable people with No Recourse to Public Funds.

24. Further updates will be provided to Leaders on the specific detail of the CSR lobbying campaign in due course.

Recommendations

25. Leaders' Committee is asked to:

- note the progress on finance lobbying with respect to the key events outlined in the report; and
- write to local MPs to promote London Council's key Fair Funding Review lobbying priorities prior to the spring consultation (paragraph 14).

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendix A – Forecast shares of the financial net benefit of the London Business rates pool in 2020-21 (indicative amounts)

