

Executive

Provisional Local Government Finance Settlement 2018-19 Item 7

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Summary On 19 December 2017 the Secretary of State for Communities & Local Government set out the provisional Local Government Finance Settlement for 2018-19 in an oral statement to Parliament.

This year's settlement is the third of the current four year Spending Review period (2016-17 to 2019-20). For those authorities that have accepted the Government's four year offer, the provisional settlement confirms Revenue Support Grant allocations for the next two years 2018-19 and 2019-20.

This report outlines the main headlines from the provisional settlement for London local government, including changes to the council tax referendum threshold and the business rates retention scheme.

Recommendations The Executive is asked to note and comment on the contents of the report.

Provisional Local Government Finance Settlement 2018-19

Introduction

1. The provisional 2018-19 Local Government Finance Settlement was announced on 19 December 2017 by Sajid Javid, the Secretary of State for Communities and Local Government. This year's settlement is the third of the current four year Spending Review period (2016-17 to 2019-20). It set out Revenue Support Grant (RSG) allocations and Core Spending Power (CSP) figures for 2018-19 and confirmed provisional allocations for local authorities that accepted the Government's four year funding "offer" for 2019-20.
2. The consultation on the provisional settlement closes on 16 January. As the consultation will need to have been considered and cleared prior to the meeting of the Executive Committee, it will be cleared through urgency. The response will be circulated to the Executive in advance of the meeting.
3. This report outlines the key points from the settlement impacting on London local government.

Summary of key points for London local government

4. Final figures for 2018-19 will not be confirmed until the final settlement in early February, however, the key headlines for London local government from the provisional settlement are summarised below.
 - The Council Tax referendum threshold will increase from 2% to 3% in both 2018-19 and 2019-20.
 - SFA for England will fall by 5.4% in 2018-19 (5.8% for London Boroughs).
 - Eleven new 100% business rates retention pilots have been confirmed for 2018-19, (including the London pilot pool) in addition to the 5 existing pilots continuing – with a commitment to further pilots in 2019-20.
 - Plans to move to 75% business rates retention in 2020-21 across local government were announced.
 - A further consultation has been published on the Fair Funding Review (deadline 12 March), and government confirmed its intention to implement new funding baselines in 2020-21.
 - Previously planned changes to the New Homes Bonus (NHB) methodology, consulted on in September, will not go ahead.
 - The Government will consult in the spring on "fair and affordable options" for authorities expecting negative RSG in 2019-20.

- An additional £15 million has been allocated to Rural Services Delivery Grant (£65 million nationally) in 2018-19.
- £19 million was announced for Unaccompanied Asylum Seeking Children (although allocations have not been published at the time of writing).
- Public Health Grant allocations were published on 21 December. London boroughs will receive £648 million in 2018-19 (20% of the national total: the same share as in 2017-18).

Overall Funding Allocations

Core Spending Power

5. The Government has changed the definition of CSP in 2018-19, removing the Adult Social Care support grant (which was for 2017-18 only), and including additional funding to compensate local authorities for the change in indexation of the business rates multiplier from RPI to CPI inflation. CSP therefore comprises of:
 - Settlement Funding Assessment
 - Estimated Council Tax
 - Improved Better Care Fund
 - New Homes Bonus
 - Rural Services Delivery Grant
 - Compensation for under-indexing the business rates multiplier.
6. Table 1 below shows the breakdown of CSP by funding element. At the England level, between 2016-17 and 2019-20, there will be a cumulative increase of £1.9 billion (4.3% in cash terms) from £43.7 billion to £45.6 billion. The equivalent figures for London boroughs are an increase of £186 million 2.8% from £6.7 billion to £6.8 billion (see Table 2). Annex A provides a borough by borough breakdown.
7. However, as CSP includes a number of assumptions, this is unlikely to be an accurate reflection of the actual resources available to local authorities. In particular, it assumes:
 - all authorities that are eligible raise the social care precept to its maximum in 2018-19 and 2019-20 - in reality this will be down to local discretion;
 - all authorities increase overall council tax by the maximum amount of 2.99% in 2018-19 and 2019-20 - again this will be down to local discretion;
 - the tax base increases at the same average rate for each authority as between 2013-14 and 2017-18 - this may not be the case for all areas;

- NHB allocations are based on the share of NHB to date – again, this depends on the rate of home building and may go down; and
- SFA does not reflect what councils actually retain in business rates - only what the Government's assessment of their "target" retained rates is – again for boroughs collecting less than their target level (such as those that require "safety net" payments), the retained rates plus RSG will be lower than their assessed level of SFA.

Table 1 – Detailed breakdown of Core Spending Power – England 2016-17 to 2019-20 (£bn)

	Final	Final	Provisional		Annual change	Cumulative change
	2016-17	2017-18	2018-19	2019-20	2017-18 to 2018-19	2016-17 to 2019-20
Council Tax	23.25	24.67	26.60	28.05	7.8%	20.6%
SFA	18.60	16.63	15.57	14.40	-6.4%	-22.6%
Compensation for under-indexing the business rates multiplier	0.17	0.15	0.25	0.38	66.7%	127.9%
Improved Better Care Fund		1.12	1.50	1.84	34.4%	
New Homes Bonus	1.49	1.29	0.95	0.90	-26.8%	-39.4%
Rural Services Delivery Grant	0.08	0.07	0.07	0.07	0.0%	-19.8%
Transition Grant	0.15	0.15				
The 2017-18 Adult Social Care Support Grant		0.24				
Core Spending Power	43.73	44.27	44.93	45.62	1.5%	4.3%

Note 1: SFA figures in CSP do not reflect the BRR pilots

Note 2: NHB figures for 2016-17 and 2017-18 include returned funding

Table 2 – Core Spending Power - 2016-17 to 2019-20 (£m)

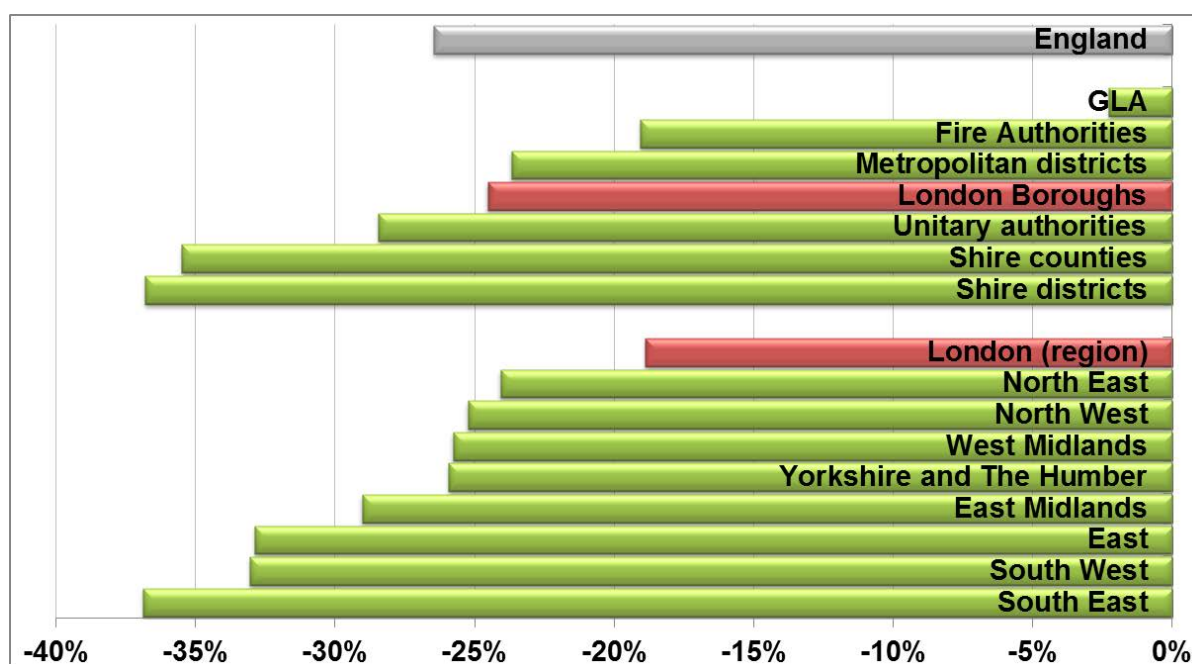
	Final	Final	Provisional		Annual change	Cumulative change
	2016-17	2017-18	2018-19	2019-20	2017-18 to 2018-19	2016-17 to 2019-20
England (CSP)	43.73	44.27	44.93	45.62	1.5%	4.3%
London Boroughs (CSP)	6.65	6.68	6.75	6.84	1.0%	2.8%

Settlement Funding Assessment

8. The Government has confirmed total "core funding" to local government - Settlement Funding Assessment (SFA) - will be £16.9 billion in 2018-19. This comprises £1.4 billion of Revenue Support Grant (RSG) and £15.6 billion of Baseline Funding (i.e. what the government expects local authorities to retain in business rates income).
9. At a national level, SFA will reduce from £17.9 billion in 2017-18 to £16.9 billion in 2018-19 (5.4%). For London boroughs, SFA will reduce by £177.1 million or 5.8% (from £3.1 billion to £2.9 billion) in 2018-19. Annex B provides a borough by borough breakdown.

10. Chart 2 shows that, over the cumulative four year period, London boroughs will receive the second lowest percentage cut of all authority types (25% in real terms) - only metropolitan districts will receive a lower cut (24%). Shire districts will see the largest real terms percentage cuts to SFA (37%). However, this follows a period in which London boroughs received larger percentage cuts than other areas between 2010-11 and 2015-16. As the GLA's funding reduction is only 2%, London as a region sees the lowest reduction in SFA over the four year period (19%).

Chart 2 – Real terms change in SFA (%) 2016-17 to 2019-20 by region & authority type



11. The cumulative like-for-like reduction to core funding over the decade to 2020 (used in London Councils' lobbying) is still scheduled to be 63.0% in real terms for London boroughs – broadly in line with the 63.7% average for England overall.

Council Tax Referendum Principles

12. The most notable announcement in the settlement is the increase in the council tax referendum threshold from 2% to 3% in both 2018-19 and 2019-20. The reason given by government was "in recognition of higher than expected inflation and the pressures on services such as social care and policing". London Councils estimates that an additional 1% increase would, if adopted by all London boroughs, raise approximately £32 million in 2018-19 and £35 million in 2019-20. This is in the context £1.6 billion of savings required to be made by the end of the decade.

13. It was also confirmed that shire district councils will be allowed increases of less than 3%, or up to and including £5, whichever is higher in 2018-19 and 2019-20, and that police precepts (including the GLA charge for the Metropolitan Police) will be allowed increases of up to £12 in 2018-19 and 2019-20. This represents a potential increase of c.5% for the GLA's police precept.
14. The flexibility to raise the Social Care Precept (SCP) up to a maximum of 6% over the three years to 2019-20, announced in last year's settlement, will continue as planned.

Business Rates Retention from 2020-21

15. The Government confirmed its intention to implement a system of 75% business rates retention across local government in 2020-21: lower than the 100% it had previously aimed for prior to the general election. It confirmed that this would include rolling in RSG, Rural Services Delivery Grant, GLA Transport Grant and Public Health Grant, and did not refer to any transfer of new responsibilities.
16. London Councils has long called for not only 100% retention for the sector but, full control over the setting and proceeds of business rates within the capital. In this context, and that of the recommendations of the London Finance Commission, 75% retention doesn't go far enough, and will create less of an incentive for authorities to grow their economies over the medium term.

100% Business Rates Retention Pilots in 2018-19

17. In addition to the 5 existing 100% retention pilots continuing in 2018-19, the Government confirmed 11 new pilots for 2018-19 - including the London pilot pool (item 4 on the agenda includes an update on the London 100% pilot pool). All pilots will trial the principles of 100% retention and will see RSG (and Rural Services Delivery Grant in two tier areas) "swapped" for higher retained business rates. Outside of London, the other new pilot areas are: Berkshire; Derbyshire; Devon; Gloucestershire; Kent & Medway; Leeds; Lincolnshire; Solent; Suffolk; and Surrey. These will be confirmed in the final settlement.
18. The settlement consultation also commits the Government to continue to pilot future reform of the system in 2019-20, with "further details to be provided in 2018". It therefore stopped short of confirming the extension of the newly announced pilots for that year, and has not confirmed

what will happen in areas already piloting 100% retention from 2020-21 when 75% retention will apply to the sector overall.

Specific grants

19. The distribution of a number of grants has been published alongside the settlement. Within core spending power these include:

- New Homes Bonus
- Improved Better Care Fund
- Compensation for under-indexing the business rates multiplier
- Rural Services Delivery Grant (not applicable to London).

New Homes Bonus

20. Last year the Government confirmed NHB payments to councils would be reduced from six years to five years in 2017/18, and that it would introduce a 0.4% baseline so that local authorities will need to achieve tax base growth of greater than 0.4% before they receive any NHB funding. The Government has decided not to make any additional change to the baseline below which the Bonus will not be paid, and it will remain at 0.4% for the 2018-19 allocations. It has retained the option of making adjustments to the baseline in future years.

21. In September, the Government consulted on withholding part of the Bonus from authorities not planning effectively for new homes, but has decided not to implement any further reforms for 2018-19.

22. London's share of the national total has stayed broadly the same at 21%, receiving £200 million of the £946 million national total. Overall NHB funding has fallen by £280.7 million (22.9%) as a result of the reforms announced last year. London boroughs' allocations have fallen by £60.3 million (23.1%).

Improved Better Care Fund

23. There is no change to the illustrative figures set following the March Budget announcement of further funding for iBCF. In 2018-19, the Government is providing £1.5 billion, rising to £1.8 billion in 2019-20 across England. London boroughs will receive £244 million in 2018-19 and £299 million in 2019-20. As confirmed in the allocation methodology last year, the allocation methodology takes into account the ability to raise SCP and therefore benefits those councils with lower capacity to raise council tax.

Compensation for under-indexing the business rates multiplier

24. At Autumn Budget 2017, the Government announced plans to bring forward the move from RPI to CPI indexation of the business rates multiplier. This change will now take effect from 2018-19 instead of 2020-21. The provisional settlement confirmed £250 million will be made available in 2018-19 via a section 31 grant paid to local authorities in compensation for lost income from this and previous caps in 2014-15 and 2015-16, of which £44.3 million will be paid to London boroughs, rising to £375.5 million in 2019/20 nationally (£66.5 million in London).

Other grants outside the settlement

25. Outside of the settlement, allocations of a number of other grants have been published including¹:

- Public Health Grant
- Lead Local Flood Authorities funding
- Flexible Homelessness Support Grant
- Homelessness Reduction Act new burdens funding.

26. The relative distribution of the Public Health Grant has not changed but all allocations will be reduced by 2.6% in 2018-19 and again in 2019-20. London boroughs will receive £648 million in 2018-19 and £631 million in 2019-20 (a fall of £67 million over the Spending Review period).

27. London Boroughs will receive £0.8 million in Lead Local Flood Authority Grant for 2018-19 (from the national total of £4.1 million), £115.8 million in Flexible Homelessness Support Grant in 2018-19 (61% of the national total of £191.3 million), and £30.2 million of Homelessness Reduction Act new burdens funding over the three years to 2019-20 (41% of the national total of £72.7 million).

28. The Secretary of State also announced £19 million of funding for unaccompanied Asylum Seeking Children, the allocations for which are expected to be published by DCLG in January.

Fair Funding Review

¹ More details available here: <https://www.gov.uk/government/collections/funding-allocations-to-local-authorities-paid-outside-of-the-local-government-finance-settlement-2018-to-2019>

29. The Government also published, alongside the provisional settlement, a consultation on the Fair Funding Review, and confirmed its intention to implement the new funding baselines the Review will establish, at the same time as the new 75% retention system in 2020-21.

30. London Councils will respond to the consultation by the 12 March deadline making the case for a fair funding distribution that adequately reflects the characteristics of London population and the drivers of cost in the capital. In broad terms, this is likely to focus on the fact that London's population will grow at twice the rate of the rest of the country over the next 20 years, that London has higher levels of relative deprivation than other areas, and it costs more to deliver local services in the capital.

Recommendations

31. The Executive is asked note and comment on the contents of the report.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendix A – provisional Core Spending Power by London Borough - 2016-17 to 2019-20 (£m)

	Final		Provisional		Annual change (2017-18 to 2018-19)	Cumulative change (2016-17 to 2019-20)
	2016-17	2017-18	2018-19	2019-20		
Barking & Dagenham	145.6	148.2	150.3	153.1	1.5%	5.1%
Barnet	256.9	258.7	263.4	268.0	1.8%	4.3%
Bexley	155.2	156.9	159.2	162.0	1.5%	4.4%
Brent	247.6	252.5	257.5	265.5	2.0%	7.2%
Bromley	202.2	204.0	204.7	207.9	0.4%	2.8%
Camden	244.5	244.0	244.9	244.5	0.4%	0.0%
City of London	33.6	32.0	31.3	30.8	-2.2%	-8.4%
Croydon	271.4	273.7	278.7	283.3	1.8%	4.4%
Ealing	245.7	243.6	246.3	249.5	1.1%	1.5%
Enfield	228.4	229.6	232.3	234.4	1.2%	2.6%
Greenwich	219.9	226.6	230.0	233.2	1.5%	6.1%
Hackney	258.4	257.6	253.4	256.4	-1.6%	-0.8%
Hammersmith & Fulham	157.9	157.2	158.2	161.0	0.7%	2.0%
Haringey	221.2	222.2	224.3	227.0	0.9%	2.6%
Harrow	170.0	172.4	176.2	178.8	2.2%	5.2%
Havering	169.7	172.5	174.0	177.7	0.8%	4.7%
Hillingdon	189.6	185.2	186.6	191.4	0.7%	1.0%
Hounslow	171.6	172.6	176.5	180.8	2.3%	5.4%
Islington	224.4	224.9	222.8	224.6	-0.9%	0.1%
Kensington & Chelsea	158.4	156.3	157.9	158.7	1.1%	0.2%
Kingston upon Thames	123.4	123.6	124.0	124.6	0.4%	0.9%
Lambeth	286.1	286.8	290.4	292.8	1.3%	2.4%
Lewisham	244.5	249.4	250.2	252.9	0.3%	3.4%
Merton	140.2	139.7	140.5	141.7	0.6%	1.1%
Newham	253.2	252.0	254.8	255.2	1.1%	0.8%
Redbridge	182.1	185.3	188.7	191.2	1.9%	5.0%
Richmond upon Thames	153.5	152.2	153.5	153.1	0.9%	-0.2%
Southwark	282.5	284.9	288.2	291.9	1.2%	3.3%
Sutton	149.4	148.4	150.5	152.8	1.4%	2.3%
Tower Hamlets	278.0	279.6	282.0	285.5	0.9%	2.7%
Waltham Forest	201.9	204.7	208.4	212.0	1.8%	5.0%
Wandsworth	179.5	184.0	186.3	189.4	1.2%	5.5%
Westminster	204.2	203.3	203.8	204.7	0.3%	0.2%
London Boroughs	6,650.4	6,684.4	6,750.3	6,836.0	1.0%	2.8%
England	43,729.3	44,271.3	44,934.4	45,622.8	1.5%	4.3%

Appendix B – provisional Settlement Funding Assessment by London Borough - 2016-17 to 2019-20 (£m)

	Final		Provisional		Annual change (2017-18 to 2018-19)	Cumulative change (2016-17 to 2019-20)
	2016-17	2017-18	2018-19	2019-20		
Barking & Dagenham	89.5	82.6	78.8	74.5	-4.7%	-16.8%
Barnet	90.6	78.3	71.4	63.9	-8.8%	-29.4%
Bexley	55.5	48.0	43.8	39.3	-8.7%	-29.2%
Brent	136.8	125.2	118.7	111.3	-5.2%	-18.6%
Bromley	56.5	46.8	41.4	35.6	-11.6%	-37.1%
Camden	138.5	126.6	119.9	112.3	-5.3%	-19.0%
City of London	25.9	24.4	23.6	22.6	-3.4%	-12.8%
Croydon	114.6	101.7	94.5	86.7	-7.1%	-24.3%
Ealing	118.9	107.0	100.3	93.0	-6.2%	-21.8%
Enfield	114.4	103.3	97.1	90.2	-6.0%	-21.2%
Greenwich	129.5	119.4	113.7	107.2	-4.8%	-17.2%
Hackney	170.8	158.6	151.8	144.0	-4.3%	-15.7%
Hammersmith & Fulham	95.1	87.3	82.9	78.0	-5.0%	-18.0%
Haringey	126.0	115.2	109.1	102.3	-5.3%	-18.9%
Harrow	58.2	50.1	45.5	40.6	-9.1%	-30.3%
Havering	52.5	44.6	40.1	35.4	-10.0%	-32.7%
Hillingdon	72.6	63.6	58.5	53.1	-8.0%	-26.9%
Hounslow	76.2	67.8	63.1	58.0	-6.9%	-23.9%
Islington	130.9	120.4	114.6	107.9	-4.9%	-17.6%
Kensington & Chelsea	79.8	71.6	67.0	61.8	-6.4%	-22.6%
Kingston upon Thames	32.2	26.1	22.8	19.2	-12.9%	-40.3%
Lambeth	171.4	157.7	150.0	141.4	-4.9%	-17.5%
Lewisham	146.7	135.0	128.5	121.1	-4.9%	-17.4%
Merton	55.5	48.5	44.7	40.4	-8.0%	-27.1%
Newham	172.7	160.5	153.6	145.8	-4.3%	-15.6%
Redbridge	82.0	73.1	68.2	62.8	-6.8%	-23.4%
Richmond upon Thames	33.0	24.5	21.7	14.7	-11.5%	-55.4%
Southwark	179.5	166.0	158.4	149.8	-4.6%	-16.6%
Sutton	58.1	50.8	46.8	42.4	-8.0%	-27.0%
Tower Hamlets	170.7	158.1	151.1	142.9	-4.4%	-16.3%
Waltham Forest	108.7	99.0	93.5	87.5	-5.5%	-19.5%
Wandsworth	114.6	106.0	101.3	95.7	-4.5%	-16.4%
Westminster	140.6	130.6	125.0	118.5	-4.2%	-15.7%
London Boroughs	3,398.5	3,078.3	2,901.2	2,699.7	-5.8%	-20.6%
England	18,601.5	17,905.0	16,937.6	14,397.9	-5.4%	-22.6%