ADUR & WORTHING COUNCILS

Key Decision: No

Ward(s) Affected:

Local Government Funding in 2019/20 - Consultation response

Report by the Director for Digital & Resources

Executive Summary

1. Purpose

1.1 The Government released a technical consultation on the 24th July 2018 which sets out the Government preferred approach on four key issues for the 2019/20 Local Government Finance Settlement (Settlement):

i) Multi-year settlement offer;
ii) New Homes Bonus;
iii) Council tax referendum principles; and
iv) Negative Revenue Support Grant

1.2 The purpose of this report is to propose a response to the consultation document which is due by the 18th September 2018 which is set out in Appendix 1.

1.3 In parallel to the consultation, the Government has also announced a further round of business rate pilots for 2019-20. The terms offered for 2019-20 are not as good as those available in 2018-19: pilots will only retain 75% rather than the 100% retained in previous years and there will be no “no detriment” support. Current devolution areas – and possibly London – will continue on their existing terms, which are more favourable than those offered to other English authorities.

1.4 Councils wishing to be considered for pilot status in 2019/20 must have submitted their bid to DCLG by 25th September 2018. It is likely that there will be a competitive process and not all bids will be successful. Members are reminded that last years bid was unsuccessful. DCLG intends to announce the outcome of the bidding process in December 2018.

1.5 A successful bid should generate significant additional revenue of £20m for the West Sussex authorities, and help local government shape the future roll out of fully localised business rates. It is proposed that the Councils participate in a County wide bid to be a pilot area for the business rate retention scheme. However, the timescales for submitting the bid are tight with a deadline of the 25th September. Consequently a delegation is requested to enable to Council to participate in the pilot.

2. Recommendations

2.1 The Joint Strategic Committee is recommended to:

i) Approve the draft consultation response detailed in appendix 1 of the report.

ii) Approve that the Chief Financial Officer can sign the business rate pilot bid on behalf of Adur District Council and Worthing Borough Council in consultation with the Leaders of the Councils.

3. Context

3.1 The Comprehensive Spending review of 2015 set the overall envelope of Local Government funding for the next four years (2016/17 - 2019/20).

Local Government – Departmental Expenditure Limit (DEL)					
Departmental Expenditure Limit	**£ Billion**				
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Central Government funding for Local Government	11.5	9.6	7.4	6.1	5.4
Locally financed expenditure*	28.8	29.0	31.5	33.6	35.1
Total Local Government Spending	40.3	38.6	38.9	39.7	40.5
Annual percentage reduction in funding for Local Government		16.52%	22.92%	17.57%	11.48%
Overall reduction in funding for Local Government					53.04%

* Treasury's own forecasts of the funding available from business rates, council tax and the social care levy

The Consultation is released within the context of the overall funding available for Local Government.

3.2 The government remains committed to a fundamental review of Local Government finance with the continued intention of introducing an updated, more robust and transparent distribution methodology for both Revenue Support Grant and the resetting business rates baselines which determine how much business rate income the Council can retain.

3.3 Members are reminded that the Councils no longer receive Revenue Support Grant and only keep limited business rate income under the current system. Of the overall income associated with the business rate system, the Councils retain the following amounts:

	Adur £'m	Worthing £'m
Estimated total net 2018/19 business rate income collected	18.45	33.01
Income retained locally	2.34	3.36
Percentage retained locally	12.7%	10.18%

4. Issues for consideration

4.1 The consultation document sets out the Government's proposed approach to the 2019-20 settlement. Specifically it:

- outlines the approach to the fourth year of the multi-year settlement offer for those councils that accepted the offer, and arrangements for those that did not;
- outlines the Government's position on the New Homes Bonus threshold;
- outlines the Government's proposals for council tax referendum principles for 2019-20; and
- outlines the Government's proposals for dealing with the issue known as 'Negative Revenue Support Grant'.

The background to each of these proposals and the suggested consultation response is detailed below.

4.2 **<u>The Multi-Year settlement offer:</u>**

4.2.1 The Government is confirming the 4-year offer that was made to authorities at the time of the 2016-17 settlement. This covered core local government funding for the period of the spending review (2016-17 to 2019-20). The offer included certainty on:

- Revenue Support Grant
- Business rates tariff and top-up payments. Both Councils pay significant tariff payments to the Government.
- Rural Services Delivery Grant (£65m in 2019-20)
- Transition Grant (this grant was only payable in 2016-17 and 2017-18)

To qualify for the offer, councils were obliged to submit efficiency plans which both Councils opted to do. The sole benefit of subscribing to the offer was certainty over the level of funding that the Councils would obtain over the next four years. As the Councils no longer receive any Revenue Support Grant , Transition Grant, and never qualified for Rural Services Delivery Grant, in some respects the question is a little academic.

4.2.2 There were a small number of authorities who did not accept the original 4-year offer, and theoretically core funding allocations will be subject to an annual review. In practice, it seems very unlikely that the funding allocations for these authorities will be any different from those already published, but there is the outside chance of amendments.

4.2.3 The business rate tariffs and top-ups will be updated for the latest multiplier increase (CPI in September 2018) and for the impact of the 2017 business rate revaluation. These adjustments are required so that an authority's tariff or top-up matches the changes in business rate income that arise as a result of the multiplier or revaluation. The 4-year offer states that there will be no other changes to tariffs or top-ups.

4.2.4 The consultation poses the following question:

> Do you agree that the Government should confirm the final year of the 4-year offer as set out in 2016-17?

4.2.5 Overall the concept of a 4-year settlement has been very beneficial for local government. It has provided certainty about some of the key funding streams that authorities receive enabling the Councils to plan properly for the reduction in funding. The Councils should agree with the Government's proposal and be supportive of a new 4-year settlement for the next spending review period (2020-21 to 2023-24).

4.3 **New Homes Bonus (NHB):**

4.3.1 The Government made changes to the way that the NHB operated in 2017-18 and in 2018-19:

- Number of years of legacy payments was reduced from 6 to 5 years in 2017-18, and then down further to 4 years from 2018-19 onwards; and
- A national baseline was introduced in 2017-18. It was set at 0.4% of the current Council Tax taxbase in 2017-18 and remained at this level for 2018-19.

4.3.2 The stated purpose of both these changes was to “sharpen the incentive” for local authorities. In reality, the national baseline allowed the Government to manage the cost of the NHB scheme. By applying these changes the Government was able to reduce the cost of the scheme from £1.6bn in 2016-17 to £900m in 2019-20.

4.3.3 Whilst there are no specific questions within this consultation paper about NHB, the Government is clearly reminding authorities that the current scheme allows it to increase the national baseline to manage the overall cost of the scheme.

4.3.4 The upward trend in national house-building suggests that the national baseline could be potentially be increased from 0.4% in 2019-20. However it is very difficult to assess whether there will actually be any increase until all Councils publish the new Council Tax Base (CTB1) forms in late October 2018.

4.3.4 The level of the baseline is important for our financial planning for 2019-20. The current level of 0.4% makes it difficult for Adur District Council to generate any new NHB, any potential increase would inevitably mean that Adur is unlikely to benefit from any new grant in 2019/20 as well as reducing the amount of grant that Worthing Borough Council could benefit from. Members are reminded that the 5 year budget forecast assumes that Adur will not benefit from any new NHB in 2019/20 whilst Worthing will only benefit from an additional £120,000 so this risk has already been addressed within the forecasts.

4.3.5 Of more concern to many authorities will be the Government’s indication that NHB is not confirmed beyond 2019-20. There had already been indications that the Government wanted to make changes to NHB, and there have been repeated attempts to reduce the cost of the scheme. Put simply, the Government is not convinced that NHB is a good use of nearly £1bn or that it is a cost-effective way of incentivising housing growth. Within our own financial plans, the Councils have assumed that NHB will be phased out from 2020/21 onwards.

4.3.6 There will be a full consultation at some point in the next year, and this will no doubt feed into the 2019 spending review. The Councils should at this stage argue that as a minimum the Government should retain its commitment to the legacy NHB payments.

4.4 **<u>Council Tax referendum principles:</u>**

4.4.1 There are no proposed changes to the council tax referendum principles to those that were used for setting council tax for 2018-19. District and Borough councils will be able to increase Band D by the higher of 3% or £5.

4.4.2 Importantly, the consultation paper says “the Government remains minded” to use these council tax principles, but it “intends to provide an update on its proposals for council tax referendum principles ... alongside the provisional Local Government Finance Settlement”. This indicates that these principles are not absolutely confirmed, and the Government reserves the right to make changes. However, it would be difficult to change the council tax principles at the last minute. It is also difficult to see what might change between now and early December that would force the Government to reduce the referendum limits.

4.4.3 The core referendum principle now appears to be set at 3%. For 2017-18 the threshold was 2%, and this was increased in the last settlement to 3%. The justification at the time was that this was in line with the prevailing rate of inflation. Inflation is now lower but the Government are clearly intending to continue with 3%, despite this being above inflation. This indicates a clear change in policy that has taken place in recent years: the Government is increasingly allowing Councils to increase council tax to replace funding that had previously been provided via Revenue Support Grant or from other Government Grants, and there is no indication that this will change.

4.4.4 The current financial forecasts assume an annual increase of 2%. The increase to 3% provides the councils with a welcome increase in flexibility although the councils need not increase by this level.

4.4.5 The consultation poses the following question:

> Do you agree with the council tax referendum principles proposed by the Government for 2019-20?

4.4.6 The Councils should support the proposed referendum principles as they provide all councils with local discretion about how to address the funding shortfalls caused by the withdrawal of Government funding and the impact of unavoidable cost pressures including inflation (e.g increasing demand for services such as homelessness and adult social care).

4.4.7 The Councils should also lobby for the Government to provide early certainty about the maximum council tax increases to enable effective financial planning. Provisional settlement is usually in late December or early January. This is very late in the budget setting process and may cause logistical challenges if additional savings had to be found as a result of the referendum criteria changing..

4.4.8 The Councils could also lobby for some additional flexibility. The Police and Crime Commissioners have the ability to set the level of increase up to £12.00. A £12.00 increase last year was equivalent to 7.55% for the Sussex Police and Crime Commissioner. The current £5 maximum is likely to help very few District Councils nationally in 2019-20 and currently only benefits Worthing Borough Council. A higher maximum increase would assist more Councils in balancing the books and would give much more local discretion about how to meet the current financial challenges.

4.5 **Negative Revenue Support Grant:**

4.5.1 Each council has a Settlement Funding Assessment (SFA) which is the amount of funding that the Government has assessed that it requires by way of a combination of Revenue Support Grant (RSG) and the business rate Baseline Funding Level (BFL). The BFL is indexed every year in line with the business rate multiplier, and to date all reductions in the overall SFA have been made to an authority's RSG allocation.

4.5.2 However, we are now at a point where for some councils, such as Adur and Worthing, Revenue Support Grant has been eliminated and so no further reductions in this source of funding can be made. Negative RSG occurs when an authority's Settlement Funding Assessment (SFA) is lower than its BFL, which means that the Government then reduces the income retained from Business Rates.

4.5.3 A few authorities were affected by negative RSG in 2017/18 and 2018/19. In these years, any adjustment to tariffs that were required for Negative RSG were not implemented. But the adjustment required in 2019/20 is much larger (£153m) and affects too many authorities (168) so the issue now needs to be properly addressed..

4.5.4 Ministers have been under considerable pressure from those authorities who are affected to reverse the adjustment for Negative RSG in 2019/20 and the previous Secretary of State had made a commitment to review the issue.

4.5.5 Whilst there may be an argument that the adjustment is legitimate as it is based on the underlying SFA, the formula behind the SFA is significantly out of date and is now the subject of a major review ('Fairer Funding Review').

4.5.6 It should also be appreciated that Negative RSG went against the commitments that MHCLG had made in 2013/14 that top-ups and tariffs would be frozen until the reset in 2020/21. It was proposed that Negative RSG would be implemented via an adjustment to an authority's tariff. This adjustment was simply a way of implementing the adjustment required for Negative RSG because it is not technically possible to have a negative grant. The tariff adjustment meant authorities retained less business rates.

4.5.7 MHCLG have put forward a range of options for dealing with Negative RSG, although the preferred option is simply to not make a tariff adjustment. The options are:

- Directly "eliminating" Negative RSG via forgone business rates receipts

  This is the Government's preferred option. The option is simply that no adjustment will be made to tariffs in respect of Negative RSG.

- Altering the Core Funding methodology

  In this option, the Government would revisit the original methodology used to calculate the 2016/17 to 2019/20 funding allocations, particularly the use of actual council tax. MHCLG believes that it would have been "the fairest approach for the sector". However, making such a change would not eliminate Negative RSG.

  A complicating factor is that the Government has made a commitment to a four-year settlement. If any authority lost-out from this kind of change in methodology then MHCLG would have had to guarantee at least as much RSG as was announced in the multi-year settlement.

  The cost of such a change in methodology would have been in excess of £500m and still leave significant residual Negative RSG. Thus, the option is both too expensive and does not achieve its ultimate objective.

- Moving existing funding, or injecting additional funds into Core Funding

  Additional resource could be transferred into SFA (thus lifting every authority's funding) or existing funding streams could be transferred. Clearly this methodology is capable of eliminating Negative RSG entirely, it just requires sufficient funding to be made available. But this is very expensive (MHCLG estimate the cost at £2bn). Other grants could be transferred in (such as Public Health grant) but the distribution of these grants does not match the distribution of Negative RSG. For instance, although Public Health grant is a very large grant, no district council receives this grant.

- Remaining with the status quo of the current settlement methodology, such that authorities will have tariffs and top-ups adjusted

  In this option Negative RSG would be implemented in line with the 2016/17 settlement announcement. MHCLG argue against this approach because they want to “honour” their commitment not to adjust tariffs and tops-ups until the reset in 2020/21.

4.5.8 If negative RSG is eliminated, the Council’s could potentially increase the amount of business rate income retained by £180,000 for Adur district Council and £245,000 for Worthing Borough Council. It is clearly in the Council’s best financial interest to support the option proposed by Government.

4.5.9 The consultation poses the following questions:

> Do you agree with the Government’s preferred approach that Negative RSG is eliminated in full via forgone business rates receipts in 2019-20?
>
> If you disagree with the Government’s preferred approach to Negative RSG please express your preference for an alternative option. If you believe there is an alternative mechanism for dealing with Negative RSG not explored here please provide further detail.

4.5.10 Overall, the Government’s preferred option is the only viable option that reverses Negative RSG. The other options are too costly, break commitments on the multi-year settlement or leave some residual Negative RSG. The preferred option now looks very likely indeed to be adopted for the 2019-20 settlement.

4.6 **<u>Business Rate Retention Scheme Pilot bids:</u>**

4.6.1 The Government has also announced that there will be be a further round of business rate pilots in 2019-20. It is proposed that the pilots will operate in the same way in 2019-20 as they will in 2020/21: Business Rate Baselines will be calculated at new 75% retention levels; the funding from Business Rates that Councils can retain (Baseline Funding Level) will be increased to reflect any transfers of funding; and a new tariff or top-up will be calculated for each pilot authority based on their new baselines.

4.6.2 The main change from the 2018/19 pilot round is that the local share will reduce from 100% to 75%. There are good reasons for making this change. Firstly, the national scheme will operate on a 75% share from 2020-21, and it makes sense for the pilots to help MHCLG understand how the new national scheme will operate. Secondly, the cost of the pilot programme has become significant (£920m+) and reducing the share to 75% reduces the cost to the Treasury.

4.6.3. Another important change to the pilot programme is that there will not be a "no detriment" clause for the 2019/20 pilots. "No detriment" ensures that the pilot will not be worse-off than the individual authorities would have been in aggregate in the 50% scheme. It was a very useful measure last year for authorities bidding because it meant that authorities could choose to apply for pilot status without worrying that they could lose money. Without it, many authorities will be concerned that a major loss of income in 2019/20 could leave them financially disadvantaged (for example, from a successful NHS Foundation Trust claim for charitable relief or from a major appeal).

4.6.4 Officers are preparing a West Sussex county-wide bid. Detailed financial modelling will be required to ensure pilot status will be financially beneficial to all authorities. If the initial modelling indicates that being a pilot is not financially advantageous, or is significantly risky a bid would not be submitted.

4.6.5 Other matters that will need to be worked up as part of a bid include:

i) Tier splits ie how much growth will be retained by county and district Councils respectively.

ii) Which additional responsibilities, or loss of existing grants, would be rolled in to make the scheme fiscally neutral.

iii) How gains will be used. DCLG have indicated that they expect at least some of the gain to be used to generate economic growth.

iv) How risks will be mitigated.

4.6.6 Experience of having operated a business rate pool in the county means that much of the existing risk mitigation and governance arrangements can be built upon as part of this submission as they were in last year's bid.

4.6.7 Finance officers are currently modelling different scenarios, with the aim of reporting these to the chief executives to consider in late August or early September. Following that meeting the bid submission can be refined in time for the 25th September 2018 deadline. The Leaders will be consulted on the bid to be made.

4.6.8 DCLG will announce successful submissions in December and depending on the deadline for acceptance it is intended that the final decision be reported back to Council for final sign off. If, however, DCLG deadlines means that it is not possible to take the matter back to full council, urgency provisions may need to be exercised in accordance with the constitution.

4.6.9 The Councils could continue to operate with the West Sussex business rate pool for 2019/20 as is the current case. This enables more of the income growth to be retained locally than would be the case without a pool (30%). However a successful pilot bid would enable all growth to be retained within the pilot area. Nevertheless this remains the fall back position should the pilot bid be unsuccessful.

5. Engagement and Communication

5.1 All district, borough and county councils in West Sussex will need to collaborate on the bid for it to be successful. Finance officers and chief executives are therefore collaborating to enable a bid to be drafted. Each authority will need to consult their members according to their own constitutional requirements.

5.2 The proposed consultation response has been shared and discussed with other Officers in the Council.

6. Financial Implications

6.1 If the Government implements the proposals outlined in the consultation document then the Councils will have greater flexibility in deciding the level of Council Tax increase to levy. The Councils could also benefit from additional retained business rate income if Negative Revenue Support Grant is eliminated.

6.2 The submission of a bid does not require additional resources, the cost of any consultancy is being met from the current Business Rate Pool. However, if successful, the bid should benefit the Councils' financially as more of the business rate growth would be retained in 2019/20.

7. Legal Implications

7.1 To be accepted as a pilot for 2019/20, agreement must be secured locally from all relevant authorities to be designated as a pool for 2019/20 (in accordance with Part 9 of Schedule 7B to the Local Government Finance Act 1988) and to put in place local arrangements to pool their additional business rates income.

7.2 The S.151 officer of each authority participating in the Pool must sign off the proposal before it is submitted. In Adur and Worthing Council, this Officer is the Chief Financial Officer.

Background Papers

The 2019-20 Local Government Finance Settlement Technical Consultation

Invitation to Local Authorities in England to pilot 75% Business Rates Retention in 2019/20 - MHCLG

> https://www.gov.uk/government/publications/75-business-rates-retention-pilots-2019- to-2020-prospectus

Briefing note on the Local Government Finance Settlement - Pixel Financial Management.

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Sustainability & Risk Assessment

1. Economic

1.1 The government expects that some retained income from growth to be invested to encourage further growth across the area.

2. Social

2.1 Social Value

If successful, the bid will generate additional resources for the Council supporting a wide range of services which benefit the local community.

2.2 Equality Issues

Matter considered and no issue identified

2.3 Community Safety Issues (Section 17)

Matter considered and no issue identified

2.4 Human Rights Issues

Matter considered and no issue identified

3. Environmental

Matter considered and no issue identified

4. Governance

4.1 A governance agreement will be developed as part of the bid This will include details of:

i) how any additional business rates income is to be used;
ii) how risk is to be managed; and
iii) how residual benefits/liabilities would be dealt with once the pilot ends;

The agreement will also include an indication of how the pool will work in the longer term and the proposals for sharing additional growth.

4.2 There is a potential risk that taxation receipts do not grow as fast as spending on the additional responsibilities. It is therefore essential that financial modelling is undertaken to establish which additional responsibilities are requested, and the risk is mitigated as far as possible.

Appendix 1

Question 1: Do you agree that the Government should confirm the final year of the 4-year offer as set out in 2016-17?

Proposed response:

The Councils agree with the Government's proposal and would be supportive of new 4-year settlement for the next spending review period (2020-21 to 2023-24).

Question 2: Do you agree with the council tax referendum principles proposed by the Government for 2019-20?

Proposed response:

The Councils support the proposed referendum principles because they provide all councils with local discretion about how to address the funding shortfalls caused by the combination of the withdrawal of Government funding and the impact of unavoidable cost pressures (e.g inflation and the increasing demand for services such as homelessness and adult social care).

The Councils would welcome early confirmation of the referendum limits as these would enable effective financial planning. The proposal to confirm the principles at the time of Provisional Settlement may prove problematic, with Councils having to find additional savings at a late stage in the budget process.

The Councils would welcome a referendum principal for all District and Borough Councils which is more in line with that proposed for the Police and Crime Commissioners i.e. by the higher of 3% or £12.00.

Question 3: Do you agree with the Government's preferred approach that Negative RSG is eliminated in full via forgone business rates receipts in 2019-20?

Question 4: If you disagree with the Government's preferred approach to Negative RSG please express your preference for an alternative option. If you believe there is an alternative mechanism for dealing with Negative RSG not explored here please provide further detail.

Proposed response:

The Councils have long questioned the legitimacy of the Negative RSG adjustment to the tariff payment as this compromises the commitments to not adjust the Tariff payments until the business rate reset in 20/21.

The Councils support the Government’s preferred option as the only viable option that reverses Negative RSG. The other options are too costly, break commitments on the multi-year settlement or leave some residual Negative RSG.