

**Manchester City Council
Report for Information**

Report to: Resources and Governance Scrutiny Committee –
22 June 2017

Subject: Budget – Local Government Financing

Report of: The City Treasurer and Deputy City Treasurer

Summary

This report sets out the latest available intelligence on local government financing following the recent general election.

Recommendations

To note this report.

Wards Affected:

All

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Introduction

1. The Council has set a three year Medium Term Financial Strategy based on the four year local government finance settlement and there is no indication that these figures will change. However there is considerable uncertainty around the longer term direction for local government funding and some important policy issues to be resolved, including a sustainable solution for funding adult social care.
2. This is a short report setting out the latest available intelligence on local government financing following the announcements post change of prime minister and the recent general election.

Local Government finance bill

3. With the emphasis on Brexit and the recent general election the Local Government Finance Bill will not be passed until after the Summer recess. The Bill was expected to amend the framework legislation for business rates in England divided into four Parts, which give effect to a number of commitments regarding business rates made by the Government during 2014-2016:
 - Part 1 provides the legislative framework for the introduction of full retention of business rate revenue by local authorities ('100% business rate retention').
 - Part 2 gives effect to a number of adjustments to liability for business rates arising from recent policy reviews and decisions, and permits initiatives towards greater digitisation of rates collection.
 - Part 3 permits the imposition of 'infrastructure supplements' by mayoral combined authorities and the Mayor of London, as agreed in a number of the 'devolution deals' concluded in 2014-16.
 - Part 4 introduces a new 'property owner levy', built upon the concept of 'property owner Business Improvement Districts' developed in 2014, and extends the power to create business rate supplements to mayoral combined authorities.
4. There has been no clear commitment given regarding 100% retention of business rates, though the manifesto does refer to "a full review of the business rates system". The Greater Manchester 100% Business Rates Retention pilot is operational from April 2017 however there have been delays to other pilots and there is unlikely to be any further detail on the business rates proposals for some time.
5. The assessment of relative need for councils is another fundamental part of the reforms to Local Government Financing. Alongside the 2016/17 settlement the government announced a Fair Funding Review to determine what the needs assessment formula should be. It was expected a series of events and consultations would take place throughout Summer 2017. There is now very little certainty on how Local Government will be funded beyond 2020 beyond the manifesto statement that they will continue to give local government

greater control over the money they raise and address concerns about the fairness of current funding distributions

Queens's speech

6. The Queen's Speech, set for 19 June 2017, is likely to be delayed due to the uncertain political position following the election. This will be an important indication of the policy priorities. There may be issues with getting some of the manifesto pledges through parliament.

Manifesto Policy Indications

7. The headlines from Manifesto are set out below and give an indication on the policy priorities.

Local Government Financing and Tax:

- There is likely to be continued pressure on Local Government Funding, little detail is available on what is planned.
- The party commits to continuing with the fiscal rules which will deliver a balanced budget by 2025.
- The Council Tax referendum criteria will remain at 2%.
- Income Taxation and VAT to be kept as low as possible
- Corporation Tax is due to fall to 17% by 2020.
- They will respect the devolution settlement and no decision making that has been devolved will be taken back. They will also be providing clarity across England on what devolution means for different administrations so all authorities operate in a common framework.

Adult Social Care:

- £2bn additional funding was announced post budget however this is guaranteed for this parliament only.
- Identifying a sustainable funding solution for adult social care is a priority. The promised Green paper to address system wide issues to improve the quality in care is vital.
- Government will align the means testing for domiciliary care with that of residential care. This means the value of the home, along with other assets and income, will be taken into account.
- A single capital floor will be introduced, set at £100,000. The manifesto did not include a cap on costs however during the election campaign it was indicated there will be a cap, at a level to be determined through consultation. The payments can be deferred.
- The Winter Fuel Payment will also be means tested and the money saved transferred to health and social care.

Education & Skills:

- Specific pledges have been made in relation to school funding – no school will face cash reductions as a result of the national formula. This is important as significant reductions in funding were faced under the National Funding Formula proposals as Manchester schools are relatively highly funded per head. There is unlikely to be much real terms growth. Pupil Premium will be protected.
- They will continue with the programme of free schools building at least 100 new free schools a year.
- Universal free school meals will be removed for the first three years of primary school. Instead free school breakfasts will be offered to every child in every year of primary school.

European Union:

- The approach to Brexit is now very uncertain.
- They are proposing to use the structural funding that comes back to the UK to create a United Kingdom Shared Prosperity Fund, “designed to reduce inequalities between communities across our four nations and deliver sustainable, inclusive growth”.

Other:

- The intention is to meet the 2015 commitment to deliver a million house by the end of 2020 and half a million more by 2022 with greater flexibility to housing associations to increase their housing stock.
- No plans for further radical welfare reform in this parliament and will continue with the roll out of Universal Credit.
- Triple Lock Pensions will be kept until 2025, then be replaced by a Double Lock system.

Conclusion and Next Steps

8. There is no indication that the budget position for the next three years will change significantly. However, there is considerable uncertainty beyond this spending review period with some crucial issues to be resolved including how local government will be funded and the sustainability of funding social care.
9. A three year Medium Term Financial Strategy is in place and there are no plans to start a new budget process for 2018/19. A report will be brought to July Committee with any further intelligence that is available and any proposals to refresh the current three year MTFP.