

**Manchester City Council
Report for Information**

Report to: Resource and Governance Scrutiny Committee –
10 January 2019

Subject: Provisional Local Government Finance Settlement 2019/20

Report of: The City Treasurer

Summary

This report provides an overview of the Provisional Local Government Finance Settlement 2019/20 as announced by the Communities Secretary and published by the Ministry of Housing, Communities and Local Government on 13 December 2018.

Recommendations

Members are asked to note the report.

Wards Affected: All

Alignment to the Our Manchester Strategy Outcomes (if applicable)

| Manchester Strategy outcomes | Summary of how this report aligns to the OMS |
|---|---|
| A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities | |
| A highly skilled city: world class and home grown talent sustaining the city's economic success | |
| A progressive and equitable city: making a positive contribution by unlocking the potential of our communities | |
| A liveable and low carbon city: a destination of choice to live, visit, work | |
| A connected city: world class infrastructure and connectivity to drive growth | |

Contact Officers:

Name: Carol Culley
Position: City Treasurer
Tel: 0161 234 3406
E-mail: c.culley@manchester.gov.uk

Background documents (available for public inspection):

The following link discloses all the documents provided in the Provisional Local Government settlement.

Provisional local government finance settlement: England, 2019 to 2020:
https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2019-to-2020?utm_source=89354b3a-3865-4051-9175-8247e58aeba8&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate

1 Overview

- 1.1 The 2019/20 Local Government Provisional Finance Settlement was announced on 13 December 2018 by the Communities Secretary and published by the Ministry for Housing, Communities and Local Government (MHCLG). Alongside an oral statement to the House of Commons the government released supporting tables with indicative funding per Local Authority and a technical consultation, which closes on 10 January 2019.
- 1.2 2019/20 represented the final year of the four year settlement provided by Government, and was largely as expected. However, there have been a number of additional funding announcements, which have impacted on the financial position for the Council which are detailed in the report.

2 Financial Implications

- 2.1 The majority of the Finance Settlement was in line with expectations and followed the technical consultation in July 2018 and subsequent announcements in the Autumn Budget 2018t issued on 29 October 2018.
- 2.2 However, there were two announcements relating to the Business Rates Levy and grant for New Homes Bonus which have had a positive impact on the council's financial position.
- 2.3 In 2018/19 the Government's Business Rates Levy account is £180m in surplus. This is the first time a surplus has occurred and it will be distributed to all councils on the basis of need as per the Settlement Funding Assessment. The City Council's indicative allocation is £2.699m and it is expected this will be received in the current financial year.
- 2.4 The Budget Update report for 2019/20 which was presented to the December Scrutiny Committees noted that the New Homes Bonus grant was estimated at c£7m based on the number of new properties as at October 2018. This assumed the Government's baseline threshold requirements before growth would be increased as indicated in the July technical provisional settlement consultation. However, the Government has now confirmed an additional £20m in 2019/20 which will enable the baseline threshold to remain at 0.4% and provide the City Council with an allocation of £8.202m, £1.202m higher than budgeted.

3 Council Tax Referendum Principles 2019/20

- 3.1 There are no changes to the council tax referendum thresholds for Local Government. The core threshold remains at 3% and there are no further increases in the adult social care precept (6% threshold over 3 years, with maximum 3% increase in any one year).
- 3.2 The referendum threshold for the Police and Crime Commissioners' precept will increase to £24 (from the current £12).

- 3.3 Having considered the use made of precepting powers in 2018/19 the Government will not set referendum principles for Mayoral Combined Authorities in 2019/20.
- 3.4 The budget assumes that the City Council will increase the council tax precept by 3.49%, as presented last year; made up of a general precept element of 1.99% and the specific social care precept element of 1.5%. It should be noted that Local Authorities are able to increase the general precept element by a further 1% to 2.99% within the current referendum limits set by Government.

4 Social Care Funding

- 4.1 The funding increases announced in the Autumn Budget 2018 for adult social care and children's services were confirmed. The distribution amongst Local Authorities being based on the Adults Social Care Relative Needs Formula (RNF).
- 4.2 The council's indicative allocations were confirmed as follows:
- Winter pressures grant of £2.666m in both 2018/19 and 2019/20; and
 - Social Care Support Grant of £4.555m in 2019/20, which can relate to both adult social care and children's services.
- 4.3 A report to Executive on 12 December 2018 outlined proposals to deploy the allocation of the winter pressures grant funding for 2018/19 into priorities areas to support the health and social care system to manage service need.
- 4.4 Proposals are being drawn up in consultation with partners for the most effective use of the additional social care funding for 2019/20 and will be reported back to the relevant Scrutiny Committees and Executive in February.
- 4.5 The Social Care Green Paper which is intended to produce proposals that enable the care and support system to be sustainable in the long term has been delayed several times. The most recent publication deadline of before the end of 2018, has now been further delayed. No details are available as to when the publication may occur in 2019.

5 Business Rates Retention

- 5.1 The Government's objective to change the local business rate retention to 75% for all Local Authorities from 2020 was re-stated. There were 15 new 75% business rates retention pilots announced for 2019/20, compared to 10 in 2018/19 (of which just three will continue). The London pilot has been reduced from 100% to 75% retention.
- 5.2 These pilots are in addition to the existing schemes in devolution areas, including Greater Manchester, which will continue with 100% retention as expected. Accordingly, the City Council's budget for 2019/20 will be set on the basis of 100% business rates retention. This means that 100% of business

rates growth (as opposed to total business rates collected) is retained. The additional proceeds from the pilot are currently shared with GMCA who receive a maximum of 50% of the benefit, in line with the original pilot agreement.

6 Other Announcements

- 6.1 Rural Services Delivery Grant – an extra £16m has been found to increase this grant from its previous allocation of £65m to £81m, which keeps the grant at the same level as it was in 2018-19. Manchester does not receive this grant.
- 6.2 As expected, the Government has decided to “directly eliminate” Negative Revenue Support Grant in 2019/20 using foregone business rates at a cost of £152.9m.
- 6.3 The Government also flagged concerns about the scale of borrowing for commercial purposes in some local authorities. MHCLG and HM Treasury are considering further potential interventions. The position will be updated as further information becomes available.
- 6.4 Government are working on a package of support to promote efficiency and help councils become more efficient and get better service outcomes. A ‘continuous improvement tool’ will be launched in Spring 2019 and the smarter use of technology will be pivotal. There will be a £7.5m Local Digital Innovation Fund to promote service transformation.

7 Local Government Funding Consultations

- 7.1 Local government’s funding arrangements are set to experience their most significant reform for over two decades. The Fair Funding Review, reset of business rates baselines and changes to the business rates retention system all have critical implications for the distribution of funding across local government. At the same time, the results of Spending Review 2019 will affect the total level of funding available to the sector from April 2020.
- 7.2 Two consultations on the future of Local Government Funding were released alongside the Finance Settlement relating to the Fair Funding Review and Business Rates Retention Reform, both have a return date 21 February 2019.
- 7.3 The Council is working closely with MHCLG, Local Government Association (LGA) and other Local Authorities (particularly Core Cities) to ensure the circumstances of Metropolitan cities are represented in the reviews. Detailed responses have been submitted for all relevant consultations to date and representations made where possible including giving evidence to a MHCLG Select Committee on 100% Business Rates Retention, taking part in a Fair Funding Review consultation workshop in March 2018 hosted by government and LGA officers and collaborating on papers submitted to the national technical working groups. Responses will be sent to both current consultations and officers will attend a further event with the LGA in February.

7.4 The Fair Funding Review technical consultation considers the assessment of local authorities' relative needs, relative resources and transitional arrangements. The current system is over ten years old and the data used has not been updated since 2013. The review will examine the cost of delivering services across the country, and will consider which factors should be taken into account when considering a local authority's relative resources. Risks include:

- There are seven service specific formulas (down from fifteen) which are Adult Social Care, Children and Young People's Services, Public Health, Highways Maintenance, Fire & Rescue, Legacy Capital Finance and Flood Defence and Coastal Protection. A 'foundation formula' would pick up all other services and be the third largest element after Adults and Children's;
- The impact deprivation has on the need to spend is an important element of the current formula and drives a significant amount of funding. The government is proposing to allocate the foundation formula on the basis of population alone – taking no account of deprivation;
- Funding for services including concessionary fares, home to school transport and homelessness would be allocated on a per head basis in the foundation formula rather than on demand / usage as in previous years. This will disadvantage many urban authorities;
- The current adjustment for the impact of density on need to spend is likely to be removed. Instead the impact of rurality and density will be included in the Area Cost Adjustment which applies to all formulae. The adjustment will be based on the Department of Transport's travel time data;
- Equalisation of Council Tax income has always been an important factor in the formula to allow for the fact some areas can raise significantly more local income than others. Limits will be placed on the extent of equalisation with a cap being placed on the size of an authority's Relative Resource Adjustment, this is detrimental to Councils which have less capacity to raise Council Tax income;
- It is proposed the additional population indicator will be removed, this compensates for the daily influx of commuters and visitors into an area; and
- Highways maintenance formula will now only use road length and traffic flow. Indicators for built up roads, snow lying days and different road types would be removed. The built up roads removal is of particular concern as this gives twice the weighting to urban roads compared to rural roads

7.5 The Business Rates Retention Reform consultation will consider the sharing of risk and reward, managing volatility, particularly from appeals, and setting up the reformed system. With greater reliance on business rates income, there are concerns that the planned reset of business rates in 2020 will bring further pressure on Local Authorities.

7.6 Transitional arrangements will take account of a range of factors including the outcome of the Fair Funding Review, business rates baseline reset, any

further development of the business rates retention system and the 2019 Spending Review.

8 Conclusions

- 8.1 The Local Government Provisional Finance Settlement for 2019/20 represented the final year of the four-year settlement from Government. Generally the settlement was in line with expectations and followed the technical consultation in July 2018 and subsequent announcements in the Autumn Budget 2018.
- 8.2 Together with the Social Care grant funding announcements, there has been additional funding for Local Government this financial year from the surplus Business Rates Levy and a better than expected allocation of New Homes Bonus Grant next year following the baseline threshold remaining as 0.4%.
- 8.3 As this is the last year of the four year settlement there is no certainty as to what will happen with any of this funding in the next Spending Review period. After 2019/20 there is considerable uncertainty due to the Spending Review, the introduction of a new funding formula which will redistribute funds across Local Government and a full reset of the Business Rates retention scheme which brings a risk that the council will lose significant amounts of income.
- 8.4 Whilst the additional government funding for 2018/19 and 2019/20 is welcomed there are considerable challenges with forward financial planning given the late, short term announcements. The use of the funding will be reported as part of the continuation of the Council's Budget Strategy for 2019/20 and incorporated into budget reports in February.

9 Recommendations

- 9.1 The recommendations appear at the front of this report.