

Agenda Item No.3

DERBYSHIRE COUNTY COUNCIL

**CABINET MEMBER FOR STRATEGIC POLICY, ECONOMIC
DEVELOPMENT AND BUDGET**

22 November 2016

Report of the Director of Finance

LOCAL GOVERNMENT FINANCE SETTLEMENT 2017-18

1 Purpose of the Report

To provide the Cabinet Member with details of the Government's consultation in respect of the Local Government Finance Settlement 2017-18.

2 Information and Analysis

On 15 September 2016, the Government issued a technical consultation regarding the Local Government Finance Settlement 2017-18. It contains proposals on a number of different aspects of the 2017-18 Settlement including:

- Expanding the current multi-year settlement offer to cover further grants;
- Distributing the Improved Better Care Fund according to the formula outlined in the 16-17 settlement, which took account of funding local authorities could raise from the 2% adult social care precept;
- The 2017-18 council tax referendum principles including the continuation of the 2% core principle, 2% adult social care precept and additional flexibilities for shire district councils and lower-quartile police and crime commissioners. In addition the introduction of the precept principle for large parishes with the possibility of extending it to all parishes;
- The approach for adjusting business rates retention tariffs and top ups to cancel out, as far as is practicable, the impact of the 2017 business rates revaluation on local authorities' income;
- Measures to enable certain local authorities to pilot 100% business rates retention, designed to ensure that other authorities are not adversely affected by these pilots, together with measures covering the allocation of funding streams within devolution deal areas, if all affected councils agree.

Multi-year Settlement

As part of the Local Government Finance Settlement 2017-18, the Government made an offer of a multi-year settlement to local authorities. Authorities which wish to take up the offer have to provide an efficiency plan to Government by 14 October 2016. The Council's Efficiency Plan was considered by Cabinet on 11 October and subsequently submitted to Government following its approval.

Those authorities that choose not to accept the offer will be subject to the existing annual process for determining the level of central funding that they will receive.

The Government is considering expanding the current multi-year offer which could potentially be achieved by including more grants in the offer.

Improved Better Care Fund

The Spending Review 2015 announced the introduction of the improved Better Care Fund worth £105m in 2017-18, £800m in 2018-19 and £1.5bn in 2019-20 nationally.

The consultation sets out the Government's proposed approach to allocating the improved Better Care Fund allocations which were announced alongside the provisional Local Government Finance Settlement 2016-17.

The methodology for distributing the Improved Better Care Fund is based on the assumption that all authorities take up the 2% social care precept in full. The national amount that could potentially be raised from this council tax flexibility is combined with the additional BCF funding and distributed according to the existing adult social care relative needs formula. If an authority is able to raise enough income from their social care precept to fund their share of the combined total then they will not receive any Improved Better Care Funding. If not, the difference will be made up with Improved BCF.

Council Tax referendum principles for local authorities

In the Spending Review 2015, the Government announced a new adult social care precept worth 2% for authorities with responsibility for adult social care for the remainder of Parliament. The Government is minded to propose referendum principles which are the same as those set for 2016-17. This would be:

- A core principle of 2%;
- Continuation of the Adult Social Care precept of an additional 2%;
- Shire districts will be allowed increases of less than 2% or up to and including £5, whichever is higher;

- Police and Crime Commissioners in the lowest quartile will be allowed increases of less than 2% or up to and including £5, whichever is higher.

Council tax referendum principles for parish and town councils

Since the introduction of council tax referendums in 2012-13, no referendum principles have been set for local precepting authorities such as town and parish councils, although the Government has made it clear that it would keep this under review. Nor were they included under previous capping criteria prior to 2012-13. The increase in the average Band D Council for parishes in 2016-17 was 6.1%.

In light of this, the Government is minded to apply referendum principles to larger higher-spending town and parish councils in 2017-18. These parishes would face the same referendum principles as shire districts.

A large proportion of parishes are modest in size. Around 4,000 parishes have precepts of £25 or less. However, the Government is aware that increases in these precepts continue to concern local tax payers and is therefore prepared to consider extending referendums to all parishes.

Business rates revaluation

The next business rates revaluation takes effect from 1 April 2017. Revaluation is designed to be a revenue neutral exercise, therefore the total rates bill will stay the same at the national level in real terms, after allowing for appeals. At the local authority level, overall bills will increase or fall depending upon whether rateable values in that area have performed above or below the average for England, after allowing for appeals.

Adjustments to business rates in areas piloting 100% business rates retention

As part of the Autumn Statement in 2015 the Government committed to pilot different approaches to 100% business rates retention in London, Manchester and Liverpool from 1 April 2017.

The Government also committed that the pilots' offer would be available to other areas with ratified devolution deals and that as part of the pilots, the 'local share' of business rates could be increased from as early as 2017-18.

To ensure that an increase in the 'local share' of business rates is fiscally neutral at the point of change, the Government and pilot areas are exploring:

- Ending entitlement to certain grants and other funding streams
- Devolving additional responsibilities to pilot areas
- Adjusting existing business rate tariffs and top ups

The Government intends to use the pilots to test mechanisms for full rollout of the 100% retention scheme. Any cost to the system from elements of the pilots will not impact on non-pilot authorities.

Voluntary transfers of funding to Mayoral Combined Authorities

Devolution Deals have established the new duties that Mayoral Combined Authorities will be responsible for. There is the potential to adjust the calculation of grant and business rates payments to reflect any changes in the way existing duties are carried out by authorities. These changes would only be made in areas where it is requested by Mayoral Combined Authority and all authorities affected by any changes to the proposals.

The consultation document provides options for how the funding can be transferred. Grant transfers would be straightforward to transfer but if funding was to be transferred in the form of a share of business rates then the amount for each authority would need to be converted into a percentage of their business rates.

It would also be possible to transfer funding in the form of Council Tax. It would need to be done in a way so as not to increase the burden on Council Tax payers. The proposal outlined in the paper is that the amount to be transferred is converted into a Band D figure (amount divided by band D taxbase). There would then be new Alternative Notional Amounts (ANA) so that referendums would not be triggered. This can only be achieved if the service transferred goes to the Mayor, rather than the combined authority.

The consultation closed on 28 October 2016. The Council's response to the consultation was submitted to Government on 25 October 2016 following discussion with the Cabinet Member and Chief Executive. A copy of the response is set out in Appendix One.

3 Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

4 Background Papers

The 2017-18 Local Government Finance Settlement Technical Consultation Paper – Department for Communities and Local Government

5 Key Decision

No.

6 Is it necessary to waive the call-in period?

No

7 Officer's Recommendation

That the Cabinet Member notes the Council's response to the consultation.

PETER HANDFORD

Director of Finance

The Council welcomes the opportunity to respond to the consultation.

Q1: What other, additional grants, beyond those set out in para 2.2.2, could the Government consider including in the multi-year offer?

There are some grants that have been long established in the local government finance settlement and therefore, the Council would like to see these grants included in the multi-year offer. These are:

- Extended Rights to Free Travel
- Local Reform and Community Voices
- Prison Services

The Unaccompanied Asylum Seeking Children (UASC) transfer protocol came into effect on 1 July 2016. It assists local authorities in effecting transfers in accordance with the Section 69. The Government has published the funding rates. It would assist local authorities if full funding for UASC was included in the multi-year offer.

Q2: Do you agree with the proposed methodology for allocating funding for the improved Better Care Fund as outlined in paragraph 2.3.4?

The Council agrees with the proposed methodology for allocating funding for the improved Better Care Fund, although the Council would urge the Government to provide details of any conditions that may be attached to the use of the funding. The Council's medium term financial strategy assumes that the funding continues to be non-ring-fenced.

Q3: Do you agree with the council tax referendum principles for 2017-18 proposed in paragraphs 3.2.1 to 3.2.2 for principal local authorities?

The Council would prefer for accountability for Council Tax rises to be wholly the responsibility of local councils with the electorate using the electoral cycle to give their opinions on the performance of each local authority.

Q4: Do you agree that referendum principles should be extended to larger, higher-spending town and parish councils in 2017-18 as set out in paragraphs 3.3.3 to 3.3.4?

If councils generally are subject to referendum principles the Council agrees with the proposal to extend the principles to larger high spending town and parish councils. The Council has maintained low council tax increases for a number years. The referendum principles were introduced to restrict local, fire and police authorities from implementing large council tax increases with the aim of protecting taxpayers from large spikes in their Council Tax bills. Therefore, it is correct that town and parish councils are held to account for any excessive increases.

Q5: Do you agree with the proposed approach to take account of the transfer of responsibilities to town and parish councils as outlined in paragraph 3.3.5?

The Council agrees with the approach.

Q6: Do you have any comments on the suggestion that referendum principles may be extended to all local precepting authorities as set out in paragraph 3.3.6? If so what level of principle should be set?

Subject to dispensations for those parish councils with low Council Tax rates, the Council agrees with the suggestion for the reasons set out in Q4, namely that all Council Tax raising authorities should be held to account for their increases irrespective of their size. However, we believe this is best achieved as part of the normal electoral process.

Q7: Do you have views on the practical implications of a possible extension of referendum principles to all local precepting authorities as set out in paragraph 3.3.7?

The Council has no specific views on this.

Q8: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.4.1 to 3.4.8?

The Council agrees with this approach, however this is the first revaluation since the introduction of the business rates retention scheme in 2013-14 and as the business rates revaluation process is intended to be revenue neutral we do not expect to see any downward changes to the figures published in December 2015 as part of the multi-year funding offer.

Q9: Do you agree that the methodology, as outlined in paragraphs 3.5.5 to 3.5.13, for calculating changes to the local share of business rates and tariff and top up payments is correct and does not adversely affect non-pilot areas?

Whilst the Council agrees to the methodology in principle, without exemplifications to show the overall financial impact, we do not consider that we can comment on the proposal.

Q10: Are you contemplating a voluntary transfer of funding between the Combined Authority and constituent authorities?

No.

Q11: Do you have any comments on the impact of the proposals for the 2017-18 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

No.