

## **Decision to be made by the Portfolio Holder for Finance and Property on or after 20 October 2016**

### **2017/18 Local Government Finance Settlement – Warwickshire County Council's Response to the Government's Technical Consultation**

#### **Recommendations**

The Portfolio Holder is recommended to:

1. Approve the draft response to the Government's consultation paper attached at Appendix A, and
2. Authorise the Head of Finance to update the response prior to its submission on 28 October 2016 where this is consistent with this draft response and the principles agreed by Cabinet on 8 September 2016.

#### **1. Key Issues**

- 1.1. On 15 September 2016 the Communities and Local Government minister, Sajid Javid, issued a technical consultation on the 2017/18 Local Government Finance Settlement. The consultation is open for 6 weeks and closes on 28 October 2016.

- The main aspects of the technical consultation are options for:
- Expanding the current multi-year settlement offer to cover further grants
- The distribution of the Improved Better Care Fund
- The 2017/18 council tax referendum principles
- The approach for adjusting business rates retention tariffs and top ups in response to the 2017 business rates revaluation on local authorities' income, and
- Implementing 100% business rate pilots and devolutions deals

- 1.2. On 8 September 2016 Cabinet agreed a set of core principles that would form the basis of its response to the Government's consultation on the moves to 100% local retention of business rates. Many of these principles focus on the

fairness of the system and apply equally to the decisions on the allocation of funding that will form part of the 2017/18 Local Government Finance Settlement. The draft response, attached at **Appendix A**, uses these principles to form the basis of the County Council's response to the specific consultation questions.

- 1.3. The short timescale for the consultation response and the range and complexity of the issues means we will need to be refining our response up until the date the consultation closes. This will allow us to consider the draft responses from the County Council's Network and the Society of County Treasurers and incorporate any arguments they may be suggesting into our response where it supports the position of the County Council.
- 1.4. The Portfolio Holder for Finance and Property is therefore recommended to:
  - Approve the draft response to the Government's consultation paper attached at Appendix A, and
  - Authorise the Head of Finance to update the response prior to its submission on 28 October 2016 where this is consistent with this draft response and the principles agreed by Cabinet on 8 September 2016.
- 1.5. The remainder of this report outlines the agreed principles relevant to this response before going on to summarise the key issues that form the basis of the consultation.

## **2. Principles**

- 2.1. The principles agreed by Cabinet as the basis of responding to the Government's consultation on the move to 100% business rates retention that are relevant for this consultation are:
  - Overall we will respond to the consultation on the basis of maximising and protecting the resources available to the County Council over the short, medium and long term within an overall system that is fair, sustainable and transparent.
  - Within this overarching principle the allocation of government funding should:
    - Be fair between types of authority, between tiers and between geographical areas
    - Be sustainable and predictable between services and authorities over time
    - Be transparent

- Reflect actual and relative cost pressures and drivers on the demand for local authority services
- Ensure no detrimental effect between authorities/areas that have early/differential adoption of devolution and other associated pilot arrangements and all other areas
- Be clear on how risk is shared and recognised in the system

### **3. Multi-Year Settlements**

- 3.1. Part of the 2016/17 Settlement was an offer of 'guaranteed' grant figures for every year of this Parliament (through to 2020) for every council that wished to accept the offer and submitted an efficiency plan. Cabinet on 6 October 2016 agreed to submit an efficiency plan and accept the offer.
- 3.2. The current four year offer includes: Revenue Support Grant, the needs element of business rates tariff and top-up payments, Transitional Grant, and Rural Services Delivery Grant. The Government is consulting on whether to expand the current multi-year offer to include more grants and, if so, what additional grants should be included.
- 3.3. Our response focuses on seeking fixed funding levels for those grants that Government departments may feel inclined to cut to meet their own savings targets, where this is not accompanied by a reduction in the need to spend.

### **4. Improved Better Care Fund**

- 4.1. The Spending Review announced an additional £1.5 billion would be allocated to local authorities as part of an Improved Better Care Fund by 2019/20, with indicative allocations published as part of the 2016/17 Local Government Finance Settlement. The indicative allocations were based on the existing adult social care needs formula adjusted for the differences in the amount of funding that could be generated from the 2% increase in council tax for social care. The government propose to maintain this approach.
- 4.2. The methodology being proposed is a repeat of the methodology change introduced in the 2016/17 Settlement that significantly reduced the amount of Revenue Support Grant we received and led to the need to bring forward the need to identify and deliver additional savings. It is estimated Warwickshire could receive up to 50% more from the Improved Better Care Fund if the distribution were based on need alone (an allocation of £14.0 million by 2019/20 instead of £9.3 million).

- 4.3. Therefore, our response opposes the Government's preferred option of allocating the Improved Better Care Fund. This is consistent with our response to the 2016/17 Local Government Finance Settlement.

## **5. Council Tax Referendum Principles**

- 5.1. The consultation outlines the Government's council tax referendum principles/triggers for 2017/18. These remain unchanged from last year. They are:
- 2% for upper tier authorities, including the County Council
  - 2% or £5, whichever is higher, for shire districts and Police and Crime Commissioners
  - 2% adult social care precept "subject to the consideration of the use of the adult social care precept in the previous year" for upper tier authorities, including the County Council
- 5.2. The additional change being proposed affects parishes. Due to increasing parish precepts the Government is minded to apply shire district referendum principles to larger, higher-spending town and parish councils in 2017/18. The Government propose referendum principles are introduced for town and parish councils whose Band D precept is higher than that of the lowest charging district council for 2016/17 (£75.46), and which have a total precept for 2016/17 of at least £500,000. The only exception proposed is where a parish/town council takes on additional responsibilities (and agreed costs) from another tier of local government.
- 5.3. There will be no direct financial impact on the County Council from the introduction of referendum limits for town and parish councils and any increases are likely to be marginal relative to the total council tax bill for a household. It is therefore proposed that we do not respond specifically to the questions about referendum principles/triggers for town/parish councils other than saying all council tax levels for all tiers of local government should be a matter for local decision-making and not imposed from outside.

## **6. Business Rates Revaluation Adjustment**

- 6.1. The next business rates revaluation will be implemented in April 2017. The consultation confirms that the revaluation exercise will be revenue neutral; which means that nationally, unlike council tax, the total collected will remain flat in real terms. However, within individual local authorities, where growth might be above or below the national average, it is likely that there will be change in collected rates that is outside of the control of local authorities.
- 6.2. When the current business rates retention scheme was introduced Government said that it would adjust each authority's tariff or top-up following a revaluation so that retained income will be the same after a revaluation as it was immediately before. The principle being that the growth incentive will not be weakened. This is the first indication of how the Government propose to meet this objective.
- 6.3. The DCLG propose that the inclusion of the new ratings list must seek to identify and isolate the amount by which the rating income in an individual local authority will change purely due to the revaluation. Once they are identified, the relevant shares of these amounts can be added or deducted from the current tariff or top-up amounts.
- 6.4. All authorities agree that this adjustment is needed. However, it is not possible to measure the direct effect of a revaluation so the adjustment will need to be a proxy instead. It is how this proxy is derived that is the basis of the consultation questions.
- 6.5. Our response reflects on the fact that whilst DCLGs preferred proxy is less than ideal there is no practical alternative that will provide better figures.

## **7. Business Rates Pilots**

- 7.1. 100% business rates retention pilots are being run in London, Manchester and Liverpool from 1 April 2017. Further pilots could also be available from 2017/18 in areas with ratified devolution deals, such as the West Midlands Combined Authority. To ensure pilots are revenue neutral the government are exploring ways in which, in exchange for an increased "local share" local authorities involved in pilots might:
  - See their entitlement to certain grants and funding streams end
  - Take on additional responsibilities, and
  - See an adjustment to their tariffs and top-ups

The stated intention is to use these pilot areas to test the mechanics before full roll out of the 100% retention scheme and that there will not be an impact on non-pilot authorities.

- 7.2. The approach will not affect the County Council directly in 2017/18 as we are not a member of a business rates pilot. We do however want the agreed approach to allow us to continue to operate the Coventry and Warwickshire Business Rates Pool in a consistent and fair way and our response focuses on this angle.

## **8. Mayoral Combined Authorities**

- 8.1. The final part of the consultation paper discusses how the funding system would be adjusted where mayors are taking over responsibility for functions from their constituent members and some of the funding for these functions is business rates and/or council tax. Our key focus in responding to this question is that any adjustments should not impact on those authorities not directly impacted.

## **9. Background Papers**

- 9.1. None.

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### Local Members consulted

Not applicable

### Other Members consulted

The following Elected Members have been consulted on this report prior to its publication:

Nicola Davies, Neil Dirveiks, Phillip Morris-Jones, Izzi Seccombe, Matt Western

## **Draft Warwickshire County Council Response to the Government's Technical Consultation on the 2017/18 Local Government Finance Settlement**

**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 still two more years of very significant reductions to RSG before the new Business Rate Retention system is introduced. Without some additional injection of cash to the social care system, the impact on the NHS will worsen considerably. An intervention by HM Treasury now can allow care to be provided in the care sector, which is considerably cheaper than that provided by the NHS.*

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

*We do not agree with the proposed methodology as it is felt the Better Care Fund should be distributed wholly on a needs basis. We also strongly support measures to bring forward BCF investment, frontloading at least £700m for 2017/18.*

*The Disabled Facilities Grant, which is currently paid as part of the Better Care Fund, has helped facilitate better targeting to those in need. Warwickshire County Council would therefore support the continuation of this payment method.*

**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?**

*Currently local government are able to vary the council tax precept they set locally. This is done openly through each Council by elected members who are subject to re-election every 4 years. Warwickshire County Council requests that the referendum limit, which dilutes this freedom, be removed and that local government are given the power to levy the rate that they need to deliver services to residents.*

**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?**

*No specific comment other than to reiterate our long held position that the level of council tax should be a decision for democratically elected local councillors without a bar being imposed from outside.*

**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?**

*See answer to Question 4.*

**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?**

*See answer to Question 4.*

**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?**

*See answer to Question 4.*

**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?**

*We agree that using a proxy is a sensible and transparent approach to measuring changes in rates income. However we would like to see further clarity on how tariff and top-up adjustments will affect pooling arrangements.*

**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?**

*Warwickshire County Council holds the view that, when 100% retention is fully implemented, responsibilities should be linked to economic growth and wants to see powers devolved to us that really are new and that fit appropriately with funding coming from business rates. For example; growth funds, skills and higher education, infrastructure funding and transport investment. We want to be able to control our budgets properly in a way that can make a difference locally; not simply administer a benefit or continue providing a service that used to be funded via a specific grant.*



*There is clearly a link between the ability of an area to generate future business rate growth and the existing strategic infrastructure and capital investment streams. Shire areas have frequently been disadvantaged in this area; with Government investment historically favouring large cities.*

*Both the districts and the counties in shire areas invest for economic growth. This needs to be accompanied by further investment in our infrastructure from Government for areas to achieve their full potential.*

*Given the disparities in value, growth and needs patterns, it is imperative that the forthcoming business rates pilots do not set up an unfair bias towards those who are involved – the whole country must be considered when designing and running these pilots. We are also clear that devolution deals and business rate pilots should not benefit a small selection of areas to the detriment of others. Business rates should not be used to pay for functions in some areas that are not available to others.*

*We also ask that Government make available the methodology they are using to measure the quantum, in the interests of truly cooperative co-design of the new system.*

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

*Warwickshire County Council is not currently a constituent member of a Combined Authority therefore we cannot offer any specific comment at this stage.*

**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 specific comment at this stage.*