



Department for
Communities and
Local Government

The Rt Hon Sajid Javid MP

*Secretary of State for Communities and Local
Government*

***Department for Communities and Local
Government***

4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Tel: 0303 444 3450

E-Mail: sajid.javid@communities.gsi.gov.uk

www.gov.uk/dclg

19 December 2017

Dear Colleague

Provisional Local Government Finance Settlement 2018/19

The 2018-19 settlement is the third year of the historic four-year offer providing funding certainty for local councils. The offer was accepted by 97% of authorities in return for publishing efficiency plans and will now see two years of real terms increases in resources available to local government; rising from £44.3 billion in 2017-18 to £45.6 billion in 2019-20. From 2015 to 2020, councils in England have access to over £200 billion to deliver the high-quality services their local communities need.

In September my department published a technical consultation on our proposed approach and I am grateful for the many responses we received. I am writing to inform you that I have today published a further consultation and made an Oral Ministerial Statement on next year's settlement.

My overall objective is to provide greater certainty and more financially self-sufficient local government beyond the existing four-year funding deal. This is based around increased business rates retention and the implementation of a fresh approach to redistributing funding from 2020-21, with a strong package of measures across the next two annual settlements as bridge towards this.

Capital Receipts

Local government operates in a society that is constantly changing. To meet the challenges of the future, I can confirm that the flexibility to use capital receipts to help

meet the revenue costs of transformation will be extended for a further three years to April 2022.

Adult Social Care

In March this year, the Government announced an additional £2 billion for Adult Social Care - in addition to more flexibility in using the social care precept - giving councils access to £9.25 billion of dedicated funding for adult social care over three years. We will continue to anticipate and respond to shifts in demographics through publication of the adult social care green paper in summer 2018.

Fair Funding Review

In addition, we also need an updated and more responsive redistribution methodology to give councils the confidence to face future challenges. Today, I have published our consultation on the Fair Funding Review and I aim to implement a new system based on its findings in 2020-21.

Rural Services

One part of the review will look at the specific challenges faced by rural areas – and other areas - to inform the final distribution formula. In the meantime, we will increase the Rural Services Delivery Grant by £15 million in 2018-19, maintaining the level at £65 million for the remainder of the current four-year settlement.

Business Rates Retention

Alongside the new funding methodology, in 2020/21 we will also be implementing the latest phase of our business rates retention programme that gives local councils the levers and incentives they need to grow their local economies.

Local authorities will be able to keep more business rates, to the value of Revenue Support Grant (RSG), the Greater London Authority Transport Grant, the Rural Services Delivery Grant and the Public Health Grant – equivalent to 75% retention in 2019-20. Councils will also be able to keep that same share of growth on their baseline levels from 2020-21, when the system is reset.

Business Rates Retention Pilots

Ahead of this, we will test out aspects of the future business rates retention system in a broad range of authorities across a geographic spread. We will continue to pilot 100% business rates retention in Greater Manchester, Liverpool City Region, the West Midlands, West of England and Cornwall in 2018-19.

We will introduce the London Pilot and I can now confirm that we will take forward ten new 100% business rates retention pilots in 2018-19: Berkshire, Derbyshire, Devon, Gloucestershire, Kent & Medway, Leeds, Lincolnshire, Solent, Suffolk and Surrey. The benefit to the areas involved will depend on the economic growth they achieve and cannot be precisely quantified in advance, but I have made efforts to ensure that the benefits will be broadly comparable between the five existing pilots, the London pilot and the ten new pilot areas. I can confirm that piloting will continue in 2019-20 and further details will be available in due course.

New Homes Bonus

To date we have paid £7 billion in New Homes Bonus to reward the building or bringing back into use of 1,400,000 homes. For payments in 2018-19, I have decided that the baseline will be retained at 0.4%, and we will not withhold payment for homes that are later granted on appeal.

We may, however, increase the baseline in future, and we will continue to reform the Bonus to ensure it maximises the delivery of housing. To keep the baseline at 0.4%, we are investing an additional £8 million. The total budget for the Bonus this year is £946 million.

‘Negative RSG’

Having considered representations to the technical consultation, we recognise the strength of feeling in local government around the issue of ‘negative RSG’ in 2018-19, following the delay after the election in implementing full business rates retention. We will be looking at fair and affordable options for dealing with negative RSG and we will formally consult on proposals ahead of next year’s settlement.

Council Tax Referendum Principles

Finally, having listened to representations, I can confirm that councils will be allowed to increase council tax in line with inflation and will therefore be setting the core council tax referendum principles at 3%. Should councils wish to make the case for increasing council tax above inflation then they are able to do so but this will be subject to securing agreement in a local referendum.

This change, combined with the additional flexibility on the Adult Social Care precept that we confirmed last year, gives local authorities the independence they need to relieve pressure on local services, including adults and children’s social care, while also recognising that many households face their own pressures.

For the first precepts of the new combined authority mayors, we will not introduce referendum principles. We will also keep the level of precept increase set by town and

parish councils under review, however we will defer an extension of referendum principles for three years, provided that we see clear evidence of restraint.

This package results in a cash increase in aggregate Core Spending Power for local authorities of 1.5 % next year, a real terms increase of 0.1%. The consultation is open until the 16th January.

We will continue to work with the sector to help them increase transparency and share best practice supporting greater progress in delivering increased efficiency over the coming year. I expect this to have a tangible impact on the steps councils take to promote efficiency from 2019/20.

The consultation document and individual local authority exemplifications are available to view at:

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019>.

A copy of the provisional local government finance settlement consultation has been placed in the libraries of both Houses.

A handwritten signature in black ink, appearing to read 'S. Javid', with a small comma at the end.

RT HON SAJID JAVID MP