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Noble Lords

Dear Colleagues,

8 January 2019

PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT

Thank you for your valuable contributions following the repeat of the provisional local government finance settlement oral statement on 13 December 2018. It was a good debate. There were several issues raised during the debate on which I promised to write with further detail. I have addressed each of those issues below:

Provisional Local Government Finance Settlement

Lord Kennedy raised the interaction between the provisional settlement and the Budget.

The Budget is the process whereby the Chancellor sets out his plans for public spending in the upcoming financial year, whilst the provisional local government finance settlement is part of a statutory process marking the beginning of a consultation with local authorities on the approach to the distribution and retention of local resources and the allocation of grant funding to the sector. The settlement process does not routinely result in additional funding being provided to the sector.

Nevertheless, the provisional settlement outlined on 13th December 2018 did contain funding additional to the £650 million for social care announced by the Chancellor at the Budget. For 2019-20, the Government intends to increase Rural Services Delivery Grant by £16 million recognising the extra costs of providing services in rural communities, to directly eliminate £152.9 million in negative RSG using forgone business rates and to provide a further £20 million to maintain the New Homes Bonus baseline at 0.4%.

It was also announced at the provisional settlement that local authorities in England stand to reap the rewards of increased growth in business rates income through proposals to distribute £180 million according to need from a surplus in the business rates retention levy account in 2018-19.

The provisional settlement also announced the selection of 15 new areas to pilot 75% business rates retention in England in 2019-20, in addition to piloting 75% business rates retention in London.

In recognition of substantial increases in pressures and the police having met efficiency milestones, we are also increasing the council tax precept flexibility for Police and Crime Commissioners to £24 per annum in 2019-20. This increase has been balanced with extra grant to ensure forces are able to offer improved services whilst covering financial pressures.

Local Government Services

Lord Kennedy also queried what the Government's position was on the range of services local government should use available resources to provide.

In line with the principle of localism, councils have local responsibility for the range of services they deliver to residents. Councils must provide statutory services but then have local discretion, in line with the preferences of local electorates, as to the range of discretionary services they provide.

Core Spending Power

Lord Kennedy and Baroness Pinnock raised a point around the calculation of Core Spending Power and the role of council tax.

Core spending power measures the core components of revenue funding available for local authority services. This includes the main government grant to local authorities (Revenue Support Grant), baseline funding level (provided from the share of locally retained business rates), council tax, improved Better Care Fund and New Homes Bonus allocations. Core spending power figures for 2019-20 also includes the £650 million social care grant announced at Autumn Budget for next financial year.

Core spending power figures and how they are comprised at a national and local authority level are available at: https://www.gov.uk/government/publications/core-spending-power-provisional-local-government-finance-settlement-2019-to-2020.

The Government has ensured that council tax-payers have the final say on excessive increases via a referendum. This strikes a balance between providing additional funding to tackle immediate pressures on local services and minimising the burden on council tax-payers.

Social Care

Lord Kennedy queried what conditions were placed on the £650 million additional funding for social care, and when the Government planned to publish the Social Care Green Paper. Baroness Pinnock also raised this matter.

£240 million of the £650 million is for local authorities to spend on Adult Social Care to help alleviate winter pressures on the NHS. This funding will be pooled into the Better Care Fund (BCF) via the iBCF and reported on through the BCF.

£410 million is being provided in the form of a 'Social Care Support Grant' for local authorities to spend on either adult's or children's social care in 2019-20 and, where necessary, to reduce pressures on the NHS. There are no conditions or reporting requirements placed against this grant, so local authorities can determine how it is directed against these priorities based on local decisions.

An ageing society means that we need to reach a longer-term sustainable settlement for social care. This is why the Government has committed to publishing a Green Paper setting out its proposals for reform soon.

Local Authority Borrowing

Lord Storey asked about local authorities exposed to financial risk through significant borrowing for commercial purposes.

Under what is known as the 'Prudential framework', local authorities have the power to borrow, without prior central government consent, subject only to assuring themselves that their borrowing is affordable. Each local authority must set a 'prudential' borrowing limit, which must be approved by full council. Full council can vary this limit at any time.
Local authorities also have wide powers of investment. They have the devolved power to invest in property, irrespective of location, providing that property is used to deliver services or contributes to the wider economic development of their local area.

In applying these freedoms local authorities are required to have regard to a framework of statutory codes, all of which were updated during 2017-18. The purpose of the updates was to enhance transparency, to require local authorities to take a longer-term view of risk, to require them to be proportionate in their borrowing and investment activity, and to signpost that borrowing solely to generate a financial return is not prudential.

Reports in the press during 2018 have indicated that a small number of local authorities are continuing to borrow disproportionately. MHCLG officials plan to conduct a post-implementation review of the changes to the statutory codes. Amongst other things, this aims to understand more about local authority activity and the effects of the new framework. The interventions that Government might consider would depend on the number of local authorities who are choosing not to have regard to the behaviours expected by the updates to the framework and the nature of any non-compliance.

High Streets

Lord Campbell-Savours brought up the issue of rising internet sales and the effect on our high streets.

At the Budget, the Chancellor announced that a new Digital Services Tax will be introduced in April 2020. This is designed as an interim response, pending global reform to the challenges that digital businesses create for the international corporate tax system. The Government is consulting on the detailed design and implementation of the tax ahead of its inclusion in the 2019-20 Finance Bill. This consultation runs until 28 February 2019.

High streets are changing, and the Government is committed to helping communities adapt. The Budget provided a boost for our high streets via a £1.5 billion package of support. This includes a business rates discount worth almost £900 million and a £675 million Future High Streets Fund to help local communities adapt and thrive in changing times. The prospectus for this fund was published on 26 December 2018.

Salisbury incident

Lord Lexden asked about the assistance and support the Government is giving to Salisbury after the Novichok incidents. Lady Neville-Rolfe also raised the matter.

I would first like to pay tribute to the people of Salisbury and Amesbury who have shown incredible resilience throughout these incidents. My thoughts also remain very much with those most affected by these incidents, particularly the family and friends of Dawn Sturgess, who tragically lost her life.

In recognition of the unprecedented events the Government has provided over £3.5 million to support Wiltshire Council and local business. This includes support to Wiltshire Council's response and recovery costs and immediate support to local businesses. It also includes money to boost the vital tourism industry in the region. This is all in addition to a special grant for the police who led the initial response to the incident, and the funding of decontamination activity.

The Prime Minister has made it clear that the Government will continue to work closely with local partners in Wiltshire on the long-term recovery from these terrible incidents. To this end the Department for Business, Energy and Industrial Strategy are working closely with Wiltshire Council in the development of a long-term economic plan for the area.

Universal Credit

Lord McKenzie of Luton, asked about the timing of the Government's recent changes in Universal Credit implementation, and whether this policy has been reflected in this provisional local government finance settlement.

The Government has carefully revised the plan for migrating claimants to Universal Credit from their existing benefits by extending the testing period and moving back the date of completion to ensure that we take the necessary time to get this absolutely right.

The process of migration will commence in July 2019, and only up to 10,000 people will move over while we learn and adapt. The Government will then scale up the numbers of people being migrated from November 2020 and complete managed migration in December 2023.

The provisional local government finance settlement concerns core funding available to local authorities and does not cover funding for and policy pertaining to the roll-out of universal credit.

I would like to thank Noble Lords once again for giving me this opportunity to set out the Government's position. I look forward to future opportunities to continue to discuss these interesting and vital issues in the future.

I have placed a copy of this letter in the Library of the House.

LORD BOURNE OF ABERYSTWYTH