DISTRICT COUNCILS' NETWORK
Innovative and collaborative solutions for people and places

# District Councils' Network response to the provisional 2018-19 local government finance settlement

## About the District Councils' Network

The District Councils' Network (DCN) is a cross-party member led network of 200 district councils. We are a Special Interest Group of the Local Government Association (LGA), and provide a single voice for district councils within the Local Government Association.

District councils in England deliver 86 out of 137 essential local government services to over 22 million people - 40% of the population - and cover 68% of the country by area.

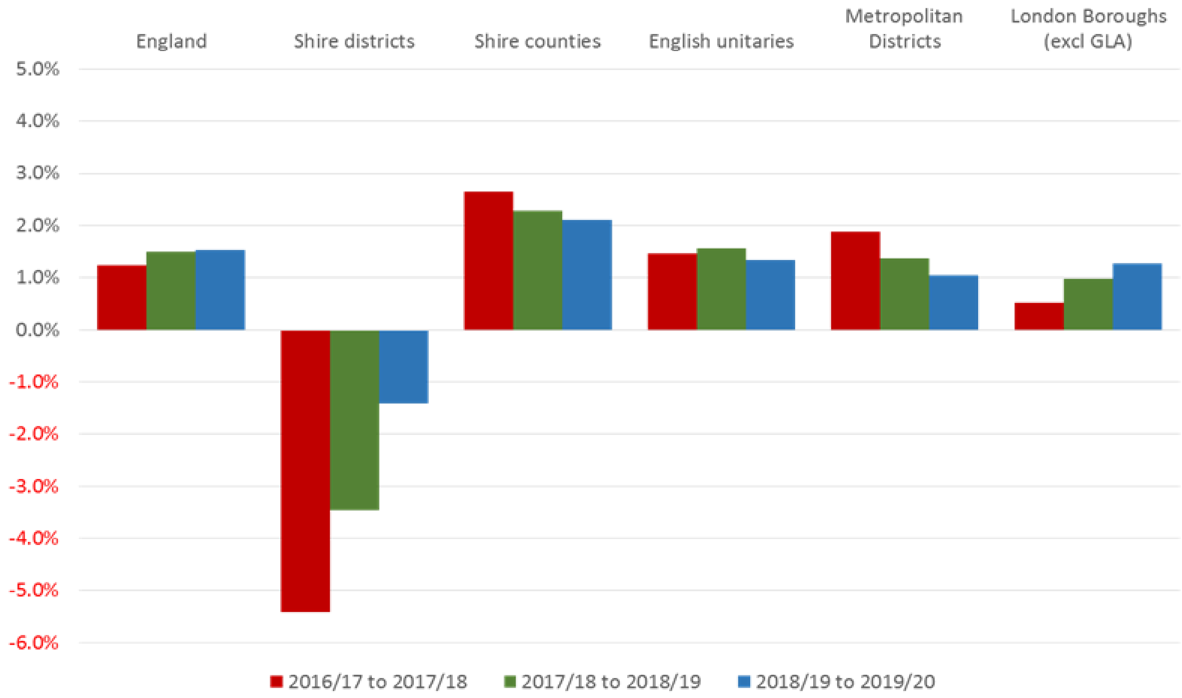
District councils have a proven track record of building better lives and stronger economies in the areas that they serve. Districts protect and enhance quality of life by safeguarding our environment, promoting public health and leisure, whilst creating attractive places to live, raise families and build a stronger economy. By tackling homelessness and promoting wellbeing, district councils ensure no one gets left behind by addressing the complex needs of today whilst attempting to prevent the social problems of tomorrow.


## Summary

The DCN welcomes the opportunity to respond to this consultation paper.

- We welcome the Government's recognition of the significant issue affecting 146 (72%) of district councils of negative RSG and look forward to working with the Department on proposals for addressing it. This consultation must address the gap for those councils facing negative RSG with no 100% business rates retention to bridge the gap.
- We are disappointed that the Settlement has not addressed our long called for extension of an additional 2% prevention precept for district councils. We would like to flag the growing unfairness and inequity resulting through Unitary/Single Tier councils having the ability to raise a social care precept on their entire precept, whereas in shire district areas the social care precept is only charged on the County Council precept, thus resulting in lower funding for shire district areas and this will only grow over time. We propose that district councils are able to raise a prevention precept on the overall district council tax precept, bringing them more in line with Single Tier areas.
- We are pleased to see the revised principle for council tax referenda limits of 3% for 2018-19, but to ensure fairness this must be extended to allow allowed an increase by the greater of 3% or **£7.50,** so that the "cash alternative" provides meaningful headroom to the affected 88 district councils.
- The DCN warmly welcomes and fully supports the Government decision to make no changes to the New Homes Bonus (NHB) baseline level or any further changes to the NHB system.
- Once again the settlement does not provide any further certainty for councils in the medium term and the announcements are late, leaving very little time for councils to plan properly in their budgets. We ask again that in future years Government brings forward the date of these announcements.

The year-on-year changes in core spending power in the Local Government Finance Settlement have hit district councils far harder than others, with huge reductions in core spending power for shire districts of over 5% from 2016-17 to 2017-18 and over 3% from 2017-18 to 2018-19, as shown in the graph below. Districts are continuing to see reductions in their core spending power for the whole period, compared to other councils who are seeing an increase.




Based on the 2018-19 Draft Settlement data, 146 out of the 201 District Councils (72%) will be facing a negative RSG position by 2019-20. When local authorities accepted the 4 year settlement offer they did so against the background of 100% Business Rates retention being introduced within this 4 year settlement period, today's situation is very different.

Negative RSG would see council tax from local residents skimmed off to be spent elsewhere so we are pleased to see that Government will look at fair and affordable options for dealing with this situation which the majority of district councils face by 2019-20. We welcome the Government's recognition of this significant issue for many district councils and look forward to working with the Department on proposals for addressing it. We urge Government to consult on proposals early in 2018 so that councils have some certainty when setting their budgets for 2019-20. **The solution should not leave councils any worse off as a result of negative RSG as this was the understanding for those councils when they entered into the four year settlement.**

We continue to propose that the mechanism of referenda on council tax increases is removed by Government and local councils are free to set their own level of Council Tax. If the Government nevertheless presses ahead with its revised principle of 3% for 2018-19, then districts should be allowed to increase by the greater of 3% or £7.50, so that the "cash alternative" provides meaningful headroom to the 88 affected district councils.

While we welcome the flexibility of all district councils being able to increase council tax by 3% in the next two years, we are concerned that the previous alternative of £5 has not been increased and we are disappointed that the Settlement has not addressed our long called for extension of an additional 2% prevention precept for district councils, in order to reduce pressure on social care services and enable us to tackle complex problems one family at a time before they occur. By not addressing this in the Settlement, the government has missed an opportunity to establish greater parity between those living in district council areas versus unitary areas where the whole council tax can be used to fund additional social care and prevention issues.

We would like to re-emphasise a suggestion the DCN have raised previously, which is the relevance and importance of a prevention council tax precept - a 2% prevention levy for district councils - to reflect the key role that districts play in prevention and demand-reduction for the wider public sector across the country.

The DCN welcomes the firm commitment to proceed with 75% business rates retention in 2020-21 and we will work with MHCLG to deliver a successful set of changes for district councils. However we are disappointed that there appears to be no Parliamentary time to deliver 100% rates retention by that date.

We welcome the seven pilots announced in shire county areas but are disappointed that other bids from shire county areas could not be included: we hope that will receive favourable consideration for 2019-20. MHCLG should allow much more time for Councils for the 2019-20 pilots compared to the very limited time frame for the 2018-19 pilots. It would also be useful for those with unsuccessful bids to receive feedback on why the bids were rejected to help form future bids.

We also commit to working with MHCLG and other stakeholders on the detail of reforms to the local government finance settlement, including the fair funding review.

We are concerned that the timetable for changes to fund social care imply no change even by 2020 (if a Green Paper is going to be published only this summer) and perhaps not in this Parliament. There is a pressing need to consider short term measures such as more Government resources for social care authorities and DCN's proposal for a "prevention precept" for district councils.

The DCN warmly welcomes and fully supports the Government decision to make no changes to the New Homes Bonus (NHB) baseline level or any further changes to the NHB system as this remains a key incentive for district councils to provide growth in their areas.

We feel that the decisions over the level of Council Tax should be a wholly local matter and should not be subject to nationally set referendum principles. In addition a referendum on the level of Council Tax adds an unnecessary cost pressure on local residents.

We are pleased to see the Fair Funding Review consultation has been issued and will work together with others to provide a response to this initial consultation. We also support the year's extension to the implementation of both the Fair Funding Review and Business Rates Retention, in order to provide time to implement a fit for purpose scheme which is fair to all authorities. It is important that we take the learning from all of the business rates pilots to ensure any future scheme continues to incentivise business rates growth.

However this settlement does not provide any further certainty for councils in the medium term and once again the announcements are late, leaving very little time for councils to plan properly in their budgets. Councils cannot plan into the medium term and consult with residents when the Settlement announcement is so late and we ask again that in future years Government brings forward the date of these announcements.

We have set out below our detailed responses to the consultation questions.

**Question 1: Do you agree with the methodology for allocating Revenue Support Grant in 2018-19?**
Yes, we agree with this methodology.

**Question 2: Do you agree with the Government's proposal to fund the New Homes Bonus in 2018-19 with £900 million from Revenue Support Grant and any additional funding being secured from departmental budgets?**
The DCN welcomes that there has been no changes to the NHB for 2018-19 and is pleased to see that Government has taken councils views into account following consultation and feedback.
It is essential that successful schemes such as NHB remain fit for purpose and continue to incentivise growth into the future.

However we are concerned that the contribution from the Government's own resources is proposed at only £46m, when it was £250m initially and over £200m only a couple of years ago. The Government's contribution has fallen faster than total new homes bonus payments, whereas if it had maintained its value in relative terms less would have to be found by top-slicing revenue support grant. We call for the Government's contribution to be increased to its former level in relative terms. The current approach does not demonstrate the Department's own commitment to incentivising authorities for housing growth if all or nearly all resources come from top-slicing.

District Councils are concerned that decisions relating to the NHB continue to be made with only a few months before the start of the new financial year therefore impacting on the ability for district councils to understand the impact on their budgets. This runs contrary to the stated aim of 4 year settlements which was to reduce uncertainty. We note the ability remains for Government to change the NHB scheme in future years and ask Government to heed the feedback from councils and make no further changes to the scheme in future years.

**Question 3: Do you agree with the Government's proposed approach of paying £65 million in 2018-19 to the upper quartile of local authorities based on the super-sparsity indicator?**
Yes, we fully support this additional funding which brings the 2018-19 allocation in line with other financial years and recognises the additional pressures of delivering services in rural areas.

**Question 4: Do you agree with the Government's proposal to hold back £35 million to fund the business rates safety net in 2018-19, on the basis of the methodology described in paragraph 2.6.2?**
The DCN supports this proposal provided the £35 million has already been accounted for in the MHCLG calculations and is not a further reduction for councils.

**Question 5: What are your views on the council tax referendum principles proposed by the Government for 2018-19?**
The DCN feel that the decisions over the level of Council Tax should be a wholly local matter and should not be subject to nationally set referendum principles. In addition a referendum on the level of Council Tax adds an unnecessary cost pressure on local residents. District councillors are democratically elected by local residents and should be able to determine their own rates of local taxation. We note that the Government is not proposing any principles for elected mayors and would welcome the extension of this approach to principal local authorities which are equally democratically accountable to local electors. We continue to propose that the mechanism of referenda on council tax increases is removed by Government and local councils are free to set their own level of Council Tax.

However, if Government are determined that referendum principles have to be in place, then we welcome the additional flexibility to increase council tax by 3% which is more in line with inflation.

We would propose that the £5 for shire district councils should also be increased, in a similar fashion, to £7.50. For 88 district councils the £5 is a higher value than 3% due to the low levels of council tax levied by districts, therefore leaving this value constant means those 88 (44%) are unable to generate the additional local funding.

A £7.50 annual increase by a district council on a Band D property equates to just 14p per week increase for the council tax payer (or 10p per week for a Band A property). Increasing this limit could make a big difference to local councils and would also help deal with pressures from special expenses (such as street lighting or drainage board levies) but would be a minimal impact to council tax payers.

We would like to re-emphasise a suggestion the DCN have raised previously, which is the relevance and importance of a prevention council tax precept - a 2% prevention levy for district councils - to reflect the key role that districts play in prevention and demand-reduction for the wider public sector across the country.

We would like to flag the growing unfairness and inequity resulting through Unitary/Single Tier councils having the ability to raise a social care precept on their entire precept, whereas in shire district areas the social care precept is only charged on the County Council precept, thus resulting in lower funding for shire district areas and this will only grow over time. We propose that district councils are able to raise a prevention precept on the overall district council tax precept, bringing them more in line with Single Tier areas.

We are pleased to see the deferral of any referendum limits for town and parish councils. We remain strongly opposed to the setting of any referendum principles for council tax increases by parish councils, which for many is their only source of income. We are concerned that the Government continues to threaten interference in tax setting of the only part of local government that enjoys genuine local autonomy. The council tax increases from principal authorities, in particular the social care precepts, will far exceed in value the increases that parish councils will decide. If the former are acceptable, it demonstrates that there is no case for setting principles for parish councils.

**Question 6: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.5.1 to 3.5.6?**
If this change removes unusual distortions from the calculation and provides a fairer distribution to councils then we would agree with the methodology.

**Question 7: Do you have any comments on the impact of the 2018-19 local government finance settlement on those who share a protected characteristic, and on the draft equality statement published alongside this consultation document?**
**Please provide supporting evidence.**
We have no comments.