

INTRODUCTION

The provisional local government finance settlement was announced by the new Minister for Housing, Communities and Local Government (MHCLG), Sajid Javid MP, on Tuesday 19 December. The announcement largely confirmed the provisional allocations for 2018-19 originally announced in December 2015 as part of the multi-year settlement offer, accepted by 97% of local authorities. This briefing provides a summary and analysis of the main announcement.

Headlines

Ref	Announcement	Impact on Mendip
1	Increased council tax referendum principle from 2% to 3% for 2018-19 and 2019-20, with the maximum £5 increase maintained for district councils.	None – previous referendum principles allowed MDC to increase the precept by up to £5.
2	Confirmation of the continuation of the ASC precept including the additional flexibility to raise the precept to 3% this year but by no more than 6% over the 2017-18 to 2019-20 period.	None – Upper tier only. Note however this contributes to the largest increase in council tax for over a decade.
3	Announcement of the Government’s “aim” to localise 75% of business rates from 2020-21 and implementation of the new needs assessment.	Unknown – significant work is required to resolve the implementation of business rates retention and the fair funding review.
4	No Transition Grant – Consultation in the Spring on “fair and affordable options” to tackle negative RSG in 2019-20.	Potential to remove £54k negative RSG
5	Ten 100% business rates retention pilots have been accepted for 2018-19	Somerset’s bid, which included MDC, was rejected .
6	A national increase in the 2018-19 core spending power of 1.5% compared to 2017-18	Mendip’s spending power <u>decreased by 6.5%</u> .

Ref	Announcement	Impact on Mendip
7	Increase in Rural Service Delivery Grant for 2018-19 to £65m in line with 2017-18 and 2019-20.	Mendip's RSDG increased by £45k from the previous provisional allocation, but remained frozen in cash terms.
8	New Homes Bonus. Further reduction in the number of payment years from 5 years in 2017-18 to 4 years in 2018-19. NHB will continue to be paid on housing growth above 0.4% (0.4% in 2017-18). No further changes, as consulted on, in 2018-19. Previously the savings arising from these changes were allocated to local authorities as the Adult Social Care Support Grant, in 2018/19 the savings have been kept by government.	Mendip's allocation reduced by £820k, or 30% , due to a combination of these changes and lower growth.
9	Continuation of capital receipts flexibilities for a further 3 years.	Limited as MDC has limited ability to raise capital receipts.

COUNCIL TAX – revised Referendum Principles

The Minister announced a significant change in the proposed referendum principles for 2018-19. Specifically, the draft principles include:

- 3% council tax referendum trigger for counties, unitaries, London boroughs and GLA (up from 2%)
- Continuation of the ASC precept at 2% with the flexibility to increase the precept by 1% to 3% in 2018-19 provided that increases do not exceed 6% between 2017-18 and 2019-20
- For shire districts 3% council tax referendum trigger or £5, whichever is higher (up from 2%)
- Police precepts can be increased by up to £12. This equates to between 5.34% and 12.20% for English PCCs. This compares to allowing a £5 increase for those in the lowest quartile of PCCs and a 2% threshold otherwise in 2017-18.

Last year, the Government asked parish and town councils to “exercise restraint” and transparency when deciding precept increases. The Minister confirmed that the government intends to defer the setting of referendum principles for town and parish councils for three years.

The implication of the increase in the referendum limit is that Council Tax could increase by the largest amount in over a decade, with an estimated increase of nearly £100 on a Band D Property across all preceptors.

The forecast increases are:

2017/18	Council Tax	2018/19 [#]	Increase
£1,124.79	Somerset County Council *	£1,192.16	5.99%
£181.81	PCC for Avon & Somerset	£193.81	6.60%
£148.45	Mendip District Council *	£153.45	3.37%
£81.57	Devon & Somerset Fire & Rescue Authority	£84.01	2.99%
£81.37	Average Parish Precept	£83.80	2.99%
£6.00	Special Expenses Rate	£6.00	0.00%
£1,623.99	TOTAL BAND D CHARGE	£1,713.24	5.50%

* Includes Somerset Rivers Authority equivalent to 1.25%

Unconfirmed at the time of writing.

Business Rates Retention and Negative RSG

Following the 2017 General Election and the omission of the Local Government Finance Bill in the Queen's Speech, the Government moved from its pursuit of 100% Business Rates Retention to *increased* Business Rates Retention. Due to the General Election the implementation date of 2019-20 was delayed to 2020-21.

The Minister announced the Government's aim to increase the local share of business rates retention to 75% in 2020-21. This will be through incorporating existing grants into business rate retention including the Revenue Support Grant, and the Public Health Grant. The remaining 25% central share will be returned to HM Treasury and recycled back to local government but this will not be visible. **This continues to imply that the move to greater business rates retention provides no additional funding to local authorities.**

Pilots

The Government had already announced that the 2017-18 pilots would be extended into 2018-19. The 2017 Autumn Budget also announced 100% business rates retention for London councils in 2018-19.

On 1 September 2017 the DCLG published a prospectus inviting local authorities to submit proposals to pilot 100% business rates retention in 2018-19. The local authorities of Somerset collectively submitted a bid which was unfortunately rejected by Government. Somerset has however been approved to form a Pool which the levy on any growth will be significantly reduced.

Transition Grant

Prior to 2016-17 changes to RSG were carried out by comparing the current year's RSG allocation to the previous year. Each local authority therefore received the same flat rate reduction.

The 2016-17 provisional settlement was the first year in which the DCLG took actual precept into account when applying the cuts to core funding. This seriously impacted authorities and following extensive lobbying, the final 2016-17 settlement announced additional funding worth £150m in both 2016-17 and 2017-18 "for councils with the

sharpest reductions in Revenue Support Grant". Of the £150m national total available in 2017-18 Mendip receive £20k in Transition Grant.

No further transitional funding was announced for 2018-19.

Core Spending Power

The Minster confirmed 2018-19 Core Spending Power (CSP) figures as set out below:

Element	National £m	Mendip £m
Estimated Council Tax excluding Parish Precepts	24,902.577	6.318
Potential additional Council Tax revenue from ASC flexibility	1,661.206	0.000
Potential additional Council Tax from £5 referendum principle for all Districts	36.437	0.070
Proposed Improved Better Care Fund	1,499.000	0.000
Illustrative New Homes Bonus	946.220	1.878
Rural Services Delivery Grant	65.000	0.195
2018-19 Provisional Core Spending Power	44,934.428	11.697
2017-18 Core Spending Power	44,271.296	12.508
Change	+ 1.51%	-6.48%

Rural Services Delivery Grant

The RSDG is distributed to the top-quartile of authorities ranked by super-sparsity, as per the distributional methodology for the Rural Services Delivery Grant indicator in 2015-16.

2018-19 allocations of the Rural Services Delivery Grant (RSDG) have been published totalling £65m. 2018-19 allocations had been expected to fall by £15m from £65m in 2017-18; however, this reduction has been cancelled. Allocations remain at £65m in 2019-20. For Mendip, this reinstated the £45k initial reduction.

NEW HOMES BONUS

Changes to the Scheme

At the beginning of 2016 the DCLG consulted on options to reform the New Homes Bonus Scheme. The aim of the reform was to sharpen the NHB's incentive to deliver new housing. The Government also wished to reduce the level of NHB payments, in order to provide the additional funding for the Better Care Fund.

Four proposals were consulted on including:

- Adjusting the Bonus to reflect estimates of deadweight
- A reduction in the number of years for which the Bonus is paid from the current 6 years to 4 years
- Withholding the Bonus from areas where there is no Local Plan in place
- Abating the Bonus in circumstances where planning permission for a new development has only been granted on appeal

DCLG implemented the first two proposals in 2017-18 basing payments on housing growth above 0.4% of the local authority's housing stock (the consultation proposal was 0.25%) and reducing payments from 6 to 5 years. This yielded approximately

£350m. Savings not distributed as iBCF were reallocated to upper-tier authorities as the Adult Social Care Support Grant.

2018-19 NHB Allocations

In summer 2017, the DCLG re-consulted on the latter two proposals in the 2018-19 settlement technical consultation. The provisional 2018-19 settlement confirms that DCLG has further reduced the number of payment years from five to four years. However the settlement confirmed that no new changes will be implemented in 2018-19 and the housing growth baseline above which grant is paid will also remain at 0.4%.

DCLG has published provisional allocations for 2018-19, the eighth year of the scheme. The provisional total NHB grant for 2018-19 is £0.946bn. Payments include the grant awarded in years 5 to 7 as well as year 8. Mendip's provisional allocation is £1.878m as demonstrated in the annex to this document.

Flexible Homelessness Support Grant

The new flexible homelessness support grant will come in from 1 April 2017. It replaces DWP's temporary accommodation management fee. Mendip's allocations are:

2017/18	£82,071
2018/19	£86,436

Homelessness Reduction Act: new burdens funding

Mendip will be allocated the following new burdens funding to implement the Homelessness Reduction Act:

	Allocation 2017/18	Allocation 2017/18	Allocation 2017/18	Allocation 2017/18
Mendip	34,802	31,879	35,611	102,292

Capital Flexibilities

Sajid Javid announced the continuation of capital receipts flexibility programme for a further three years enabling local authorities to use capital receipts from the sale of their own assets.

New Homes Bonus allocations:

	Cumulative Payments	2011 / 12	2012 / 13	2013 / 14	2014 / 15	2015 / 16	2016 / 17	2017 / 18	2018 / 19	2019 / 20	2020 / 21	2021 / 22	2022 / 23
Year of Delivery	Payments for Year 1	£504,175	£504,175	£504,175	£504,175	£504,175	£504,175						
	Payments for Year 2		£492,609	£492,609	£492,609	£492,609	£492,609						
	Payments for Year 3			£517,449	£517,449	£517,449	£517,449	£517,449					
	Payments for Year 4				£484,406	£484,406	£484,406	£484,406					
	Payments for Year 5					£497,063	£497,063	£497,063	£497,063				
	Payments for Year 6						£761,315	£761,315	£761,315	£761,315			
	Payments for Year 7							£431,065	£431,065	£431,065	£431,065		
	Payments for Year 8								£188,928	£188,928	£188,928	£188,928	
	Payments for Year 9									£287,512	£287,512	£287,512	£287,512
	Payments for Year 10										£287,505	£287,505	£287,505
	Payments for Year 11											£287,516	£287,516
	Payments for Year 12												£287,507
	Total Payments	£504,175	£996,784	£1,514,234	£2,050,857	£2,495,703	£3,257,018	£2,691,299	£1,878,371	£1,668,820	£1,195,010	£1,051,460	£1,150,040

Highlighted cell are local forecasts.