

Factsheet: Changes to the Local Government Finance Settlement (Clause 1 and Schedule 1)

What changes are you making to the local government finance settlement?

We currently distribute local authorities' main source of funding for services under the Local Government Finance Act 1988 which requires an annual Local Government Finance Report to be approved by the House of Commons. The Report sets the amount of Revenue Support Grant (RSG) and the basis of its distribution, and the basis for calculating business rates 'top up' and 'tariff' amounts.

We are removing the requirements relating to the payment of Revenue Support Grant as this grant is ending as part of the move to 100% business rate retention.

The Secretary of State will have a power to make calculations over a number of years based on principles of allocation. The principles of allocation must be consulted upon.

What is the policy hoping to achieve?

Under 100% business rate retention there will no longer be a local government finance settlement that distributes central grant to support local services. Local authorities will become more financially self-sufficient, funding local services from local resources.

This Bill therefore makes the legislative changes necessary to move away from the current system whereby the House of Commons approves the distribution of grant, ensuring that accountability for funding local services with local resources sits with local councils. This will encourage greater focus on what local authorities can do to increase business rates income, set appropriate council tax levels and improve efficiency.

In addition, the Government has published a four year settlement to provide funding certainty for local authorities, but the House of Commons is required to reapprove it every year. This makes future allocations less certain for local authorities, reducing their ability to plan effectively and transform services with local partners. The changes in this Bill remove this process and provide a clear framework in law for multi-year settlements, increasing funding certainty.

Why is legislation needed?

Primary legislation is needed to remove Chapter 2 from Part 5 of the Local Government Finance Act 1988 which provides for the payment of revenue support grant in England; and to amend Schedule 7B to the Local Government Finance Act 1988 which provides the current framework for determining principal payments in connection with local retention of non-domestic rates.

How do we see this working in practice?

The Secretary of State will be required to consult on the principles of allocation which we expect will reflect the relative needs and resources of local authorities. This will be an opportunity for local authorities, Members of Parliament, members of the public and any organisation with an interest to make representations on how local government funding should be allocated.

The Secretary of State will then make calculations in line with those principles covering a number of years, providing long term funding certainty for local authorities.

How can I find out more?

The Bill and Explanatory Notes have been published on the Parliament website, these will be updated regularly: <http://services.parliament.uk/bills/2016-17/localgovernmentfinance.html>. The Government's response to the consultation will be published in due course.

How will the different needs and resources of local authorities be determined?

- The Government is separately undertaking a Fair Funding Review to devise a new relative needs and resources formula for local government. This will set new authority baselines for the introduction of 100% business rate retention. These changes do not require legislation and are not included in the Bill. The Government published a Call for Evidence on Needs and Redistribution in July 2016 and will be consulting on aspects of the formula shortly.

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