

Statement to Parliament: Statement in debate on the Local Government Finance Settlement

Local government is the frontline of our democracy.

Every day, England's almost 400 districts, counties, boroughs, unitary councils and metropolitan areas provide countless services to millions of people.

They clean our streets, repair our roads, care for our most vulnerable citizens, maintain our infrastructure, shape our communities, put roofs over our heads and so much more.

It's our job to make sure they're adequately funded to do just that.

A [provisional financial settlement](#) was published late last year.

Since then, we have received formal representations from nearly 200 organisations and individuals.

And let me take this opportunity to thank everyone who has taken part in that process.

The results of the consultation are before you all today in the shape of the [final settlement](#).

It's a settlement that provides councils with the resources required to deliver world-class public services in the year ahead, while continuing to play their part in bearing down on the deficit.

Nobody knows local government better than local government itself.

So this is a settlement that answers requests made to us by representatives from every tier of local government and every political party.

The measures can be broadly grouped into 3 areas, which I'd like to go throughout for debate.

And I'll also update the House on an important source of local government funding, and that is business rates.

Greater funding certainty for councils

The first request we've had from local authorities is increased considering over funding.

For years, councils have called for the tools to improve services and deliver efficiencies over a longer horizon.

That's why the 2015 Spending Review delivered a £200 billion flat cash settlement for local government.

And that's why we've delivered 4-year funding allocations, which provide the financial certainty required for councils to be bold and ambitious.

They have used that funding certainty to publish long term efficiency plans, showing their taxpayers that they can deliver great services and still live within their means.

But the story does not end there.

Last month we introduced the Local Government Finance Bill to this House.

It will devolve 100% of business rates to local government.

And it will also enshrine in law our commitment to providing funding certainty, establishing a legal framework for multi-year settlements.

The Revenue Support Grant will be abolished, so councils will become financially self-sufficient.

And with services financed locally, councils will be even more accountable to their electorates, rather than to ministers in Whitehall.

Under the new system there will no longer be an annual finance settlement, reviewed and imposed by Westminster each year.

Instead the government will set the envelope and the principles for allocating funding over a period, and it will be for councils to grow their income.

This could be done in a variety of ways, from attracting new businesses, to building new homes, to working with local partners to deliver more efficient and more joined-up local services.

100% business rate retention is being piloted from next year in Greater Manchester, in the Liverpool City region, the West Midlands, Cornwall, the West of England and by the Greater London Authority.

These authorities will be able to keep more of the growth in their business rate income, with no impact on the rest of local government.

We plan to undertake further pilots in 2018 to 2019, in areas without a devolution deal, including 2-tier council areas.

And I'd like to welcome applications from any council wanting to take part in this second trial.

The nationwide roll-out of 100% business rate retention will take place across England in 2019 to 2020.

Earlier this month my department [published a consultation](#) seeking views on exactly how this system will look.

Additional support for adult social care

The second key area where we have listened and responded is funding for adult social care.

This is an issue that transcends party politics.

Local government may have the statutory duty to look after our most vulnerable citizens, but we all have a moral duty to help them do so.

The Spending Review put in place up to £3.5 billion of additional funding for adult social care by 2019 to 2020.

But we recognise that the coming year is the most difficult in the settlement period for many councils.

There are immediate challenges in the provision of care.

And these are challenges that must be met now, before those substantial additional resources become fully available.

So this settlement creates a new £240 million adult social care support grant.

And it allows councils to raise the adult social care precept by up to 3% next year and the year after.

Together, these measures make almost £900 million of additional funding for adult social care available over the next 2 years.

That means the total dedicated funding available for adult social care over the 4-year settlement period is £7.6 billion.

Of course, some local authorities, when it comes to the precept, will be able to raise less than others.

That's why we have confirmed the Improved Better Care Fund allocations, worth £1.5 billion by 2019 to 2020.

These allocations take into account a councils' ability to raise funding through the precept.

But more money for adult social care is not the only answer.

We want every area to move towards the integration of health and social care services by 2020, so it feels much more like one service.

And I welcome the consensus across both sides of the House that, in the long term, we will need to develop reforms to make social care sustainable and effective for everyone involved.

Commitment to a fairer funding formula

The third key area concerns the Fair Funding Review, through which we are

devising a new funding formula for local government.

It is nearly a decade since the current formula was looked at thoroughly.

Some parts of it date back as far as 1991, a time when Theresa May was an up-and-coming young councillor.

It's fair to say that one or two things have changed since then.

The demographic make-up of many areas has altered radically.

An ageing population means demand for different services has shifted.

And we're entering a world in which local government spending is funded by local resources, not central grant.

So we are undertaking a Fair Funding Review, to thoroughly consider how to introduce a more up-to-date, a more transparent and fairer needs-assessment formula.

It's vital that the new formula delivers, so we're working closely with all of local government to get it right.

We had literally hundreds of responses to the Call for Evidence that my department published last year. And it's clear that people in many areas feel strongly about it.

I've also been privileged to hear the views of colleagues from across this House on this issue, many of them with direct experience of service in local government.

Various themes have emerged.

Foremost among them is the need to make sure the formula works for all local authorities, wherever they are. Rural councils, in particular, have unique needs that have to be met.

And councils have also been very clear that they want to see action sooner rather than later.

I am happy to confirm what we have previously said on this issue.

So I am happy to confirm what we have previously said on this issue.

We will make changes to the fastest possible Parliamentary timetable.

And we will aim to implement new baselines for every authority in 2019 to 2020, following Royal Assent of the Local Government Finance Bill, the necessary secondary legislation and the completion of the Fair Funding Review.

I'll update the House as soon as I have further details to share.

Business rates

Of course, local government funding doesn't just have to be fair for local government.

It also has to be fair to the people who provide the funds in the first place, and that includes the millions of hardworking business owners who pay business rates.

Now, growing up above the family shop, I saw for myself the impact that an increase in rates can have on a small business.

A rise in costs lowered the mood of the whole family.

Even as a child, I knew that it wasn't good when I found a stack of bright red final reminders hidden away at the back of a drawer.

And my dad was never shy about sharing what he thought of the out-of-town retail parks that took so many customers away from the high street in Bedminster.

If he were alive today I'm sure he'd be first to phone me up and lobby me about the business rate revaluation, in particular I can just imagine him telling me about the treatment of large online retailers and how that compares with traditional shops on the high street.

My background helps explain why I've always been passionate about supporting business.

It's why, as Business Secretary, I championed the £6.7 billion relief package that means 600,000 small businesses will never have to pay rates again.

That is one third of all businesses. That's the biggest business rate cut in history.

The current rate revaluation is fiscally neutral, it is not being used to raise a single extra penny for the Treasury.

In fact, to do so would be illegal.

For most businesses, three-quarters of them in fact, the amount they'll end up paying will go down or stay the same.

And, as I said, 600,000 small businesses are being lifted out of business rates altogether, permanently.

But while three-quarters of businesses will benefit or see no change, I am also acutely aware of the impact on the quarter that will see increases.

If your rates are going up it's no consolation to hear that others' will be going down.

I've long recognised the need to provide support.

That's precisely why we've put in place a £3.6 billion package of transitional relief to help more than 140,000 smaller businesses.

But as colleagues and the media have highlighted in recent days, there are clearly some individual businesses facing particular difficulties.

For example, businesses that are coming off rate relief can be faced with an alarming cliff edge.

Independent retailers in some high value areas are also struggling.

I have always listened to businesses, and this situation is no exception.

It's clear to me that more needs to be done to level the playing field and to make the system fairer.

I am working closely with my Rt Hon Friend the Chancellor to determine how best to provide further support to businesses facing the steepest increases.

We expect to be in a position to make an announcement at the time of the Budget, in just 2 weeks

Property-based business taxes have been around, in one form or another, for many decades.

Centuries, even.

Nobody would argue that the current system is perfect, and it's entirely right to ask whether the time has come for reform.

The Treasury's 2015 consultation showed little appetite for replacing the whole business rates system.

It remains a vital element of the local government finance settlement, and its importance will only rise with the introduction of business rate retention.

However, with underlying concerns about things like globalisation, international tax structures and the struggle between the high street and the virtual world, there is clearly some room for improvement.

And we'll be looking closely at all possible steps for making it fairer and more sustainable in both the short term and the long term.

Conclusion

This local government finance settlement honours our commitment to 4-year funding certainty for councils that are committed to reform.

It recognises the costs of delivering adult social care and makes more funding available sooner.

And it puts local councillors in the driving seat with a commitment to support them with a fairer funding formula.

I commend it to the House.