**SIGOMA Response to the 2017-18 Local Government Finance Settlement**

About SIGOMA

SIGOMA is an interest group within the local government association. We represent 46 Metropolitan and Unitary authorities covering regions in the North East, the North West, Yorkshire and Humber, the Midlands and the Southern ports of England. SIGOMA authorities serve around 14 million people across the UK and are responsible for around a quarter of local government spending.

Our authorities are widely recognised as being in the forefront as a target for governments funding reduction policies. As members of the wider local government community we have suffered one of the highest funding reductions of all government Departments but, more than that, within local government our authorities have borne a greater burden of cuts than our wealthier counterparts.

Because SIGOMA authorities are in some of the most economically challenging parts of the country, our residents have greater reliance on health, welfare and educational support services and as cuts are applied in proportion to need our members suffer the most. For the same reason many of our member authorities are least able to finance their local needs through generating increases in locally raised Council Tax and Business Rates and take advantage of growth incentives, financed from reduced needs funding.

Our members have cautiously welcomed a recent refocusing of cuts so as to take account of all local authority income. Redistribution of national resource, based on the cost of providing services, is an essential element of local authority funding if the communities we serve are to survive , let alone thrive.

General Comments

SIGOMA welcomes the opportunity to comment on the settlement. Whilst we have included our response to the specific questions raised there are also a number of issues members wish us to include in our response which are not covered by the consultation questions.

**Demand pressures**

Our members ask us to again draw Governments attention to the intense pressures facing local government, especially for care services, which local leaders continue to try and protect.

The latest 2015-16 Revenue Outturn data shows that 134 upper tier authorities overspent by a total of £1.1 billion against their combined Children’s and Adult Social care budgets compared to their Revenue Estimates for the same year. This included 35 out of 46 SIGOMA authorities. This is a pressure which the re-badging of existing funding will not solve and which is felt most keenly in the poorest authorities which have already absorbed the highest cuts to other services.

**New Homes Bonus**

The majority of members would support a further reduction in legacy years of NHB with the funds being returned on a needs basis.

SIGOMA authorities do not agree with the absolute percentage baseline measure for removing “deadweight” which has also been set considerably higher than the 0.25% indicative measure in the consultation. Members favour a floor measure based on historic growth in each authority.

**Education funding**

Some members have raised concern at the phasing out of Education Services Grant from 2017/18 at the same time as authorities are undergoing cuts in general funding .

Incorporating a small element of this funding into Dedicated Schools Grant will not provide the funding certainty that local authorities need in order to continue to provide statutory services to schools.

SIGOMA calls upon the Government to clarify how it views the role of local government and its relationship with schools and specifically to review and state clearly the statutory responsibilities that local authorities will have in relation to supporting both maintained and academy schools, in the future.

Whilst Education funding is not a direct responsibility of DCLG, the Department have in the past been criticised by the Public Accounts Committee for failing to assess the impact of cuts and make clear to other Departments the ability of local government to bear simultaneous cuts across a multiple range of services. We ask the department to work with local government in explaining to the DfE the extent of cuts faced by authorities.

**Council Tax increases and Social Care precept**

Members have requested clarification of their options on the arrangements for Council Tax increases in light of bringing forward potential increases to the social care precept.

Members welcome the recently released amendments to the Council Tax Demand notice regulations though there is some concern that the new rules may add to complexity for the user

**Business Rates**

Members are concerned by the lack of certainty in respect of full compensation for increases in the thresholds of Small Business Rate Relief in combination with the 2017 revaluation.

Whilst the complexity is appreciated it is felt that DCLG have had ample opportunity to find a solution to identify a loss that will affect all authorities.

Similarly some members have expressed concern at the impact on top up and tariff adjustments of an increase in school and university hereditament valuations which run counter to the change in value of other hereditaments and attract statutory relief. Several authorities have contacted us, assessing that they are adversely affected by a difference in valuation growth on assets with relief.

The calculation method of adjustment to top up and tariff for 2017-18 makes no recognition of the impact of charitable relief where the assets concerned change at a significantly different rate, and on some occasions in a different direction, to other assets. One authority points out that where revaluation, charitable relief and transition surcharge combine the authority can actually lose money on each hereditament, see illustration in Appendix A.

Authorities were assured that they would be left largely unaffected by the revaluation and they feel that this assurance is currently not being fulfilled by the settlement.

**Improved Better Care fund**

Members would like clarity on what conditions may attach to allocations and use of better care funding and use of the social care precept. There already appears to be some suggestion that authorities retention of additional better care and the social care precept may be dependent on future spend evaluation. Authorities point out that even with assumed council tax rises and better care grant, overall funding falls over the guarantee period in cash terms by 0.4% (SIGOMA -1.6%) making it likely that funding would not even allow expenditure on care services to stand still in real terms.

Consultation Questions

Question 1

**Do you agree with the methodology of [calculating] Revenue Support Grant in 2017-18**

Members welcome the inclusion of Council Tax raising capacity within RSG calculations which was introduced in 2016 provisional settlement.

Our members note with regret however the late adjustment to RSG calculations in the final 2016 settlement which appears to be the result of political pressure. This resulted in the removal of negative RSG values and the introduction of a 2016-17 transition grant based solely on RSG impact.

As the table below shows, the transition grant was of virtually no benefit to some of those authorities worst affected in terms of Core Spending Power (CSP) in 2016-17.

Members believe that transition funding, if applied at all, should be applied at Core Spending Power level.



*The table shows that SIGOMA metropolitan and unitary authorities, who suffered the greatest loss of Spending Power in 2016-17 provisional settlement, benefited by less than 0.1% from transition funding. The 37 authorities who suffered a greater than 4% cut in Spending Power (including 15 SIGOMA authorities) received the same total amount of transition grant (£0.5 million) as the 10 authorities who had a greater than 4% rise in Core Spending Power.*

Members suggest that this methodology should be addressed in the 2017-18 calculation.

**2 Do you think the Government should consider transition measures to limit the impact of reforms to the new homes bonus?**

Our response to question 1 illustrates our point that transition funding should be applied at the level of Core Spending Power, taking into account all funding available to local authorities.

Members accept that housing is one of the key priorities for the nation, but recent events in health and welfare funding show that this cannot be financed at the expense of other equally demanding, sometimes critical, services. Many members conclude that New Homes Bonus is financed by “robbing Peter to Pay Paul”.

Members have also expressed concern at the lateness of the announcement on New Homes Bonus adjustment given the length of time since the original NHB consultation and would appreciate an explanation of this.

If DCLG do decide to introduce transition funding this should not be financed at the expense of lowering other NHB allocations or other funding streams

**3 Do you agree with the Governments proposal to fund the New Homes Bonus in 2017-18 with the £1.16 billion of funding held back from settlement, on the basis of the methodology described in paragraph 2.5.8?**

Our members are not supportive of a method whereby needs funding bears not only the cost of general funding cuts, but of maintaining other grants, such as New Home Bonus and inflationary increases in Business Rates.

New Homes Bonus has increased over the last 5 years at the expense of needs based Revenue Support Grant, as the following table shows:

Changes in new Homes Bonus and RSG 2011-12 to 2017-18



Members seek a balanced funding allocation that takes into account all the demands on authority services.

**4 Do you agree with the proposal to provide £240 million in 2017-18 from additional savings resulting from New Homes Bonus reforms to authorities with adult social care responsibilities allocated using the Relative Needs formula?**

Members point out that any projected underspend of New Homes Bonus was already committed as a repatriation of funds on a needs basis in any event. Members would prefer an allocation of the grant on the same basis as the better care fund ie by adding together the combined social care precept, improved better care fund and social care grant totals, allocating the total according to social care RNF and deducting precept, subject to no negative results.

Members also note the inefficacy of single year grants funded by cuts to other needs based funding streams (as NHB was funded by cuts to Revenue Support Grant)

**5 Do you agree with the Government's proposal to hold back £25 million to fund the business rates safety net in 2017-18?**

Members believe that shortfalls in funding of business rate retention shortfall should be from general taxation rather than specific to local government.

This mechanism has had the effect in earlier years of taking funds from some of the most economically deprived authorities in the country to fund some of the most prosperous. This is mainly due to circumstances surrounding appeals, over which authorities have no control, some of which has been to the direct benefit of other government Departments.

**6 Do you agree with the methodology for allocating transition grant in 2017-18?**

It will be clear from our answer to question 1 that SIGOMA members believe the allocations for transition grant are misdirected. They take into account neither the full breadth of funding available to authorities nor the necessity to match funding to demand for services.

In the 2017 Settlement the worst decile in terms of percentage fall in Core Spending Power (CSP) will receive £0.9 million in transition grant whilst the least affected decile receives £76 million. So, for example, the county of Surry with just a 0.2% fall in CSP received £12 million of transition grant whilst one of the most deprived authorities in the Country, Blackpool, suffers a 2.1% fall in CSP and receives no transition grant.

**7 Do you agree with the Governments proposed approach of paying £65 million in 2017-18 to the upper quartile of local authorities based on the super sparsity indicator?**

Members are consistent in their request for objective evidence of, or formulae for, the additional costs to local authorities from sparsity which is not dealt with in formula.

Sparsity is already accounted for as a factor within formula allocations. Therefore this additional funding has the appearance of an arbitrary double counting of one particular aspect of service delivery costs within funding.

Charitable relief and Transition surcharge impact Appendix A

**Illustration**

2010 RV - £565,000

2017 RV - £307,500

Adjusted Base Liability - £266,988.61

Notional Chargeable Amount - £143,295.00

Transitional Surcharge - £123,673.61

Mandatory Relief 80% - £213,590.89

Net Charge - £53,397.72

Mandatory Relief attributable to 2017/18 charge (£143,295.00 x 80%) - £114,636.00

Mandatory Relief attributable to transitional surcharge - £98,954.89

Total Mandatory Relief - £213,590.89

Income retained locally (£143,295.00 x 50%) - £71,647.50

Local share of mandatory relief – (£213,590.89 x 50%) - £106,795.44

Income passed to Central Government (143,295.00 x 50% + £123,673.61) - £195,341.11

Central Government Share of Mandatory Relief (£213,590.89 x 50%) - £106,795.44

Net Income to authority – (£35,147.94)

Net Income to Central Government - £88,545.67

Total Net Income - £53,397.72