Protecting Vital Services -

A Fair and Sustainable Funding Model

SIGOMA

Special Interest Group of Municipal Authorities
(outside London) within the LGA

Who we are

SIGOMA is a group of 45 Municipal Authorities and is a recognised special interest group within the Local Government Association (LGA).

Its membership comprises 33 Metropolitan Districts and 12 major Unitary Authorities with similar characteristics. The combined population of SIGOMA Authorities amounts to nearly a quarter of the population of England and its members account for over 25% of English Local Government expenditure. The membership also comprises most of the largest housing Authorities in England.

We are the collective voice of urban areas representing most of the large towns and cities in the Northern, Midland and South-Coast regions of England.

Member Authorities

MERSEYSIDE	Halton
	Knowsley
	Liverpool
	St Helens
	Wirral
MIDLANDS	Coventry
	Derby
	Dudley
	Leicester
	Nottingham
	Sandwell
	Stoke –on – Trent
	Walsall
	Wolverhampton
NORTH EAST	Durham
	Gateshead
	Newcastle
	North Tyneside
	South Tyneside
	Stockton
	Sunderland
NORTH WEST	Blackburn
	Blackpool
	Bolton
	Bury
	Manchester
	Oldham
	Rochdale
	Salford
	Stockport
	Tameside
	Warrington
	Wigan
SOUTH	Plymouth
	Portsmouth
YORKSHIRE & HUMBERSIDE	Barnsley
	Bradford
	Calderdale
	Doncaster
	Hull
	Kirklees
	Leeds
	Rotherham
	Sheffield
	Wakefield

Executive summary

This report outlines the problems with the current local government finance system and lays out a future model of local government finance which would create a more sustainable and equitable system.

In 2013 SIGOMA's report on the impact of the Government's cuts to local government funding on authorities argued that England's more deprived local authorities are bearing the brunt of the cuts. Building on that, this report argues that problems with the existing local government finance system mean that such authorities ability to provide vital services is now being threatened, further exacerbating the growing divide between deprived and prosperous authorities.

The existing local government finance system has less and less emphasis on the level of funding actually required by each local authority to provide core services. Instead funding is increasingly based on income streams which are reliant on authorities' local Council Tax base such as the council tax freeze grant and New Homes Bonus, rather than the resource requirements of individual authorities. This system benefits the more prosperous authorities at the expense of the poorer authorities, who often receive lower levels of funding through such mechanisms.

In order to address this growing disparity a future local government finance system must be based on four principles: fairness, promoting local democracy, providing incentives for growth and innovation and be independently determined. The report also outlines eight key features which will help to ensure that the system operates effectively and upholds these principles.

The future funding model proposed by SIGOMA takes a 'block approach' to local government funding, creating three distinct funding streams - a resource needs block, an incentive block and a government share.

The 'resource needs block' would provide essential funding required for the provision of core services. It would be made up of funding drawn from business rates and council tax income and funding allocations would be calculated using a sustainability model to determine the level of funding required. Allocations would be for a period of three years and set by an independent body.

The 'incentive block' allows for the creation of policy initiatives by central Government to ensure that efficiency and the pursuit of economic development are still rewarded and remain key focuses of local authorities.

Finally, 'the government share' proposes that once the allocations have been made for the first two blocks any remaining elements of business rate income could be passed on to central government to allocate in a manner they think best.

The report then demonstrates how this would work in practice, suggesting three stages for implementing the new model. These range from a quick fix, seeking to more fairly share the impact of the cuts, to a more redistributive option which would ultimately ensure that all local resource needs are fully met.

Implementing such a model of local government finance would protect and support local authorities' ability to provide core services and allow us to move towards a fairer future in which all local authorities have the funding they require to provide core services at the same level.

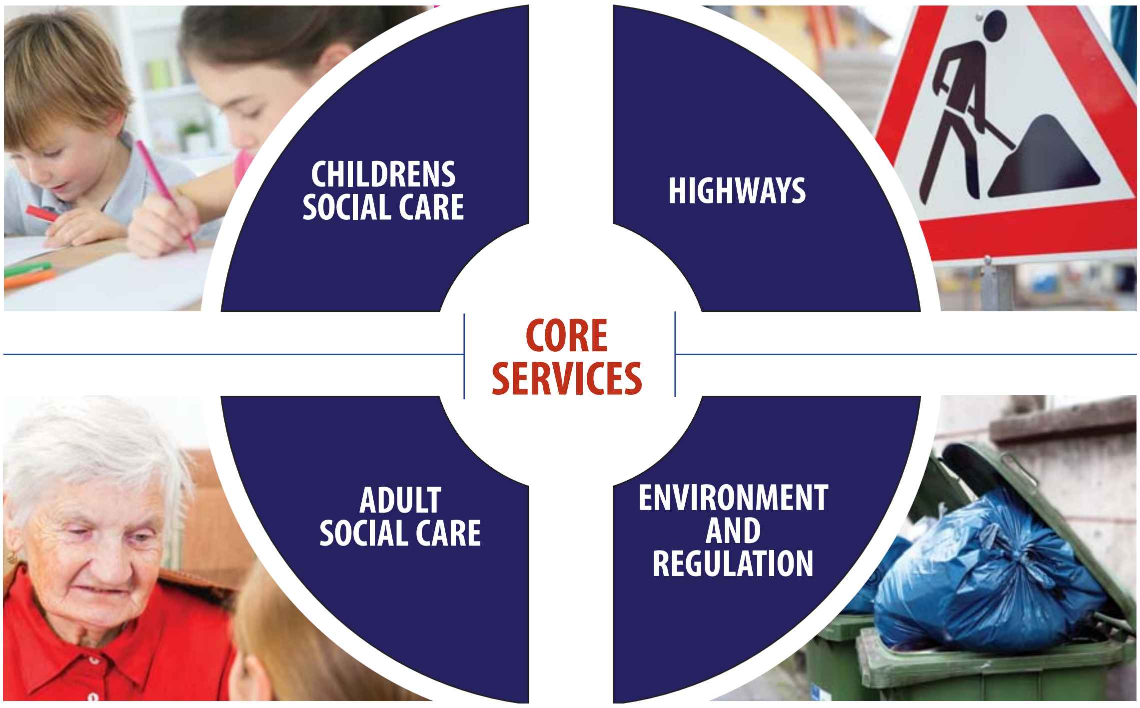
Finally the report makes a number of recommendations that the next government should implement to create a more equitable and sustainable local government finance system.

Introduction

In June 2013 SIGOMA presented their report on the impact of funding reductions on local Authorities to Members of Parliament. Entitled "A Fairer Future?" this widely regarded report provided detailed analysis of the impact of existing funding policies and estimated the future impact of the Government's cuts at a regional and individual Authority level.

The predicted impact of the cuts outlined in "A Fairer Future?" have subsequently been realised with the current system working to further exacerbate the glaring disparities between England's deprived and prosperous areas.

What has since become apparent is that the envisaged programme of cuts will extend even further into the future than originally anticipated and that the current system of local government finance is unlikely to support provision of services to our poor, high need areas for very much longer.



ESSENTIAL SERVICES UNDER THREAT IN POORER AUTHORITIES

Clearly the existing direction of travel needs to change if the aspiration of "A Fairer Future" is to be delivered and essential services protected.

In the light of this SIGOMA has undertaken further extensive research to develop a fair and pragmatic solution to best address the shortcomings within the local government finance system that are currently threatening the sustainability of local service provision.

This report will outline what SIGOMA considers to be the key and ongoing areas of concern around the current funding model and provide examples clearly illustrating the impact that the current local government funding system is having on local authorities.

The report also outlines those principles, characteristics and key features that SIGOMA believes are essential to any future funding model if it is to deliver a fairer future.

The four core underlying principles behind SIGOMA's funding model

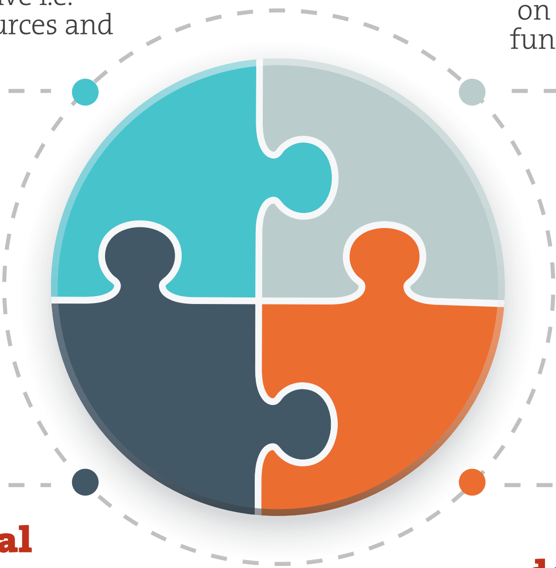
In order to begin to address the significant flaws within the current funding system SIGOMA have laid out a set of four core principles that it believes must be at the heart of the local government finance system if it is to be truly equitable and sustainable.

Fairness

People in similar circumstances pay the same price for receiving the same service outcome, no matter where they live i.e. equalisation of resources and ability to pay.

Provides Incentives for Growth / innovation

Ability to provide rewards for growth but does not impact on total resources for funding core services.



Promoting Local Democracy

Local accountability in the provision of services that the community demands needs to be strong.

Independent determination

Key elements of any future system should be independent from party political interference.

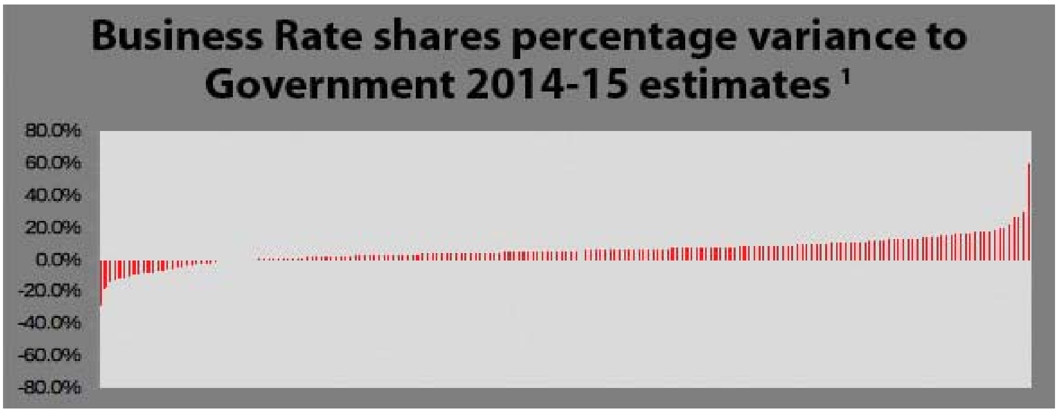
Key problems with the current funding model

SIGOMA has identified a number of 'stand-outs' amongst the multitude of concerns emanating from the Government's current funding model, key amongst them being around Business Rates, the Council Tax Base, New Homes Bonus and the application of the funding formula.

Business Rates Income

SIGOMA raised concerns throughout the development of the new Business Rates Retention system that the differing capacity for raising rates locally would inevitably mean the more prosperous authorities would gain whilst the less well-off would continue to lose out.

Our fears are now being confirmed as illustrated in the table below. The latest Business Rate estimate data shows significant variations opening up between local Authority forecasts and government estimates of rate income on what funding is based - and also between 2013 forecasts and 2014 forecasts.



1 For all billing Authorities in ascending order of variance

This is exemplified by the fact that;

- In 2014-15, 56 out of 326 billing Authorities forecast retained rates were below DCLG estimates with the North West and North East forecast income from rates retention faring particularly badly.

- Additionally, 62 out of the 326 Authorities showed a decline in estimated retained rate income when compared to 2013-14 estimates.

Not only is the real experience on the ground different from the Government's perception, but signs of the system being 'broken' are also beginning to appear perhaps most clearly evidenced by the reactive measures taken by the Government.

For example, in 2014-15 a further £95 million was taken out of the Revenue Support Grant by the DCLG following the first year's business rates estimates being collated under the new system.

The reduction was applied to rectify underestimates in the support mechanisms used by Government to compensate those authorities suffering shortfalls in rate income - the 'Levy and Safety Net' mechanism.

This is effectively diverting funding that should be directed towards the maintenance of essential services to instead plug inadequacies in a system that quite simply isn't working as it should be.

Of similar concern is the fact that Business Rates along with New Homes Bonus represent an increasingly high proportion of annual funding.

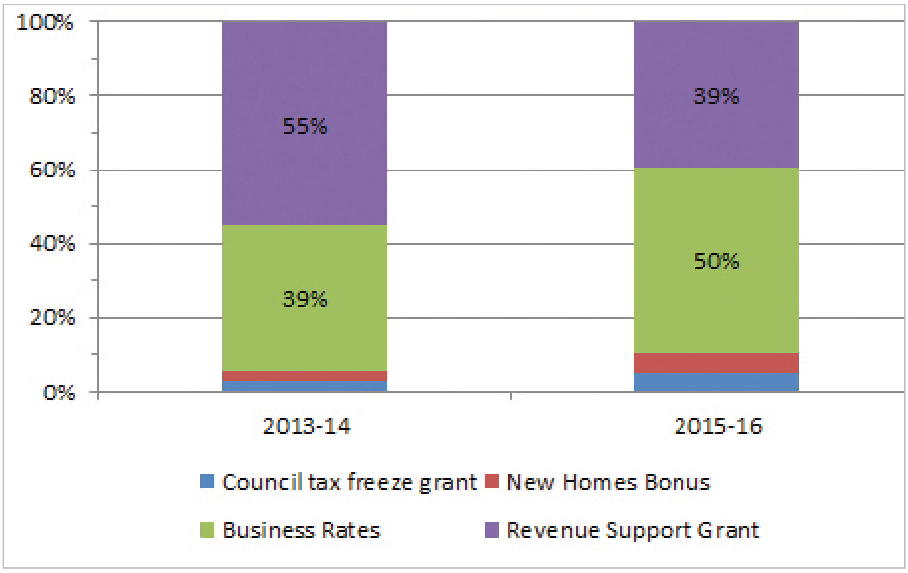
Worryingly this is irrespective of any actual demand for services. The system is failing to take into account whether local authorities will have the funding required to provide vital services at the necessary level to meet resident's needs.

Erosion of resource allocations

This leads us on to the 'resource needs basis', or lack thereof, of allocating settlement funding to support Core services. Such as it was, this was fixed and frozen in 2012-13.[1]

Since 2012-13, overall funding has declined whilst the retention of Business Rates and the allocations of grants such as New Homes Bonus have been protected and increased. Unfairly, this has been at the expense of formula funding within Revenue Support Grant which poor authorities are often more reliant on as they raise less revenue through Business Rates Retention and the New Homes Bonus .

The following chart shows the shifting emphasis in funding from 2013/14 to 2015/16.



This fundamentally changes how individual Authorities are affected over time. This is illustrated in the table below which shows the impact on different types of Authority.

	Top up authorities				Tariff authorities			
	Authority 1		**Authority 2**		**Authority 3**		**Authority 4**	
Income source	2013-14 £m	2015-16 £m	2013-14 £m	2015-16 £m	2013-14 £m	2015-16 £m	2013-14 £m	2015-16 £m
Council Tax freeze grant	2.10	3.80	1.30	2.80	2.00	2.70	2.90	6.40
New Homes Bonus	3.45	5.80	0.86	2.10	1.77	3.50	2.04	3.20
Rates	23.44	24.34	18.76	19.56	24.68	25.52	22.11	22.56
Revenue Support Grant	73.56	42.26	81.14	47.24	17.32	11.32	27.89	17.59
Top up	25.40	26.40	35.20	36.50	-	-	-	-
Tariff	-	-	-	-	- 13.20	- 13.70	- 3.60	- 3.80
Total	127.95	102.60	137.26	108.20	32.57	29.34	51.34	45.95
Reduction percentage		*-19.8%*		*-21.2%*		*-9.9%*		*-10.5%*

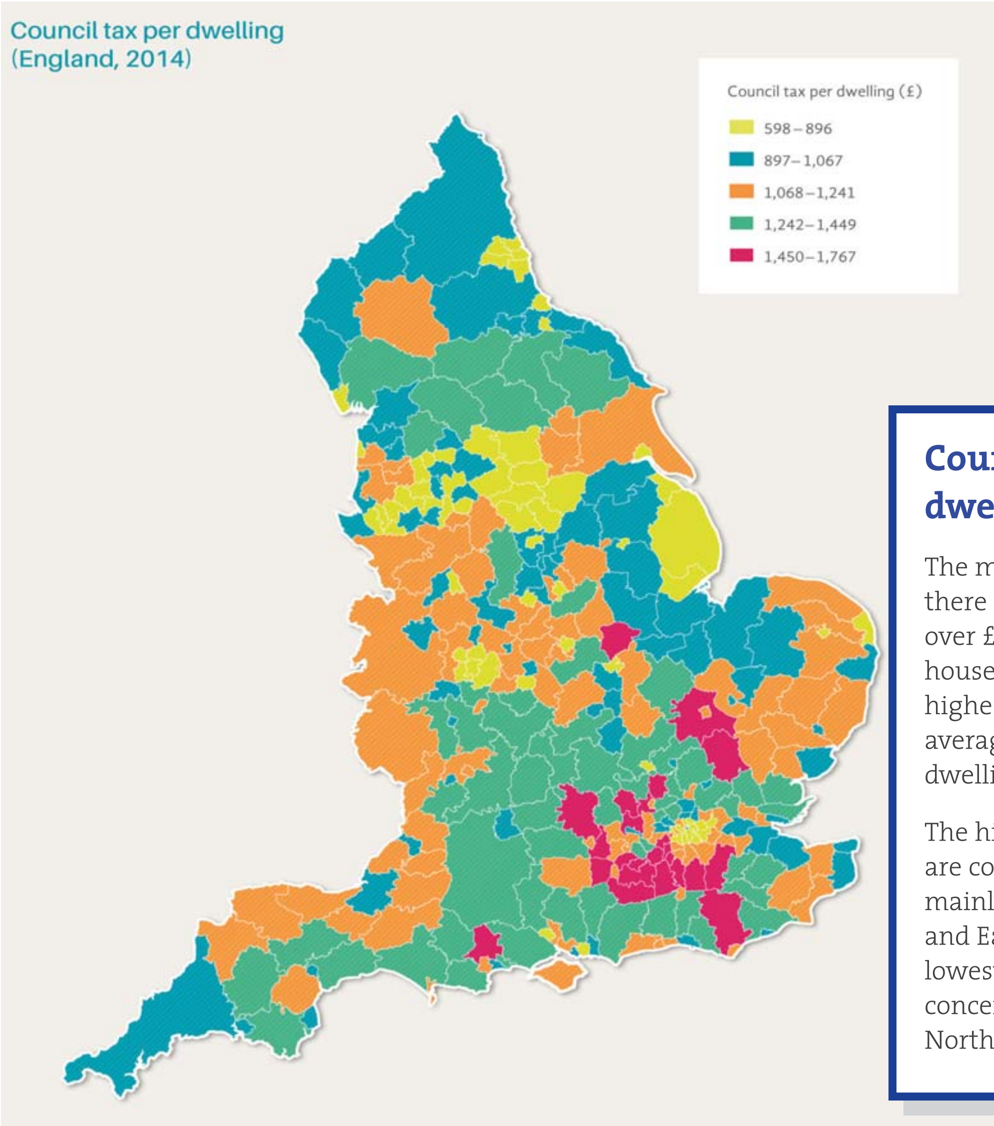
What is evident from the analysis is that Top-Up Authorities (i.e. Authorities 1 and 2) with higher grant dependency and greater formula share in RSG tend to lose out more than prosperous Tariff Authorities (Authorities 3 and 4) who have buoyant Rates bases and greater protection within RSG.

The incentives relating to Council Tax and House Build present further concerns.

The current mechanism increases payments based on Council Tax base whilst reducing the impact of those measures which take account of differences in an authority's ability to raise income through its tax base.

1 With the exception of sparsity which has been singled out for additional funding

The likely beneficiaries of a Council Tax based reward scheme are illustrated in the following map.



Source 2014 CIPFA LGA Finance Commission interim report using LGA and DCLG data

Council Tax per dwelling 2014

The map shows that there is a difference of over £1,000 per household between the highest and lowest average Council Tax per dwelling in England.

The highest averages are concentrated mainly in the South and East while the lowest are concentrated in the North and Midlands.

This disparity in council tax base affects a number of funding streams within the current system, primarily:

- Council Tax Freeze Grant – this works to the advantage of those authorities which have a higher tax base of high banded housing, generally the more prosperous authorities. This effectively severs the link between the cost of providing services and funding. Over the two spending review periods around £4 billion of central funding will have been re-allocated in this way.

- New Homes Bonus – this rewards new house build according to an average value of house band. Those Authorities with higher banded housing receive more funding per household.

This was noted in a National Audit Office report as far back as 2013 which showed that authorities in London would receive more than double the NHB value per house than those in the North East and North West.

By 2015-16 it is estimated that New Homes Bonus will have cost over £3.3 billion of which over £2 billion will have been funded by reducing formula in Revenue Support Grant.

The impact of the disparities in such funding streams is to lower the amount of funding available to support core services. This is because funding streams based on Council Tax base stand to benefit more prosperous authorities who are able to raise more income through these mechanisms. The same system disadvantaging those authorities less able to raise revenue through these means, generally the more deprived local authorities, and particularly SIGOMA member authorities.

Treatment of the settlement formula

This is an area that brings with it its own set of concerns, primarily:

The Freeze in Formula Allocations – The Freezing of Formula Allocations has meant that changes in service/expenditure pressures being faced by Councils are seemingly no longer recognised in the allocation of this seemingly ever reducing quantum of funding.

Many authorities are naturally deeply concerned that the impact of increasing pressures on, for example, children's and adult's welfare services is no longer recognised in the allocation mechanism.

In addition and as already described the residual share of formula and Revenue Support Grant is being further eroded by top slices to support New Homes Bonus and the Business Rate Retention mechanism. This includes annual cuts to Revenue Support Grant to offset the RPI increases in retained Business Rates.

The table below highlights the fast-dwindling contribution that Revenue Support Grant is making to funding allocations.

	2013-14	2014-15	2015-16
Rate share	£10.9 bn	£11.2 bn	£11.4 bn
Revenue Support Grant	£15.2 bn	£12.7 bn	£9.2 bn

How formula is reducing

The impact of settlement funding cuts are carried entirely in Revenue Support Grant which in addition is reduced to pay for increases to New Homes Bonus and inflationary increases in Business Rates

Unequal Cuts in Settlement Funding - within Settlement Funding, cuts are not being applied equally, with some historic funding being protected whilst others bear a higher cut as a result. Most notably Council Tax Support was rolled into formula in 2013-14 at £3.3 billion but has undergone cuts of over 25%, (around £825 million) by 2015-16, whilst Council Tax freeze grant of 2011-12 will have undergone cuts but has been preserved in cash terms.

Relative Resource Adjustment Reducing - formula funding includes an adjustment that recognises the higher council tax base of some authorities. In 2013-14 £6.3 billion was deducted from authority formula allocations reflecting higher Council Tax bases and the same amount redistributed on a needs basis.

The operation of the new settlement mechanism means that the effect of the adjustment has been reduced by over a quarter to around £4.7 billion whilst Council Tax bases have grown.

Again the result is that more funding goes to prosperous authorities at the expense of the less well-off authorities such as SIGOMA members.

Support for a new funding model

There is an increasing groundswell of opinion to support the argument that the current funding system used by the Government is inequitable, fundamentally unsustainable and is hampering the provision of core local services i.e. it's essentially not "fit for purpose".

The National Audit Office report 'Financial sustainability of local authorities 2014' published on 19 November 2014 states:

"Authorities that depend most on government grants have been affected most by government funding reductions and reforms. This is an outcome of policy decisions to tackle the fiscal deficit by reducing public spending. The Department's modelling of different scenarios for future local government income suggests that the most grant-dependent authorities would still have the largest cuts in spending power, even if they experience strong local growth in business rates."

When responding to the 2015/16 settlement, LGA Chair Cllr David Sparks also expressed concerns:

"We need a better way of funding public services which shares public money more fairly and gives people a greater say over how it is spent in their local area. All the evidence shows that greater local decision making improves outcomes and saves money. With further public spending cuts expected in the next Parliament, the current overly centralised system is unsustainable. For some areas it's now devolution or bust."

The Independent Commission on Local Government Finance, in the executive summary of its interim report entitled 'Public money, local choice' also higligfhted the inadequacies of the current system and its unsustainability. It stated:

"In submissions and meetings the Commission has been told repeatedly that the local government finance system is broken. It undermines councils' accountability to their local communities; is virtually impossible to understand; holds back economic growth; promotes fragmentation of services instead of integration; inhibits sound management of public finances; and encourages a sense of dependency among councils instead of self-reliance and ambition".

The Public Accounts Committee report "Financial Sustainability of local authorities 2014" provides further condemnation of the Government funding model concluding that:

"The Department (DCLG) does not understand the impact over time of reductions in funding to local authorities, and the potential risks of individual authorities becoming financially unsustainable if reductions continue".

"There is a risk that central government will not appreciate when reductions in funding threaten the viability of some statutory services".

"HM Treasury should endeavour to give more clarity to local authorities about future funding, so that local authorities can plan their delivery of services going forward"

"DCLG should open up a wider consultation with local government on which statutory services local authorities should be expected to deliver, if there are to be further periods of funding reductions".

The Chair of the public Accounts Committee Margaret Hodge commented[2]:

"Councils with the greatest spending needs – the most deprived authorities – have been receiving the largest reductions. Further cuts could not just undermine the entire viability of most optional services, but might threaten some statutory services in these areas".

This all strongly supports the need to rethink local government finance and SIGOMA's call for a new model for determing local government finance allocations in future.

We will now set out SIGOMA's future funding model, which we believe would address the problems outlined above and start to close the growing divide by creating an equitable and sustainable model of local government finance.

2 Source: Parliament website Commons Select Committee

SIGOMAS future funding model

We believe that in order for the system to operate fairly and effectively it should contain the following features:

KEY FEATURES OF A FAIRER FUNDING MODEL

Stable And Predictable - Early notification of all forms of grant is essential if authorities are to be able to implement longer term planning. This may also include measures to ensure changes are phased in.

Focus on outcomes - Any new system should be forward-looking and not reliant wholly on what has happened in the past.

Reflects Capacity - The system needs to reflect current taxable capacity.

Plausible - Clearly if any system is to be acceptable as being fair, the outcome needs to be seen to reflect overall perception of what it should be.

Does not reward inefficiency - Any new system must be capable of dealing with inefficiency as well as need.

Removal of any form of Capping - Any capping is contrary to local democracy and accountability, whether direct, reserved or indirect.

Transparent/ Understandable - Any system needs to be seen to be fair by citizens, members and officers, and to be readily understood by those interested

Flexibility to respond to changing circumstances - This obviously needs to be considered alongside the need identified above for a system to be stable and predictable.

SIGOMAS future funding model: a three block approach

Split into 3 distinct 'blocks' SIGOMAs model is designed to meet the challenge of maintaining 'sustainability', promoting 'incentivisation' and recognising the reality of the potential to need to deliver an appropriate 'government share' whilst at the same time being engineered to deal with the real and ongoing pressures of austerity.

It is also clear that going forward the totality of Council Tax and Business Rates generated will be more than sufficient to fund the intended totality of local government core funding.

The aim of this model is to ensure that whatever level of funding is available will be allocated in a fairer and more sustainable way. The blocks we propose are as follows:

Resource needs block – Providing Service Sustainability

The distributable 'pot' within this Block would comprise local Business Rates and Council Tax income. As outlined above no other funding streams would be or need to be included in this 'resource needs' block. We firmly believe that this would be sufficient to meet overall 'need'.

Allocations would be based on a sustainability model of supporting the equitable delivery of core services and remedying the long-neglected vital commitment to equalisation.

Allocations would be for a period of 3 years and set by an independent body after appropriately broad consultation has taken place - providing local authorities with a degree of certainty in terms of financial planning.

This approach clearly represents a departure from the current arrangements offering 'fairness' and 'sustainability' whilst at the same time removing opportunity for the quantum to be unduly manipulated.

This Block is seen as the foundation of the SIGOMA model – something that above all other elements needs to be identified and prioritised.

Incentivisation block

This block recognises the need for a degree of incentivisation to remain within the funding model and can cover a number of elements that would be desirable within a future system.

Firstly those business rates not required for sustainability/needs equalisation purposes could be used as reward for economic growth within the area.

Existing incentive mechanisms may be used but SIGOMA would suggest that the allocations could be negotiated with either Central Government or by a mutually agreed independent body. This approach would effectively need to remove the highly contentious (and current) practice of 'top-slicing' general funds in order to satisfy specific government policies. The sustainability model resources would be fixed by estimates at the beginning of the year.

A second element of the block would deal with the development and allocation of new income streams as negotiated with/directed by Central Government. The intention of this being to provide a mechanism that incentivises and enhances financial independence for the entire sector and individual authorities without adversely impacting on the objectives of the incentivisation block.

The third element relates to incentivisation around efficiency savings allocated to Councils as part of a community budget approach. SIGOMA's funding model seeks to allow Councils as well as other public service providers, to retain and reinvest a proportional share of their efficiency savings.

This may mean that actions that have 'wider benefits' are suitably rewarded. For example linking the savings enjoyed by the DWP through reduced benefit claims arising from local initiatives to reduce unemployment.

This may or may not require central government approval but will be important to incentivise innovation. Again revenues from this would not form part of the equalisation block.

Government Share Block

We recognise the fact that going forward the Government is likely to want to receive a share of those remaining elements of Business Rates income that remain unallocated to support local government in alternative ways.

It is therefore proposed that following the relevant allocations to the first two blocks those remaining elements of Business Rate income, or relevant parts thereof, could be passed onto the Government.

Again it is envisaged that the eventual allocation would be negotiated on an equitable basis between parties or fixed by a mutually agreed independent body, rather than unilateral ministerial decision.

Allocations could be agreed for a period of 3 years and then reviewed in line with the other blocks.

The path towards a fairer future

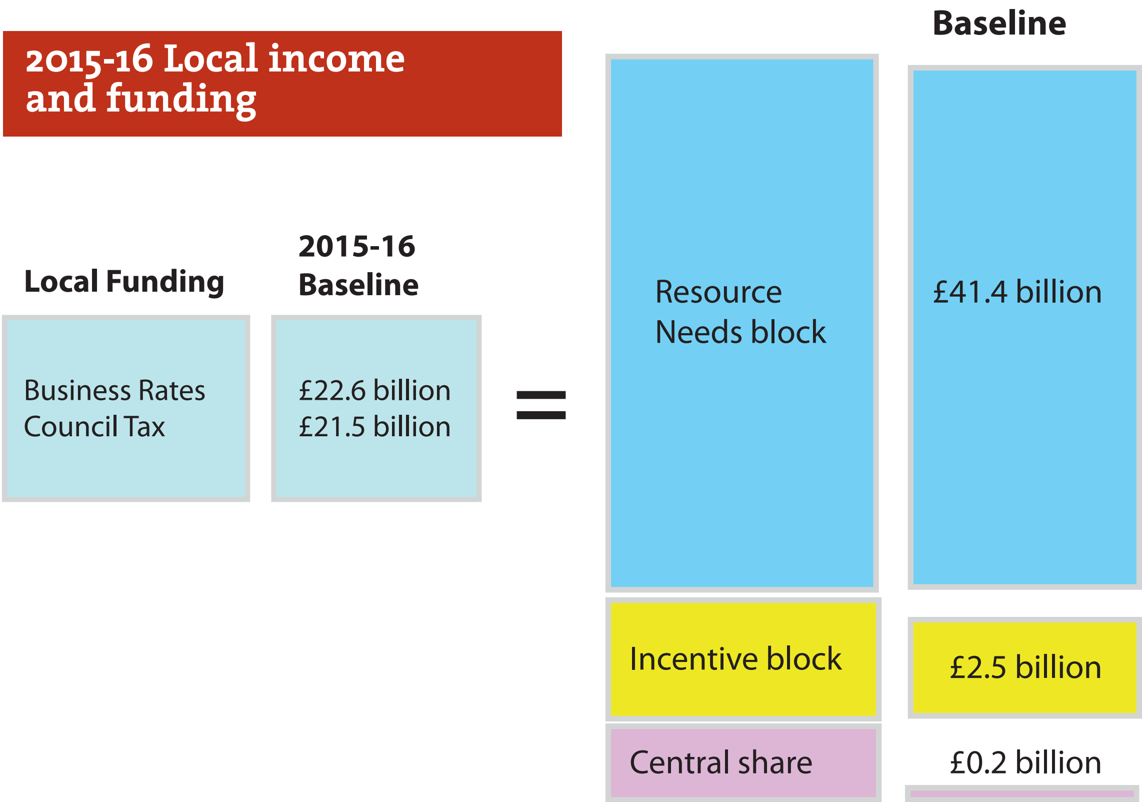
The path towards a fairer future

SIGOMA believes that a key objective of the funding process should be the identification of the 'true' base cost of delivering statutory services.

Furthermore we believe that this should be arrived at after taking into consideration the cost drivers affecting service provision by individual authority.

Whilst we accept that this would be a lengthy and difficult task we believe it to be an entirely necessary one in the face of increasingly limited resources.

What we have derived, to illustrate the effects we have discussed, is a proxy based on an analysis of core funding elements at 2015-16, the point at which gross income of Council Tax and Business Rates closely matches the funding streams we have identified overall. From this we have modelled the resource needs, incentive and central share blocks referred to. In aggregate this is how it appears.



Impact of Cuts in 2016-17 Under the Existing Mechanisms

Settlement details beyond 2015-16 are unknown, therefore we have had to make realistic assumptions about the following year, the main ones being:

- **A further cut in settlement funding of around 10%, equating to £2.1 billion**
- **RPI at 2%**
- **Council Tax freeze grant of 1% taken by all authorities**
- **New Homes Bonus increase of £200 million**
- **Government support of New Homes Bonus top up continues**
- **Modest growth in Council Tax and Business Rate Base, equal across all authorities**
- **No change in other top-slices from RSG**

Under the existing mechanisms, i.e. the 'status quo' as described in previous sections, we estimate the impact on the blocks we have compiled to be as follows:

Local Funding	2015-16 Baseline	2016-17 Status quo
Business Rates	£22.6 billion	£23.2 billion
Council Tax	£21.5 billion	£21.6 billion

Analysed into:

	2015-16 Baseline	2016-17 Status quo
Resource Needs block	£41.4 billion	£39.1 billion
Incentive block	£2.5 billion	£3.1 billion
Central share	£0.2 billion	£2.6 billion

Impact of further cuts and continued undermining of resource allocation

The model for perpetuating the existing system sees a continuing erosion of resource needs in favour of incentives such as New Homes Bonus and Council Tax freeze grant and an unequal apportionment of cuts within Revenue Support Grant.

SIGOMA's Alternatives

SIGOMA offers alternatives that preserves 'resource needs' funding promoting 'fairness' in order to protect essential services or at least gives it equal status whilst still offering the opportunity for a central portion and incentive blocks (as well as the options put forward for retained additional income sources and saving pools).

We are offering simple, short term "quick wins" and in the longer term more fundamental solutions that truly support the aspiration of a 'fair future'.

A Simple Option: A Quick Win

To more fairly share the impact of cuts we suggest that the following year would halt incentive funding taken from local income, leaving resource funding to bear less of a cut. In terms of current funding this would mean a halt to Council Tax freeze grant and New Homes Bonus.

In addition we could partially reverse the £7.7 billion of redistribution in funding that has taken place since 2010 by a redistribution of £1.2 billion from the incentive block back into the resource needs block.

Finally, from the savings in the current year resource incentive we could put a halt to the top-slicing of Business Rate inflationary growth from Revenue Support Grant. The effect on overall quantum can be seen in the following table.

Local Funding	2015-16 Baseline	2016-17 Status quo	2016-17 SIGOMA
Business Rates	£22.6 billion	£23.2 billion	£23.2 billion
Council Tax	£21.5 billion	£21.6 billion	£21.6 billion

Analysed into:

	2015-16 Baseline	2016-17 Status quo	2016-17 SIGOMA alternative
Resource Needs block	£41.4 billion	£39.1 billion	£40.8 billion
Incentive block	£2.5 billion	£3.1 billion	£1.4 billion
Central share	£0.2 billion	£2.6 billion	£2.6 billion

Alternative funding

Under our first alternative the incentive block is frozen, in addition the element of incentives equating to 2015-16 New Homes Bonus is re-allocated to the resource block to help sustain core services.

This is all achieved as an adjustment to the existing system.

The regional redistribution impact of the above alternative can be seen in the following table:

Region	Baseline 2015-16 £m	Status quo 2016-17 £m	SIGOMA alternative 2016-17 £m	SIGOMA option v Status quo £m
London overall	8,709	8,373	8,366	- 7
South East	6,412	6,253	6,170	- 83
East	4,403	4,266	4,222	- 44
North West	5,546	5,278	5,351	73
East Midlands	3,249	3,128	3,114	- 14
South West	3,966	3,852	3,788	- 64
West Midlands	4,215	4,020	4,051	31
Yorkshire & the Humber	3,833	3,660	3,684	24
North East	2,141	2,029	2,064	35
Fire	1,399	1,324	1,373	49
TOTAL	**43,871**	**42,183**	**42,183**	**0**

The effect is to reverse the previous trend of relocating funds from poorer to more prosperous areas, though of course all regions still lose funding overall.

A More Detailed Redistribution Option

Even whilst maintaining the same system it is possible to look yet further at the distribution of cuts within Settlement Funding.

Under the current model, cuts to Revenue Support Grant are not shared equally, with some elements of funding wholly or partly protected, for example GLA transport funding whilst others such as Council Tax support funding bear a higher cut as a consequence. Authorities with a high proportion of formula related RSG are hit worst by this approach.

Reviewing the detail behind these apportionments should be the work of an independent and objective body. This would help to deliver a less biased interpretation than is presently the case.

We have modelled the impact on 2016-17 of redistribution with the same assumptions as our first alternative but based on a more even apportionment of cuts within settlement and with adjustment for Council Tax base preserved. This does not affect the overall blocks as shown above but would affect the distribution at authority level. The regional table under this alternative would look as follows:

Region	Baseline 2015-16 £m	Status quo 2016-17 £m	SIGOMA alternative 2 £m	Alternative 2 v Status quo £m
London overall	8,709	8,373	8,340	- 33
South East	6,412	6,253	6,145	- 108
East	4,403	4,266	4,213	- 53
North West	5,546	5,278	5,366	88
East Midlands	3,249	3,128	3,120	- 8
South West	3,966	3,852	3,784	- 68
West Midlands	4,215	4,020	4,061	41
Yorkshire & the Humber	3,833	3,660	3,696	36
North East	2,141	2,029	2,073	44
Fire	1,399	1,324	1,386	61
TOTAL	**43,871**	**42,183**	**42,183**	**0**

The Longer Term: Resource Needs Fully Preserved

We have asserted that in the face of continuing reductions the priority should be to identify the cost for each authority of discharging the statutory duties placed on it, by negotiation with government.

We acknowledge that this is a difficult task but nevertheless essential given the likely future of yet further cuts.

We do not assert that the amounts used above at either summary, regional or authority level are the amounts that constitute the correct break down between needs and incentive. What we do assert however is that deriving these totals is the correct way forward and that, once identified the resource requirements should be the first priority.

We wish to illustrate the impact of this reversal of policy by using the data we have compiled. If the above analysis were taken as the basis for the blocks in 2016-17 and if resource needs were fully protected then the blocks of funding in 2016-17 would appear as follows:

Local Funding	2015-16 Baseline	2016-17 Status quo	2016-17 SIGOMA
Business Rates Council Tax	£22.6 billion £21.5 billion	£23.2 billion £21.6 billion	£23.2 billion £21.6 billion

Analysed into:

	2015-16 Baseline	2016-17 Status quo	2016-17 SIGOMA Full adjustment
Resource Needs block	£41.4 billion	£39.1 billion	£41.6 billion
Incentive block	£2.5 billion	£3.1 billion	£0.6 billion
Central share	£0.2 billion	£2.6 billion	£2.6 billion

Alternative funding – full adjustment

Under this alternative, service costs are fully preserved , central share remains at £2.6 billion whilst the incentive block, although bearing the full impact of cuts, is at £0.6 billion. Of course there would be alternatives to augment incentive funding from central share.

As may be imagined this has the most significant redistributional impact at regional and local authority level. The following table shows the regional redistribution that would take place.

Region	Baseline 2015-16 £m	Status quo 2016-17 £m	SIGOMA Full adjustment £m	Full adjustment v Status quo £m
London overall	8,709	8,373	8,375	2
South East	6,412	6,253	6,122	- 131
East	4,403	4,266	4,194	- 72
North West	5,546	5,278	5,375	97
East Midlands	3,249	3,128	3,118	- 10
South West	3,966	3,852	3,773	- 79
West Midlands	4,215	4,020	4,068	48
Yorkshire & the Humber	3,833	3,660	3,705	45
North East	2,141	2,029	2,078	49
Fire	1,399	1,324	1,375	51
TOTAL	**43,871**	**42,183**	**42,183**	**0**

Next steps to a fairer future

To ensure that local government finance is equitable and stable moving forward SIGOMA would recommend that the following steps are taken by the next government:

FAIRNESS

- Determine sustainable funding levels for local authorities- Establish the true base cost of delivering statutory services for each individual authority taking into account local circumstances to create a 'sustainability model' and to ensure the ongoing delivery of such services.

- Implement longer term financial settlements covering three year periods- Provide a greater degree of certainty and security for local authorities financial planning.

- End the practice of top-slicing general funding to fund government incentive schemes such as the New Homes Bonus and business rate retention. Fund incentives through separate funding streams to ensure that those local authorities less able to benefit from these incentives do not lose the funding required to deliver vital services.

PROMOTING LOCAL DEMOCRACY

- Ensure that local government is given due notice to respond and adapt to any funding changes.

- Make the local government finance system more transparent and understandable- Ensure that changes to local government finance and reductions in funding are implemented in a transparent manner.

- Remove the Council Tax cap and any other caps on local government's ability to raise revenue- Allow local authorities to make their own decisions about the level of local taxation to finance local services, thereby upholding local democracy and accountability.

INDEPENDENT DETERMINATION

- Create an independent body to oversee the local government finance system and set funding allocations- Ensure that political decisions do not have a detrimental impact on local government's ability to provide core local services and that decisions take into account the need for sustainable and equitable funding.

PROVIDE INCENTIVES FOR GROWTH AND INNOVATION

- Reward efficiency to give councils a share of their efficiency savings- Allow local authorities to gain from their efficiency savings putting money saved back into vital services.

- Maintain incentives within the local government finance system- Use incentives to encourage local government to deliver central government priorities and efficient services.

Sources

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