SIGOMA
BUDGET SUBMISSION
AUTUMN 2017

The Special Interest Group of Municipal Authorities (Outside London)

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Submission To HM Treasury On Issues For The 2017 Autumn Budget
22 September 2017

1. About SIGOMA

1.1. SIGOMA is a special interest group of 46 Metropolitan and Unitary authorities within the Local Government Association. Our members represent 25% of the population of England, many of them living in some of the most deprived areas of the North, Midlands and Southern ports.

1.2. Our members and their constituents have been at the forefront of the austerity programme and are keen to see a review of Treasury policy which will recognise the parity of the services we provide with that of education, health and the emergency services. We are encouraged that this has lately been acknowledged, for the short term, in the March 2017 Budget. We would like to see a programme that builds on this whilst also matching Governments aspirations for self reliant local government with equality of structural investment across all parts of the country and giving authorities the freedoms they need to provide services and encourage growth.

2. Historical financial context

2.1. The punishing levels of funding cuts faced by English authorities is well documented. We estimate that by 2020, Core Spending Power as currently defined by DCLG will have reduced by around £12 billion over the decade[1]. This includes increased income from Council Tax. The LGA estimate the cut in core Government funding as £16 billion over the same period.

2.2. What may be less apparent is that these cuts have not been borne evenly. As austerity has bitten on the individual, making more vulnerable people more reliant on local safety-net facilities such as food banks[2], so the pressure on services in poorer authorities have increased. At the same time however these same authorities have suffered the harshest cuts in funding. This can be illustrated using Governments own figures.

Table 1 Deprivation ranking 2015 and cash terms cut in Core Spending Power 2010-2016

[1] At 2016 prices

[2] Just one provider of foodbanks, the Trussel Trust, report that distribution of 3 day emergency food packages have increased by over 6.5% in 2016-17 with the highest dependencies in the poorest regions.

	Deprivation Ranking	Cut in Core Spending 2010-2017
Blackpool (most deprived)	1	-28.8%
Knowsley	2	-34.4%
Kingston upon Hull	3	-32.3%
Liverpool	4	-33.1%
Manchester	5	-33.2%
Elmbridge	322	-3.6%
Waverley	323	-6.3%
Chiltern	324	-12.2%
Wokingham	325	-5.3%
Hart (least deprived)	326	1.2%
English average		-20.5%
SIGOMA average		-27.4%

The table illustrates the disparities between the levels of cuts experienced by authorities. The 5 most deprived authorities (all SIGOMA members) experienced an average cut which is 12% worse than the national average and the 5 least deprived have an average cut which is 15% better.

2.3. The future necessary level of overall funding will be addressed later in this document but, as funding continues to reduce, the allocation of available funds, putting the money where it is most needed and will do most good, becomes of critical importance and it cannot be left for each authority to survive or thrive according to the current strength of the local economy.

2.4. The existing formula which underpins business rates equalisation includes an adjustment which pays less than their needs allocation to authorities with high needs to sustain historic over allocations to others. In 2013-14 the needs allocations of 209 authorities were reduced by a total of £565 million to overpay grant of the same total to 143 authorities. SIGOMA member authorities lost a total of £46 million through this “damping”, lost significantly higher amounts in earlier years and continue to suffer this loss with business rate retention and settlement funding.

2.5. In addition our members feel that they too often bear the consequences of other settlement adjustments introduced under parliamentary pressure, such as the £150 million per annum transition fund introduced in the final 2016-17 settlement.

We call on Treasury to engage, with DCLG and the LGA in establishing a future distribution mechanism of all available funds which matches the objectively measured needs of authorities with their income and to avoid letting parliamentary pressure deter them from the necessary redistribution of funding. SIGOMA members also wish to see a speedy move to an open and objectively determined allocation.

3. Total Funding

3.1. Our members support the analysis provided by the Local Government Association of the cost pressures facing local authorities in the three year settlement period to 2019-20.

3.2. Recent Revenue data for 2016-17 has shown expenditure trends which may highlight the difficulty authorities now face in keeping costs within a budget that matches the planned efficiencies in the Settlement.

3.3. SIGOMA authorities have reflected this national trend by exceeding their two main social care budgets in 2016-17 by 12%.

3.4. SIGOMA however, have already had to reduce their service expenditure lines at a greater pace and earlier than the rest of English authorities, as table 2 shows.

Table 2 Cuts in Service Expenditure 2010-11 to 2015-16

	2010-11 Revenue Outturn		Percentage change		2015-16 Revenue outturn	
	England	**SIGOMA**	*England*	*SIGOMA*	**England**	**SIGOMA**
Education services	45,283,348	12,672,976	*-24.8%*	*-22.2%*	34,043,492	9,855,448
Highways and transport services	4,779,850	742,929	*-24.2%*	*-26.0%*	3,621,814	549,887
Children Social Care	6,653,879	2,129,088	*24.3%*	*17.2%*	8,268,572	2,496,003
Adult Social Care	14,407,777	3,950,884	*-0.4%*	*-7.1%*	14,354,924	3,670,747
Public health	0	0	*0.0%*	*0.0%*	3,142,276	1,098,544
Housing services (GFRA only)	2,483,809	787,698	*-35.8%*	*-48.5%*	1,594,556	405,511
Cultural and related services	3,231,877	1,012,841	*-24.0%*	*-28.0%*	2,455,792	729,715
Environmental and regulatory services	4,909,881	1,133,142	*-7.1%*	*-12.5%*	4,562,425	991,839
Planning and development services	2,184,612	784,892	*-45.8%*	*-60.2%*	1,185,045	312,702
Police services [1]	83,984	0	*7.6%*	*0.0%*	90,336	0
Fire and rescue services [1]	356,174	0	*-3.5%*	*0.0%*	343,591	0
Central services	3,081,123	867,104	*-10.6%*	*-14.5%*	2,755,637	741,198
Other services	117,554	107,370	*-40.9%*	*-85.7%*	69,522	15,399
TOTAL SERVICE EXPENDITURE	87,573,868	24,188,924	*-12.7%*	*-13.7%*	76,487,981	20,866,993
SERVICE EXPENDITURE excluding Education, Police,Fire & PH	**41,850,362**	**11,515,948**	***-7.1%***	***-13.9%***	**38,868,287**	**9,913,000**

1 Excluding GLA

3.5. Using a comparable total (excluding police, fire, education and public health services), it can be seen that the imbalanced cuts in funding have resulted in greater cuts in services by the municipal authorities we represent; a 13.9% cut compared to a cut of 7.1% by our neighbours over the same period.

3.6. Moreover, children's and adults social care represents a far higher proportion of overall service spend to our members than to other authorities, 5% more in 2016-17 and 6% more in 2017-18. Though the focus is on adult's social care at the moment, all the cost pressures that apply to adult care apply equally to children's care. The cost of providing for looked after children, particularly those with more complex needs is a current pressure which is predicted to rise.

3.7. Over the period illustrated in table 2, English authorities have used £79 million of reserves representing 1.8% of their 2012 unallocated reserves. Our members' reserve use was £59 million representing 8.9% of their 2012 reserves. Government must be clear that utilising reserves to balance overspends is not a sustainable solution to local government's budgetary issues, merely pushing the problem into later years. We remind Treasury that councils are statutorily required to set balanced budget each and every year so must maintain a certain level of reserves to help them to meet this requirement.

3.8. All this leaves poorer authorities even more exposed to the impact of service demand fluctuation, service cost increases and further funding reductions to 2020 as explained by the LGA and which includes:

- The current and increasing impact of pay increases, in particular the National Living Wage and the potential for general pay settlements above the 1% pay cap
- The current impact of changes to contracted out NI regulations
- Increased dependency on council services, in particular Adult and Children's Social Care
- The continuing and developing housing crisis
- The apprenticeship levy

- Remuneration to sleep in carers
- Continuing cuts to 2020

3.9. The treatment of Council Tax support has also been of concern to our Members. The former Council Tax Benefit was rolled into settlement funding as a £3.3 billion grant in 2013 when the estimated cost of providing the benefit was £3.7 billion per annum. Since then the grant has undergone annual reductions within settlement. We estimate that by 2019-20 the total value of the grant within settlement will be £1.7 billion, 46% of the 2013 value, whilst authority estimates of the income foregone in 2017-18 is at least £3.3 billion. The problem is particularly acute for authorities with more benefit dependent pensioners since they are statutorily entitled to Council Tax support. The end result of course is that local Council Tax and business rates are subsidising local support claimants and authorities with the largest business rate and Council Tax bases will find this easier to achieve.

3.10. All of the above calls into question the Governments stated aim of rolling out 100% business rate retention whilst making this fiscally neutral in terms of funding for local government.

SIGOMA support the LGA in their assertion that 100% business rate retention can only work if the Government modifies the fiscal neutrality principle. Treasury must objectively and openly assess the capacity of authorities to maintain services, recognising that the £6.7 billion of existing proposed new responsibilities and £7.1 billion of pressures identified by the LGA to 2020 already exceeds the anticipated value of a further 50% rate retention.

In addition, Government must recognise that without an objective, open and fair rates redistribution mechanism many authorities will be unable to deliver vital services to their most vulnerable residents, even if the overall quantum is sufficient.

The above objectives are dependent upon the Fair Funding Review of needs being delivered within a defined timeline and with transparent transition arrangements.

4. Incentivising Local Government

4.1. Members support the objective of Government for efficient and effective services delivered, where appropriate, across service areas. Some government policies and practices however are not helping and in some cases are hindering efficiency and growth.

Integration of Health and Care

4.2. Our members are working with Health partners within Health Board frameworks to deliver a joined up health and welfare system. Government can further assist us by:

4.3. Confirming that additional and improved Better Care funding will continue beyond 2020 and removing the threat of Better Care funding clawback for delayed transfer of care metrics. A typical comment from members was “Money has already been spent, further commitments made and vulnerable people are dependent on their support continuing to keep them from returning back to hospital”, whilst others commented that anomalous baseline data has been used to calculate delayed transfer targets which make it doubly unreasonable that these should be used as a basis for assessing future grant.

4.4. The additional funds allocated in the 2017 Budget are a welcome recognition of the funding gap that has arisen. Our members have commented however that it would help to confirm that this funding would remain beyond 2019-20 and that any additional increases as a result of demand will be fully funded by Government

4.5. Additionally Government must recognise that the timing of the Budget announcement, i.e. after 2017-18 council budgets had been finalised and just 3 weeks before the commencement of the first year affected, places constraints on the time period in which enhanced services or reversal of efficiency plans can be put into place, especially so since any planned use of funds required approval by the Health Board. A high proportion of care service costs are employee costs. Around 40% of gross costs are direct employment with the number increasing due to staff costs within external providers. Making efficient and effective use of the funds provided requires a planned, organised, well managed and controlled programme which authorities need time to introduce and is not helped by uncertainty amongst staff and providers of the future of the funding stream.

Government should assure authorities that 2018-19 Better Care and Additional Better Care funding will not be affected by doubtful metrics of 2017-18 and commit to funding social care on a needs basis from 2020 onwards.

Business Rates

4.6. We have contributed positively to discussions on implementation of business rates within DCLG working groups but at this juncture feel compelled to draw the attention of Government to the comments of the National Audit Office which calls into question the objectives of Business Rate Retention. Whilst we understand this is a principal objective of Government we have the following comments:

- It will allocated growth in rates according to rate earnings, not needs
- There is no evidence to support that rate retention has been a successful incentive to Councils
- There is no evidence connecting business rates and income/GVA growth
- It does nothing incentivise Councils in relative to sections of the economy not driven by business rates egg web based business and small business
- Rate bases across the country are imbalanced so rate growth and earnings are imbalanced
- There is no assurance that future rates income will match service demands
- Based on past evidence, rate growth is likely to continue to diverge
- Rate retention mechanism does not offer an equal incentive to all authorities
- There are difficulties with the valuation and appeals system which HMRC have been unable to resolve
- The major aspects of the relief system are centrally driven and outside local authority control
- There are avoidance issues connected with reliefs that have not been dealt with by regulations

4.7. In our view the rate retention system is adding additional levels of complexity and unpredictability to local authority finances at a time when there is little or no capacity to absorb fluctuating income levels.

4.8. In addition, the business rates relief system is creating redistributions between Government Departments that are passing unrecognised, for example the exemption of academy schools and the recent exemption claims from NHS trusts effectively transfers local government funding into, respectively, Education and Health budgets.

We ask Government to reconsider the system of localising business rates at local authority level and consider a simpler distribution system which could include efficiency incentives and as well as fairer growth incentives

5. Regional Investment

5.1. The Governments aspiration for self-reliant local government must be supported by parity of infrastructure investment across the country.

5.2. The imbalances in investment have been highlighted from a number of sources including for example the campaign by IPPR[3] calling on the secretary of State for Transport to pledge financial backing for the promised Cross Rail North project, cancelled in favour of London's £31 billion Crossrail scheme.

5.3. Analysis by IPPR North's Ash Singleton in February showed that London gets £1,261 more per head in transport infrastructure investment than the next highest region and £1,458 more than the national average, according to Governments National Infrastructure and Construction Pipeline data.

5.4. This gross imbalance not only undermines Governments own policy for strong regional growth but may also be undermining the productivity capacity of the nation as diminishing returns on investment are achieved from concentrating over 50% of Government investment on just 15% of England's population.

We call on Government and the Treasury to revolutionise their approach to strategic infrastructure investment in the country and reverse historic under investment in the regions outside London.

6. Housing

6.1. We support the LGA position and recognise the critical shortfall of housing in parts of the country. We would add the following points to those of the LGA.

6.2. The problem is not solely or universally one of planning consents. Other regions face other problems, for instance the higher cost of remediating former industrial sites in parts of the

[3] Institute for Public Policy Research https://www.ippr.org/news-and-media/press-releases/new-transport-figures-reveal-london-gets-1-500-per-head-more-than-the-north-but-north-west-powerhouse-catching-up

Midlands and the North. Government could assist by creating a bespoke support to help councils or social housing providers remediate contaminated land.

6.3. We refer again to imbalanced infrastructure programme which has the effect of concentrating ever greater populations around areas of the greatest investment when a more balanced approach may in time diffuse this migration trend of the young towards these employment hotspots.

6.4. We recommend a review of New Homes Bonus and whether the available funds should be distributed on the basis of a housing need indicator rather than an increasingly complex reward mechanism.

6.5. We support the LGA call for a lifting of the borrowing cap.

7. Local Flexibility

7.1. Members support the LGA in their submission that Government should entrust local authorities with local power over Council Tax changes without the necessity for potentially extremely expensive referenda.

7.2. In addition we point out that examination of average Council Tax levels suggests that many wealthier authorities are having their local Council Tax levels supported by Grant. It is essential that the fair funding review helps to establish an even playing field on Council Tax levels, which has diminished since 2013.

7.3. We also support the LGA in their submission that there should be flexibility over the charges that authorities may make for statutory services and in particular planning fees

7.4. Members would support an extension to capital receipts flexibilities currently in place until March 2019.

8. Brexit and EU Funding

8.1. Following the EU referendum there is a potential £8.4 billion UK-wide funding gap for local government. There does not appear to have been any development on manifesto commitments for a replacement for EU structural funding. The "shared prosperity fund".

8.2. We agree with the LGA that this EU money has been vital to create jobs, support small and medium enterprises, deliver skills, and boost local growth across the country. We estimate that areas in which our authorities are represented have around £1 billion of Investment through LEPS which requires replacing, or around £43 per head for 2014-2020[4].

It is vital not only that at least an equal overall amount of funding is made available but also that the funding is focussed on areas at an economic disadvantage.

[4] Data extracted from House of Commons library "UK funding from the EU" Dec 2016