SIGOMA RESPONSE TO THE PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT

2018 to 2019

SIGOMA

The Special Interest Group of Municipal Authorities (Outside London)

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1. About SIGOMA

1.1. This submission is made on behalf of SIGOMA, the Special Interest Group of Municipal Authorities.

1.2. SIGOMA is a special interest group (within the LGA) of 46 local authorities in the northern, midland and south-coast regions of England consisting of 32 metropolitan districts and 14 major unitary authorities, covering key urban areas.

1.3. Our membership includes authorities in the North East, Yorkshire and Humberside, the North West, the Midlands and the Southern Ports.

1.4. SIGOMA authorities are host to some of the most challenging economic environments in the country. They are amongst those who face the greatest difficulty in growing income organically whilst at the same time striving to provide services to a population that includes a high proportion of those most affected by changes to the welfare system.

2. General comments

2.1. Members have expressed their regret that the Government have done so little to address the concerns raised by the LGA, ourselves and other commentators over the chronic underfunding and lack of certainty that authorities face, now and in the future, in relation to adult and children's' social care.

2.2. Government has gone some way to addressing current problems of adult social care with the introduction of additional Better Care funds in 2017-18 and 2018-19. However, they must appreciate that this still leaves a sizable current funding gap. This gap will only increase as we approach 2019-20, most immediately due to the removal of the 1% pay cap on government employees but also due to the National Living Wage the demographic impact and the continuing austerity programme.

2.3. Whilst we can see adult social care now has Governments' attention, a similar story is unfolding in relation to children's care, with the pressures from increasing numbers of looked after children rising, and rising faster within the poorer authorities we represent.

2.4. Government may refer to the action taken to relax core council tax referendum limits. This adds around a further £240m to budgets in 2018-19 but the impact of the increased National Living Wage and a further 1% rise in other wages could easily add another £270 million to adult and children's social care costs alone in that year. Crucially, it must be understood that funding raised through a Council Tax increase is not distributed equally within the system according to need or cost pressures but according to Council Tax base.

2.5. We also join the LGA and others in expressing our concerns at the continuing cuts to public health funding disclosed with the settlement documents. Funding will fall in cash terms by 7% from its 2016 value. This represents a false economy when the objective of Government is to keep the population out of hospitals.

3. Q1 Do you agree with the methodology for allocating revenue support grant in 2018-19?

3.1. Allocations of RSG have not changed for 2018-19 since the final settlement published in 2016. This final settlement, controversially and without logical justification included the elimination of negative Revenue Support Grant, which arose from the Provisional Settlement change in methodology. Elimination of negative RSG gives a greater share of settlement funding to some authorities for no good reason and undermines Governments' own calculations.

3.2. We note the Minister's commitment to a review of negative RSG in the 2019-20 Settlement and wish to register our concern that this may result in the use of funds to support a disproportionate, unjustifiable and possibly politically motivated allocation to authorities above their determined allocation. It takes no account of the entirety of funding available to authorities as represented in the Government's own Core Spending Power tables, which DCLG officers themselves offer as the "key measure" of funding.

3.3. On a similar note, we welcome the news that no further funding has been allocated for "Transition" to the new RSG allocation methodology of 2016-17 and we urge the Secretary of State to resist parliamentary pressure to consider further Transition for this purpose. Any available funding should be used to address the critical underfunding of social care pressures faced by all authorities, on a needs basis.

3.4. The misplaced emphasis of recent initiatives is illustrated by the following two tables. These show:

- ➢ the amount of damping adjustment <u>already</u> built into current formula since 2013-14,
- ➢ allocations that increase RSG, provide Transition and pay additional Rural Services grant to protect a small selection of authorities;

they then compare this to the percentage cuts in Core Spending Power to authorities from 2010-11 to 2017-18.

3.5. The first table shows that authorities, which have each suffered cuts to Core Spending Power of over 30% and have borne together damping reductions of £47 million in 2013-14 <u>alone</u> (around £147 million in 2013 to 2017), receive a total of £0.01 million, just £10k, from these adjustments;

Authorities with damping reductions and the highest cuts to Core Spending Power

	Damping	RSG uplift		Transition grant		Rural Services grant				Total of	Cut in CSP 2010-11 to
	2013-14	2017-18	2018-19	2016-17	2017-18	2016-17	2017-18	2018-19	2019-20	adjustments	2017-18
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	%
Birmingham	- 18.57	-	-	-	-	-	-	-	-	-	-32.5%
Blackburn with Darwen	- 1.60	-	-	-	-	-	-	-	-	-	-33.4%
Hartlepool	- 0.74	-	-	-	-	-	-	-	-	-	-31.0%
Hastings	- 0.43	-	-	0.01	0.01	-	-	-	-	0.01	-36.4%
Kingston upon Hull	- 1.15	-	-	-	-	-	-	-	-	-	-33.0%
Manchester	- 0.44	-	-	-	-	-	-	-	-	-	-34.3%
Middlesbrough	- 1.79	-	-	-	-	-	-	-	-	-	-30.6%
Newham	- 12.90	-	-	-	-	-	-	-	-	-	-33.4%
Nottingham	- 2.55	-	-	-	-	-	-	-	-	-	-31.1%
Preston	- 0.82	-	-	-	-	-	-	-	-	-	-34.8%
Rochdale	- 1.08	-	-	-	-	-	-	-	-	-	-31.4%
Sheffield	- 4.59	-	-	-	-	-	-	-	-	-	-30.8%

3.6. The second table shows authorities, who saw in an increase in Core Spending Power over the same period and who together received £2.4 million in damping income in 2013-14 (around £8.6 million over 2013-2017), yet will receive a further £2.2 million in additional grants.

Authorities with damping income and the lowest cuts to Core Spending Power

	Damping	RSG uplift		Transition grant		Rural Services grant				Total of	Change in CSP 2010-11	Damping
	2013-14	2017-18	2018-19	2016-17	2017-18	2016-17	2017-18	2018-19	2019-20	adjustments	to 2017-18	2013 to2017
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	%	£ million
Aylesbury Vale	0.10	-	0.02	0.08	0.08	-	-	-	-	0.18	2.6%	0.36
Hart	0.49	-	0.20	0.11	0.11	-	-	-	-	0.42	1.3%	1.76
Horsham	0.29	-	0.25	0.13	0.13	0.01	0.01	0.01	0.01	0.55	8.9%	1.05
Mid Sussex	0.14	-	0.29	0.15	0.14	-	-	-	-	0.58	4.5%	0.51
Taunton Deane	0.09	-	-	0.02	0.02	0.03	0.02	0.02	0.02	0.12	0.0%	0.32
Test Valley	0.39	-	-	0.05	0.05	-	-	-	-	0.11	7.6%	1.45
Tewkesbury	0.27	-	-	-	-	0.01	0.01	0.01	0.01	0.04	6.1%	1.01
Wychavon	0.59	-	-	0.01	0.01	0.05	0.04	0.03	0.04	0.20	0.6%	2.20

3.7. The table is an extract from a calculation done for all authorities.

3.8. Of the 58 authorities who had their negative RSG cancelled, 29 received damping income in 2013 and beyond, which totalled £61 million in 2013-14 alone (around £230 million in the 4 years to 2017).

3.9. This included Buckinghamshire, which received £20.4 million of damping grant in 2013-14 (£76 million over the 4 years to 2017-18) yet will receive an RSG payback of £1.6 million in 2018-19 and £9 million of "Transition Grant" over the years 2016 to 2018, despite experiencing cuts to Core Spending Power of only 8.6%.

3.10. Similarly, Wokingham received £12.8 million of damping income in 2013-14 (£48 million to 2017-18), will receive an RSG payback of £3.3 million in 2018-19 and £5.4 million of Transition funding over 2016 to 2018, yet experienced cuts to Core Spending Power of just 5.9%.

3.11. These are funds that could have been used to help struggling authorities that suffered damping cuts in the 2013-14 Settlement, bore cuts to Core Spending Power, for example those above who suffered cuts greater than 30% over 2010 to 2017, yet receive little or no funding from the additional grants listed above.

4. Q2 Do you agree with the Government's proposal to fund the New Homes Bonus in 2018-19 with £900 million from Revenue Support Grant and any additional funding being secured from departmental budgets?

4.1. SIGOMA have presented a consistent opinion with respect to the funding of new homes bonus by top-slice from RSG.

4.2. This grant works increasingly to the advantage of prosperous authorities with buoyant Council Tax bases at the expense of those who have high needs. Due to the cuts in other funding, NHB grant is increasingly less likely to be used in projects directly linked to housing development and more likely to support mainstream services. Housing need should be included within funding formula and compete equally for funds, rather than taking precedence which it currently does due to the top-slice.

4.3. As it is unclear which departmental budgets additional funding would be taken from, we do not feel we have been given sufficient information on which to base a response. However, most options would be preferable to an RSG top-slice.

5. **Q3 Do you agree with the Government's proposed approach of paying £65 million in 2018-19 to the upper quartile of local authorities based on the super-sparsity indicator?**

5.1. SIGOMA object to the double and, in some cases, triple protection of rural authorities. Sparsity is already included as a factor within formula allocations. 20 authorities in receipt of grant have also had historic allocations protected by £20 million of damping, whilst 94 authorities were in receipt of transition funding and RSG refunds totalling £49 million (in which calculation the value of Rural Services Grant played no part).

5.2. One example is the district of Horsham in Surrey, which received damping protection of £1 million between 2013 and 2017, receives £0.5 million in Transition and RSG uplifts over the same period and, as a result of this and Rural Services Grant, experiences an <u>increase</u> in Core Spending Power of 8.9% between 2010-11 and 2017-18.

5.3. At a time when authority funding faces unprecedented pressures and after a decade of real terms cuts to 2020, we suggest the time for unformulated and unjustified allocations is over. All available funding needs to go where it is most needed based on transparent formulae that underpin actual spending requirements.

6. **Q4 Do you agree with the Government's proposal to hold back £35 million to fund the business rates safety net in 2018-19, on the basis of the methodology described in paragraph 2.6.2?**

6.1. It is deeply concerning that the promise of a safety net funded by levy under business rate retention must yet again be under-written from RSG.

6.2. This is doubly concerning when proposals for the new rate retention system include the abolition of levy and no suggestion of what may replace it, with the implication that the poorest authorities will sustain the wealthiest through hard times but not share in their success in better times.

6.3. We suggest that the additional funding required is collected by a one-off adjustment to top-up and tariff, in proportion to billing authority business rate base, so that safety net is funded from the resource of those authorities who will benefit most from rate growth.

7. Q5 What are your views on the council tax referendum principles proposed by the Government for 2018-19?

7.1. Any proposals that allow councils to raise additional funds are welcome, though we would continue to support the LGA in their request for removal of the referendum cap.

7.2. It must be understood, however, that this does not allocate funding in proportion to need but in proportion to tax base, an issue we raised in our opening comments.

7.3. The following table shows the additional funding raised from Council Tax in 2019-20 as a proportion of Settlement funding. It shows that the highest percentage, East Dorset at 21.5%, the lowest, Westminster at 0.4% and each of our members. Our members are over-represented in the lower deciles. Just 2 out of 46 of our members fall into the top half of the rankings, whilst 13 out of the 46 fall into the bottom 10%. Hence, whilst all authorities are better off as a result of the proposals, some are better off than others.

2019-20 Additional Council Tax in December 2017 Settlement
as a Percentage of Settlement Funding

Authority	1% Council Tax increase as % of SFA %	Rank 1 = lowest Rank	Decile of ranking 10 = lowest Decile
Westminster	0.4%	2	10
Knowsley	0.6%	6	10
Manchester	0.6%	8	10
Sandwell	0.7%	12	10
Liverpool	0.7%	13	10
Kingston upon Hull	0.7%	16	10
Leicester	0.8%	24	10
Sunderland	0.8%	25	10
Blackpool	0.8%	26	10
Stoke-on-Trent	0.8%	28	10
Blackburn with Darwen	0.8%	29	10
Newcastle upon Tyne	0.8%	30	10
Nottingham	0.8%	31	10
South Tyneside	0.9%	32	10
Wolverhampton	0.9%	36	9
Rochdale	1.0%	39	9
Halton	1.0%	40	9
Bradford	1.0%	43	9
Salford	1.0%	44	9
Oldham	1.0%	46	9
Doncaster	1.0%	47	9
Sheffield	1.1%	48	9
Gateshead	1.1%	52	9
Tameside	1.2%	55	9
St Helens	1.2%	56	9
Portsmouth	1.2%	60	9
Walsall	1.2%	62	9
Rotherham	1.2%	63	9
Barnsley	1.2%	64	9
Coventry	1.2%	66	9
Bolton	1.2%	67	9
Derby	1.2%	68	9
Dudley	1.3%	71	9
Wirral	1.3%	72	8
Wigan	1.3%	73	8
Durham	1.3%	74	8
Southampton	1.4%	84	8
Wakefield	1.4%	87	8
North Tyneside	1.4%	89	8
Plymouth	1.5%	91	8
Leeds	1.5%	96	8
Calderdale	1.7%	108	7
Kirklees	1.7%	110	7
Bury	1.8%	122	7
Stockton-on-Tees	1.8%	128	7
Warrington	2.7%	215	4
Stockport	2.8%	224	4
East Dorset	21.5%	354	1

8. **Q6 Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.5.1 to 3.5.6?**

8.1. SIGOMA officers have been engaged in the development of the revaluation adjustment formula and appreciate the complexity of the processes. Most members will assess the methodology by the extent to which it reflects their expectations and actual losses of funding.

8.2. In our view, the method contains one serious flaw in that the local valuation adjustment factor (represented by “F/G” within the calculation of “B” in (A+B) x (C/D), as illustrated in the technical consultation) fails to distinguish between the impact on hereditaments which carry reliefs and those which do not. This would not have mattered if the revaluation had affected both hereditament types equally, but there is strong evidence that certain property types with high reliefs (colleges and universities) and rising values had a significant distorting impact in areas where other hereditaments fell in value.

8.3. We suggest that the department gives serious consideration to representations from authorities who have been affected by this factor and considers a modified formula or a top-up to those affected (perhaps a better use of the funds allocated to a sparsity top-up?).