Technical Consultation on the 2017-18 Local Government Finance Settlement SIGOMA RESPONSE

About SIGOMA

SIGOMA is one of the largest special interest groups within the LGA. It comprises 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.

The authorities SIGOMA represent are among those facing the greatest challenges. They face pressures both in terms of the demographics that determine demand for services but also in terms their ability to grow income locally, either due to low Council Tax banding, a low and weak business rate base or lack of substantial infrastructure investment.

SIGOMA authorities represent 24.8% of English households and 24.5% of the English population. However:
SIGOMA represent 29% of all households on council house waiting lists.
SIGOMA residents have an average life expectancy at birth 2 years less than the national average, and have adult obesity levels 1% worse.
SIGOMA authorities care for 35% of the country's looked after children.
33% of all households living in poverty are from SIGOMA authorities.

Yet SIGOMA authorities collect just 19.8% of the national net rates collectable from ratepayers; this proportion has fallen since 2013 when it was 20%.

SIGOMA authorities face a 1.6% cash reduction in core spending power over the 4 year offer period, compared to a reduction of just 0.1% for the rest of local government.

As was generally feared, SIGOMA authorities have suffered a lower than average increase in property values following the 2017 revaluation. 22 of our members suffered a decline in rateable value over the revaluation period, a further 22 had growth below the national average of 9.6%, leaving just 2 with growth above the national average. Hence the large majority of our members will see a decline in business rate income when the new rateable values and adjusted multiplier are combined for 2017 business rate income. Members are reliant on government to fulfil its promise of an adjustment that will compensate for the change.

Question 1: What other, additional grants, beyond those set out in para 2.2.2, should the Government consider including in the multi-year offer?

Members remain in some confusion about the interaction of the multi year offer and 100% rate retention. The offer does not seem compatible with the intention of Government to introduce 100% rate retention in 2019-20.

100% rate retention will involve a re-assessment of needs which in turn would affect baseline needs allocations, resulting in a revised notional[1] Revenue Support Grant and tariff and top-ups for 2019-20. This appears to contradict to the statements in section 2.2.2 of this consultation.

Members also remain unclear about the future proposals for allocations of New Homes Bonus and Public Health so again do not feel they are sufficiently informed to comment on the possible inclusion of these in the offer.

[1] Notional because RSG will be absorbed into the 100% retention total.

Members therefore suggest that no other funding should be included in the offer unless there has been a consultation which includes proposed distributions and that DCLG should respond to requests for clarification of funding proposals for 2019-20 that meets the conditions of the multi year settlement and the intentions for the first year of 100% rate retention

Question 2: Do you agree with the proposed methodology for allocating funding for the improved Better Care Fund as outlined in paragraph 2.3.4?

Whilst members welcome a distribution based on the social care needs formula, the method by which the social care precept is incorporated into the calculation results in a distribution that fails to equalise social care need with ability to raise funds. This is demonstrated using DCLGs own data in the following table which shows that more prosperous authorities receive funds in excess of their need whilst others including many SIGOMA members, lose out.

Authority	Potential additional Council Tax revenue from Adult Social Care flexibility	Proposed Improved Better Care Fund	Adult SC Precept + BCF as % of Total	Adult PSS needs formula	(Shortfall) / Excess %	(Shortfall) / Excess £m
	£' million	£' million	%	%	%	£' million
England	4,307.375	2,430.000	100	100	0	0
Birmingham	59.163	90.385	2.22%	2.33%	-0.11%	- 7.674
Liverpool	30.334	48.329	1.17%	1.23%	-0.06%	- 4.354
Manchester	28.632	42.402	1.05%	1.11%	-0.06%	- 3.812
Lancashire	85.844	65.880	2.25%	2.30%	-0.05%	- 3.193
Sandwell	17.943	31.106	0.73%	0.77%	-0.04%	- 2.830
Durham	37.750	38.929	1.14%	1.18%	-0.04%	- 2.555
Westminster	10.189	24.515	0.52%	0.55%	-0.04%	- 2.442
Sheffield	36.892	36.726	1.09%	1.13%	-0.03%	- 2.330
Wandsworth	10.647	23.465	0.51%	0.54%	-0.03%	- 2.313
Kingston upon Hull	14.462	24.143	0.57%	0.61%	-0.03%	- 2.185
Lincolnshire	50.961	41.475	1.37%	1.40%	-0.03%	- 2.115
Newham	16.166	22.948	0.58%	0.61%	-0.03%	- 2.110
Sunderland	17.271	24.693	0.62%	0.65%	-0.03%	- 2.049
Cambridgeshire	54.571	13.218	1.01%	0.97%	0.04%	2.544
Wiltshire	46.651	7.623	0.81%	0.76%	0.05%	3.093
Central Bedfordshire	27.064	0.619	0.41%	0.36%	0.05%	3.371
West Berkshire	17.486	-	0.26%	0.21%	0.05%	3.424
West Sussex	79.964	17.153	1.44%	1.38%	0.06%	4.376
Hampshire	111.472	27.320	2.06%	1.98%	0.08%	5.315
Oxfordshire	63.842	5.937	1.04%	0.95%	0.08%	5.446
Richmond upon Thames	24.219	-	0.36%	0.28%	0.08%	5.666
Wokingham	17.848	-	0.26%	0.17%	0.10%	6.574
Buckinghamshire	52.644	0.875	0.79%	0.70%	0.10%	6.599
Hertfordshire	105.664	17.636	1.83%	1.72%	0.11%	7.231
Surrey	128.596	1.472	1.93%	1.66%	0.27%	17.923

G:\Sigoma\Technical Officers\2016 20 October\[better care percentage.xlsx]Sheet2

Better Care and Adult Social Care precept funds

2016-17 to 2019-20

The table shows the total allocation of BCF plus precept over the four years to 2019-20. The right hand column shows the £ million variation of proposed allocations to one based purely on the Adult Social Care needs formula. Authorities such as Liverpool, Manchester and Sandwell lose out whilst Surrey Hertfordshire and Buckinghamshire receive more than their Adult PSS formula share.

This is more pronounced in earlier years when better care funding is at its lowest. Therefore members disagree with this aspect of the proposal and recommend an allocation that equalises funding pro-rata to social care needs formula cumulatively over the offer period.

Question 3: Do you agree with the council tax referendum principles for 2017-18 proposed in paragraphs 3.2.1 to 3.2.2 for principal local authorities?

SIGOMA members join with the LGA in requesting the removal of a referendum cap and allowing local authorities to exercise their democratic mandate in setting local taxation.

Question 4: Do you agree that referendum principles should be extended to larger, higher-spending town and parish councils in 2017/18 as set out in paragraphs 3.3.3 to 3.3.4?
Members would prefer the engagement of locally elected officials in setting a maximum precept increase, since Council leaders are often held accountable by the public for the whole of Council Tax, including precepts.

Question 5: Do you agree with the proposed approach to take account of the transfer of responsibilities to town and parish councils as outlined in paragraph 3.3.5?
See answer to question 4.

Question 6: Do you agree with the suggestion that referendum principles may be extended to all local precepting authorities as set out in paragraph 3.3.6? If so what level of principle should be set?
Members foresee some administrative difficulty with such a proposal See answer to questions 4 and 7.

Question 7: Do you have views on the practical implications of a possible extension of referendum principles to all local precepting authorities as set out in paragraph 3.3.7?
Members do have concerns about the practical implications of extending the referendum principles.

- ❖ Members believe that local preceptors should carry responsibility for calculating the maximum increase within the referendum limit and providing written assurance to authorities that this is they are compliant. It should not be the responsibility of authorities to police the precept cap unless they have authority to set the precept.
- ❖ If local government does not have control over precepts Central Government must engage directly with preceptors, providing guidance to ensure that parish councillors are aware of their responsibility to set budgets within the referendum and to notify authorities of precepts above the cap. This should not be left to local authority administration, though of course authorities would be willing to advise parishes.
- ❖ Parishes must be required to indemnify authorities against the reasonable costs of conducting a referendum where the precept exceeds the referendum cap.
- ❖ Government must establishing clear rules for turnout and majorities relative to those affected by the precept.

Question 8: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.4.1 to 3.4.8.
SIGOMA officers have contributed to DCLG group meetings on establishing a suitable proxy formula and appreciate the difficulty in arriving at a mechanism to approximate the effect of the revaluation.

We believe, however, that the recently released valuations have exposed problems with the proxy.

<u>2017-18 Inflation</u>
In the formula at section B14 of the appendix to the consultation, item A includes the "adjusted 2017-18 business rate multiplier" (the Multiplier). Examination of schedule 7 of the 1988 local government finance Act suggests that the Multiplier will include an RPI inflation adjustment for 2017-18.

Our modelling suggests that, if this is the case, the formula at B14 will negate the effects of 2017-18 inflation on the adjustment since inflation will not be applied to values C and G in the formula, which are at 2016-17 values.

It is the expectation of our authorities that they would be put in a position for 2017-18 as if the revaluation had not taken place. This would include an uplift of 2017-18 RPI inflation on their rates income.

The model we have shown in appendix A to this response illustrates that the formula as presented will result in under compensation to all authorities, an imbalanced adjustment overall and overall rate income with no inflation uplift in 2017-18.

Our, admittedly simple, model suggests that, if the 2017 multiplier in the formula includes inflation for 2017-18 then the 2017-18 formula should be amended to:

$$J = C(1.02-A/B)D$$

And that the 2018-19 formula should be similarly amended.

S31 Grant
We understand that it is not the intention to adjust s31 grant for the impact of the revaluation on the grant calculated in the revised post revaluation NNDR1 and 3.

This would again leave authorities worse off as a result of the revaluation. We illustrate this below with a simple example of an authority with a very high relief proportion. The table shows that if S31 is not adjusted or if the top up adjustment does not include the impact on S31. In this case the authority would lose 4.5% (from £100,000 to £95,500) of its income following revaluation

Pre revaluation	£'000	Post revaluation	£'000
RV x multiplier (say)	100,000	Impact of (say) 10% reduction	90,000
Relief with S31 (say)	90,000	Same relief pro rata to revaluation	81,000
Net rates	10,000	Net rates	9,000
Local share 50%	5,000	Local share	4,500
Top up	50,000	Increases by 0.5 x (10,000 -10,000 x90/100)	50,500
Net retained rates	55,000		55,000
S31 grant (50% of relief)	45,000		40,500

Reliefs impact
During group discussions on the adjustment calculation DCLG and authority officers discussed the impact of reliefs. DCLG were of the opinion that reliefs would not significantly impact on a fair adjustment of net income. Applying the formula to known revaluation impacts suggests this is not the case because the revaluation impact on assets attracting relief is significantly different to the average impact used to calculate the adjustment.

Some SIGOMA members have made calculations of the potential impact. For example Liverpool City Council estimate losses of £5.7 million (excluding SBRR) and a top up adjustment of just £200 thousand. Liverpool attributes this in part to significant increases in the RV of university premises, which have increased by just under 56% in Liverpool. However, these premises attract 80% relief so whilst the increase in RV is reflected in their gross rates figure, there is also a significant increase in reliefs which impacts on Liverpool's net rates position. Manchester similarly report a disproportionate growth in the RV of educational premises which will distort the adjustment factor relative to actual rates earned.

We submit that the formula must be split to reflect relief and none relief-eligible asset growth. This can of course only be approximate but the approximation will not be even reasonably accurate without adjusting for the high RV increase and low income impact of hereditaments with relief.

For the above reasons members do not agree with the calculation.

Question 9: Do you agree that the methodology, as outlined in paragraphs 3.5.5 to 3.5.13, for calculating changes to the local share of business rates and tariff and top up payments is correct and does not adversely affect non-pilot areas?

Members agree with the principles of the mechanism outlined in the consultation. Many, however, seek assurance that authorities outside of the pilots will not be disadvantaged either now or when all authorities transfer to 100% rate retention.

Question 10: Are you considering a voluntary transfer of funding between the Combined Authority and constituent authorities?
No response

Question 11: Do you have any comments on the impact of the proposals for the 2017-18 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.
No comment

APPENDIX A

The model illustrates the adjustment formula impact on 6 authorities (a to f) experiencing different revaluation growth with inflation at 2%

SIGOMA model of impact of revaluation formula on adjustments with inflation

		a	b	c	d	e	f	Total	
	Values Pre revaluation (say)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	60,000,000	
2016-17	Multiplier	0.4840	0.4840	0.4840	0.4840	0.4840	0.4840	0.4840	
2016-17	Gross rates	4,840,000	4,840,000	4,840,000	4,840,000	4,840,000	4,840,000	29,040,000	
2017-18	Inflation	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
2017-18	Inflated rates pre revaluation	4,936,800	4,936,800	4,936,800	4,936,800	4,936,800	4,936,800	29,620,800	
	Revaluation factor (say)	1.120	1.090	1.120	1.090	1.130	0.990		*same*
2017-18	Post revaluation	11,200,000	10,900,000	11,200,000	10,900,000	11,300,000	9,900,000	65,400,000	
2017-18	Recalculated multiplier							0.453	forced assuming multiplier takes into account inflation
	New Gross rates	5,072,675	4,936,800	5,072,675	4,936,800	5,117,967	4,483,883	29,620,800	
	Gain loss against inflated rates	**135,875**	-	**135,875**	-	**181,167**	- **452,917**	-	

Adjustment formula data	a	b	c	d	e	f
New RV x new multiplier	5,072,675	4,936,800	5,072,675	4,936,800	5,117,967	4,483,883
Old RV x old multiplier	4,840,000	4,840,000	4,840,000	4,840,000	4,840,000	4,840,000
2016-17 income	4,840,000	4,840,000	4,840,000	4,840,000	4,840,000	4,840,000

	a	b	c	d	e	f	Total	
Adjustment existing formula	- **232,675**	- **96,800**	- **232,675**	- **96,800**	- **277,967**	**356,117**	- 580,800	= (16-17 rates - 16-17 rates x (New RV x New multiplier/(oldRV x old multiplier)
Adjustment to include inflation	- **135,875**	-	- **135,875**	-	- **181,167**	**452,917**	-	= ((16-17 rates x 1.02)- 16-17 rates x (New RV x New multiplier/(oldRV x old multiplier)

The model uses gross income as a proxy for net

The model forces a multiplier reflecting inflation and new overall valuation but otherwise tax neutral

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