SIGOMA

Driving Growth in Municipal Areas

A ROADMAP FOR FAIRER DISTRIBUTION

Executive Summary

Addressing underinvestment, recognising potential

We are a nation divided. Wealthy areas thrive as affluent residents make fewer demands on services and contribute more for those they use. These councils' historic grants are protected.

Deprived areas meanwhile bear the brunt of continued austerity, with high local dependency rates. They receive less grant than needed to protect allocations to the better off councils.

Government, meanwhile, continue to pursue a policy of making authorities totally reliant on locally raised funding, including a move to 100% business rate retention.

In theory, this could work. It would potentially mean a further £13bn for local government, but there are two key obstacles.

"Only a nation firing on all cylinders can truly make a success of Brexit"

First, the policy comes with a loss of £13bn in new burdens and grant reductions. This after years of council cuts to date, further austerity to come and critical cost rises due to government policy.

Second, at an individual authority level, stark imbalances remain between locally raised funding and service demand.

In this context, unbalanced infrastructure investment, for example, which disproportionately benefits London, could become an even greater catalyst for division than it is today.

Acting as a magnet for unparalleled business investment, left unchecked it will continue to benefit the capital at the material expense of all other regions at a time when councils are poised to become twice as reliant on business rates.

Whether or not EU funding to councils is to be replaced beyond 2020, as well as the way in which it may be allocated, also poses a risk.

Currently the funds are channelled towards those areas most in need of economic regeneration, so it is essential, not only that the funding pot is repatriated in full but also that it continues to be allocated on an equivalent basis.

In fact, Government must urgently seek to rebalance national investment across the board, using the devolution of balanced powers and funding to capitalise on the untapped growth potential of municipal areas outside the capital.

Only a nation firing on all cylinders can truly make a success of Brexit, and our road to national prosperity begins with fairer distribution.

Sir Stephen Houghton CBE, SIGOMA Chairman

*All non-referenced statistics quoted in this document are the product of SIGOMA analysis of publically available data

We are SIGOMA

The Special Interest Group of Municipal Authorities

SIGOMA is a campaigning network of urban authorities representing 46 councils across the northern, midland and south coastal regions of England. SIGOMA members face among the greatest challenges of any council group but, collectively, these urban areas could be the backbone of post-Brexit Britain - the nation's most significant untapped engine of growth.

Challenges

Of SIGOMA authorities more deprived than English Average*

Less council tax and business rates per head than English Average

Cuts due to austerity since 2010. 7% Deeper than English Average

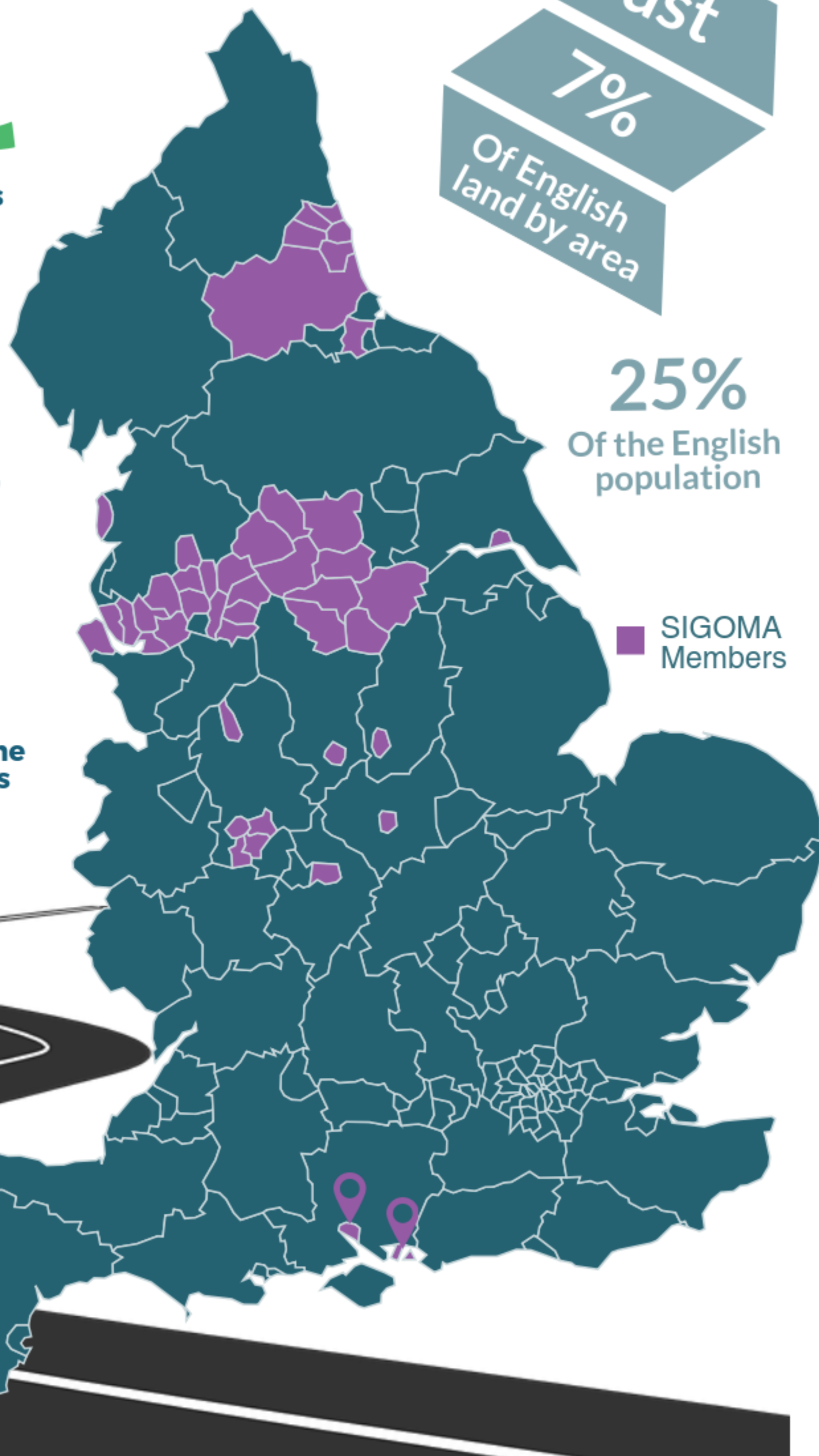
Strengths

Of England's Gross Value Added

Of England's top 50 universities

Of England's maritime imports and exports handled

"urban areas could be the backbone of post-Brexit Britain"



25%
Of the English population

*DCLG., (2015) Index of Multiple Deprivation

Growth Retention

Challenging established assumptions on rates

Currently councils retain 50% of business rates raised locally. In future, the Department for Communities and Local Government intends for local government to move to 100% retention, also allowing the retention of rates growth to incentivise financial self-sufficiency. However, following the general election, the policy has now arrived at a timley hiatus.

General Election 2017 - Conservative party loses overall majority

Local Government Finance Act dropped from the Queen's Speech

100% retention pilots suggest roll-out may be pieced together but not by 2019, as planned

Unique opportunity for local government to revisit the proposed approach

10 Reasons to revisit the basis for 100% business rates retention*

- No evidence base to demonstrate that 50% retention has worked.
- No direct relationship between rates growth & service needs.
- No direct relationship between business rates income & growth.
- Currently no incentives to encourage web-based & small business growth.
- Unbalanced, London-centric national investment in key infrastructure.
- Will total funding meet estimated service demands?
- Will there be a long term divergence in growth?
- Will the incentive offer the same opportunities for all authorities?
- Is the valuation & appeals system up to the standard authorities require?
- Can we predict service demands to set long-term funding requirements?

How Might Different Authorities be Affected?

Recent evidence* suggests a system based purely on business rates growth would result in disproportionate increases in retained rates for inner London boroughs. On average, these authorities would generate around twice the growth of any other authority type. SIGOMA authorities would be the worst affected of all local authority groupings, as illustrated in the graphic below.

£/head Increase in Gross Business Rates Payable, Local Authorities in England 2011-2016

* A number of the reasons listed are based on the findings of National Audit Office.,(March 2017) Planning for 100% local retention of business rates

Existing Inequality

Some more equal than others

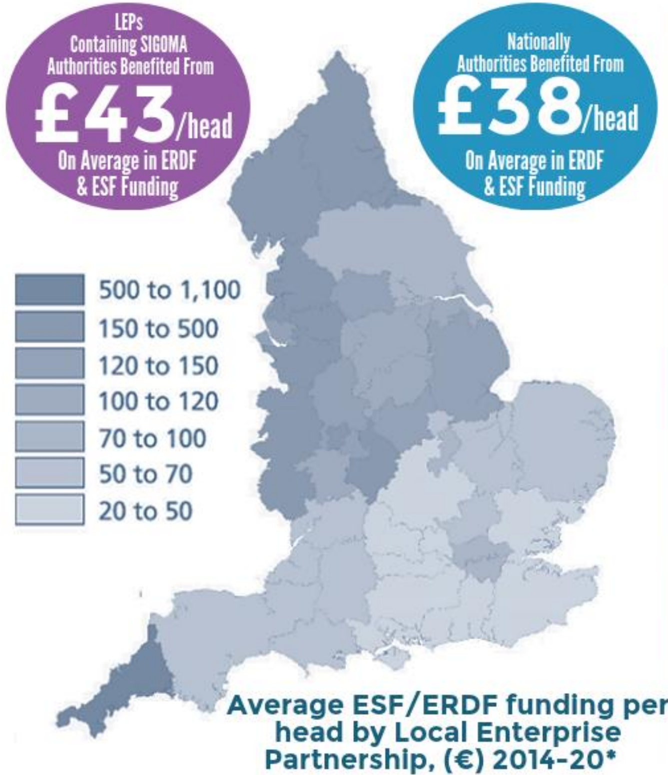
SIGOMA authorities have some of the highest levels of deprivation and the lowest capacity to generate income (via council tax and business rates) of any upper-tier council grouping in England. They have faced the greatest austerity cuts and will be at the greatest risk under a system geared to rewarding business rates growth.

	London	SIGOMA	Counties*
Average level of Deprivation (scale 6 least deprived – 42 most deprived)	23	30	16
Average Business Rates Raised Per Head	£260	£177	£181
Average Council Tax Raised Per Head	£344	£332	£468
Average Cut in Core Spending Power 2010-17	23%	27%	15%

*Including districts to ensure equivalence of service responsibilities with Met Boroughs, Unitaries and London Boroughs. IMD figures are for 2015, BR & CT for 2016

Investment Imbalance

Risks to post-Brexit funding & national infrastructure



Average ESF/ERDF funding per head by Local Enterprise Partnership, (€) 2014-20*

SIGOMA areas are among those most at risk from the loss of EU regeneration funding

Government Must Replace EU Funding Where It's Most Needed

The distribution of EU structural investment was designed to support sustainable development and reduce regional wealth disparities.

Collectively, SIGOMA Areas stand to loose out on up to £968m of LEP investment. It is crucial therefore, not just that EU funding is replaced but that its replacement continues to be allocated to tackle persistent economic imbalances.

National Prosperity Could be Derailed by Imbalanced Investment

Planned National Transport Infrastructure Investment Per Capita 2016-20 and beyond £/head**

Government Must Deliver Balanced Transport Investment

Transport infrastructure provides crucial stimulus for the investment of private capital. National investment is therefore an essential driver of regional growth.

However, investment continues to be siphoned into an already thriving capital at the material expense of all other English regions.

London
£1943/head
planned for publically funded transport infrastructure projects, 2016 onwards

"From 2016 London will receive more than three times the national average and ten times more than the worst funded region"

£1458/head funding gap

North West £682 /head

East £413 /head

West Mid's £254 /head

South East £226 /head

North East £222

East Mid's £221

South West £212

Yorks & Humber £190

Average £485/head

English Regions

* Steven Ayres (Dec 2016)., UK Funding from the EU, House of Commons Library (Contains Parliamentary information licensed under the Open Parliament License v3.0)
**Based on IPPR North analysis of HM Treasury and the IPA (Autumn 2016),. National Infrastructure and Construction Pipeline

No New Burdens

Fixing the funding gap before adding responsibilities

This decade has been one marred by the erosion of funding for council services, but also one in which councils faced significant increases in demand, particularly for social care.

While Government proposed councils would retain 100% of business rates in the name of sustainability, from the outset this was to be a fiscally neutral policy, entirely offset by new responsibilities. Councils, particularly those most reliant on equalisation, face an uphill climb.

As the graph below shows, the £6.7bn of new responsibilities already proposed by DCLG, when considered in addition to the £7.1bn in pressures councils face by 2020, will already exceed the £13bn in additional business rates due to be retained under full localisation by a margin of 0.8bn, casting doubt on the availability of sufficient funding for vital services.

Fiscal neutrality could, therefore, result in a zero sum game where growth incentives may only be delivered by removing resources from less prosperous areas at the material expense of services. This could result in an even deeper divide in local government.

£13.8bn needed by councils

£7.1bn of pressures by 2020

£6.7bn in DCLG proposed new responsibilities

£0.8bn in unfunded pressures

"Councils, particularly those most reliant on the centre, face an uphill climb... which could result in an even deeper divide in local government."

£3.3bn Public Health Grant (New Responsibility)

£2.3bn RSG (New Responsibility)

£1bn GLA Transport Grant (New Responsibility)

£0.1bn Rural Services Delivery Grant (New Responsibility)

£2.4bn Other Services Funded from Core Spending (Funding Gap)

£2bn Children's Services (Funding Gap)

£1.3bn Existing Social Care Pressures (Funding Gap)

£1.0bn Adult Social Care (Funding Gap)

£0.2bn Homelessness (Funding Gap)

£0.2bn Apprenticeship levy

£13bn Proposed Additional Retained Business Rates

Cycle of Decline: Lower Income – Lower Retained Rates – Deeper Cuts – Poorer Services – Higher Deprivation – Less Growth

Projected Additional Spend by 2020

Additional 50% of Retained Business Rates

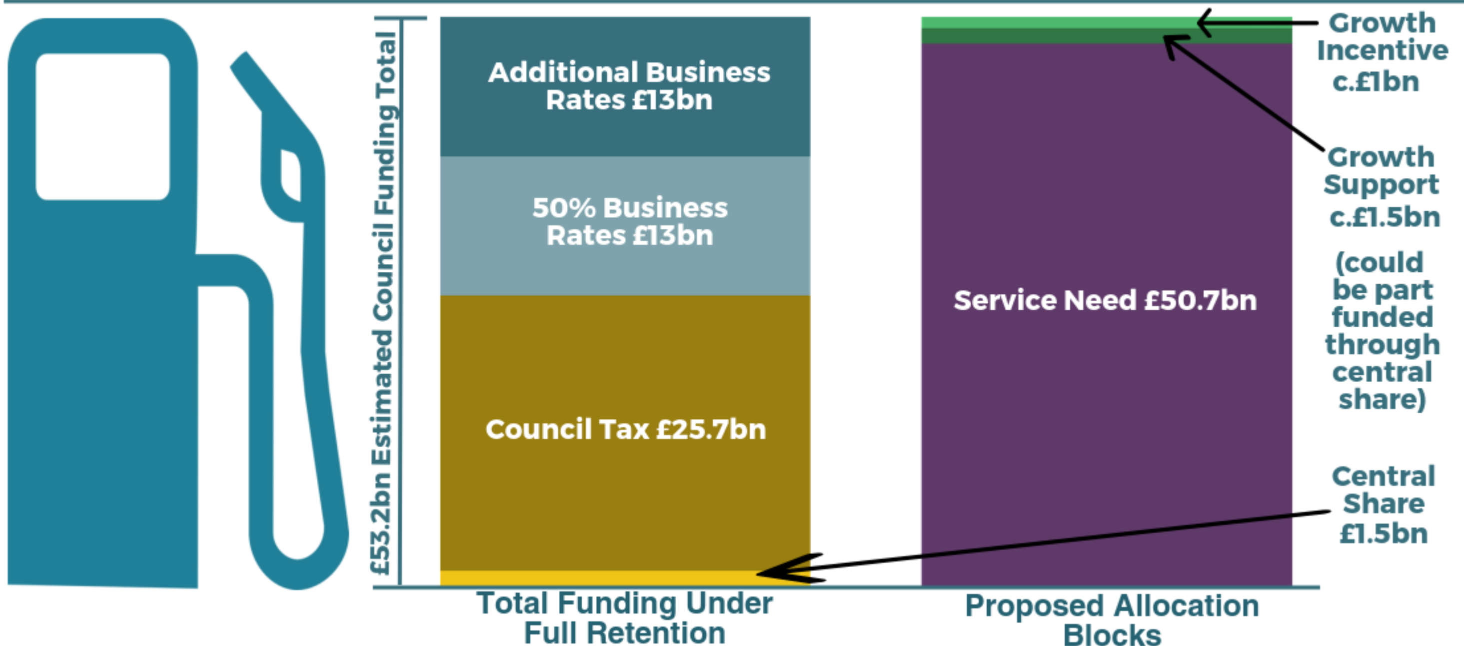
*All 'Funding Gap' figures are based on analysis by the Local Government Association

A Sustainable Solution

Maintaining vital services, fueling balanced growth

Government appears set on driving forward growth retention. But, to do so before first putting services on a sustainable footing would be like trying to top-up the fuel tank without first fixing an obvious leak. All authorities should be given the same opportunity to retain growth but only so long as the adequate and equivalent provision of vital services continues to be secured for residents across the country. Services must therefore be prioritised and authorities' differing capacity to grow rates recognised. This can be achieved via a 3 block model that prioritises services and supports growth.

3 Block Model: Services, Support, Incentives



Policy Proposals

The road to fairer funding

- **Proceed with full localisation but with no new burdens**
  Allowing councils to keep all of the £13 billion in additional business rates they would collect each year with no new responsibilities, or at the very least, none in addition to those already proposed.
- **Fix the funding gap & protect vital services before rewarding growth**
  Enabling councils to use the additional business retained to fund the unmet pressures they face as a result of cost drivers such as an ageing population and the introduction of the national living wage.
- **Give all authorities the opportunity & incentive to grow their business rates**
  Once service needs are met, using a portion of rates growth to support areas in need of economic regeneration and levelling the playing field by rewarding improvement relative to past performance.
- **Address the infrastructure imbalance, recognising its impact on growth**
  Committing to balanced investment in national transport infrastructure and prioritising projects outside London in the short-term to plug the persistent funding gap between the capital and the rest of the countr
- **Ensure the full repatriation & equivalent allocation of EU structural investment**
  Meeting the Government's manifesto pledge to create a UK Shared Prosperity Fund to replace the £8.4 billion local government currently receives from the EU and ensuring it is allocated on an equivalent basis.

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