SIGOMA response to the 2015 Settlement Consultation

**About SIGOMA**

SIGOMA represents 45 out of the 149 upper and mixed tier authorities across the country. Around 24% of English households reside in a SIGOMA authority.

Our membership includes authorities in the North East, Yorkshire and Humberside, the North West, Merseyside, the Midlands and the Southern Ports. Around 23% of service expenditure by English local authorities is accounted for within SIGOMA authorities.

**General comments**

Members welcome the opportunity to comment on the provisional settlement.

At the time of this submission authorities still await details of some significant funding streams, most notably:

**Public Health Grant**

This responsibility carries an annual cost of £3,660 million (before the 2015-16 in-year cut and incorporating public health for children under 5).

SIGOMA have argued that this should not be included within spending power data so long as it remained ring-fenced.

However with the prospect of public health grant being cut and a significant redistribution of the grant between authorities it is possible that some authorities may need to subsidise public health costs from general funding and it is therefore essential that authorities and the public are made aware of the public health settlement.

**Independent Living Fund**

Responsibility for ILF transferred to authorities in June 2015. The scheme has an implied annual cost of around £185 million of which £55 million (30%) would fall to SIGOMA members.

**Business Rates Cap compensation**

This s31 grant of £165 million in 2015-16 which compensated authorities for limiting business rate increases to a below RPI rise over 2014-15 and 2015-16 forms part of settlement income. We do not understand why DCLG were unable to disclose the allocations in the provisional settlement. Cap compensation should be included core spending power.

Our members’ view is that incomplete information makes for an ineffective consultation and makes it difficult for them to understand what the “offer” made by government encompasses.

It will be seen below that SIGOMA have welcomed aspects of the settlement model. There remain concern amongst members, however, at the over focusing on pro rata allocation of funding cuts based on historic allocations, without taking into account the cost drivers for essential authority services (with the sole exception of sparsity).

We agree with the LGA and NAO analysis which illustrates that the real pressure on authorities stems from cuts to funding and increased costs through inflation and demand for services. It is metropolitan authorities and SIGOMA unitary authorities that face the greatest pressure. Two illustrations of such pressures, both resulting from central government policy are:

* Withdrawal of the Contracted Out rate of National Insurance – This will increase employment costs by 3.4% and, according to LGA figures, cost an average metropolitan authority £2.5 million per annum for council services alone.
* New minimum wage provisions which the LGA estimate could cost councils £1billion a year by 2020-21.

SIGOMA asks government to initiate or engage in a sector led analysis of the cost of providing public services and how this can be adequately funded.

Members regret having difficulty in understanding the Ministers message in respect the offer the settlement refers to. This seems to be a general issue, raised during the Ministers’ examination at CLG Committee. Given the caveats that accompany the indicative figures members have the following issues:

* What elements of the settlement constitute the offer e.g since it is not the quantum of RSG, does it for example refer to the allocation basis? What is the offer in respect of New Homes Bonus and the related topslice?
* What will constitute acceptance?
	+ No formal acceptance document has been issued.
	+ Is acceptance at authority level, a majority of authorities or by the LGA?
* What are the consequences of not accepting the offer?
* The offer is conditional upon an efficiency plan. Is this additional information above the usual budgets and medium term plans, how many years must the plan cover and by when will it be required?

Members may well be inclined to accept what is on offer, once they have a clear understanding what both sides are committed to.

We welcome the additional Council Tax flexibility but again request that Councils are left free to determine local Council Tax levels by removal of the referendum cap. In the short term at least there is an issue about matching additional income to the pressure from social care provision, due to the varying size of Council Tax base, again this was raised during the CLG Committee examination of 13 January.

Members have welcomed the move to give greater funding to social care but have expressed concern that un-ringfenced grant in the form of RSG and NHB is being exchanged for ringfenced grant in the Better Care fund additional grant. Members are also concerned that the additional funding may come with as yet unspecified additional burdens and would welcome a statement from the Minister that this is not the case.

We ask again for a clear reconciliation of total settlement funding or Revenue Support Grant allocation which takes as a starting point the local government DEL figures provided in the 2015 Spending Review. Members also report difficulty in obtaining explanations of large movements in prior year local authority DEL information, such as occurred without explanation in the 2015 Spending Review.

As an illustration: The Spending Review gave local government a 2016-17 DEL allocation of £9.6 billion. We are aware of £1.3 billion of post spending review transfers and, with no other explanation, would have anticipated Revenue Support Grant of around £8.3 billion. The allocation is in fact £7.2 billion, a £1.1 billion gap which authorities would like to understand.

We would also again ask the Department to note the discontent of members with the lateness of information which in turn leads to a short consultation period, sometimes with missing or inaccurate information. We appreciate the efforts made by civil servants to deal with questions and rectify errors but feel that the process as a whole takes little account of the pressures facing authorities to produce a robust budget for the year ahead and analyse complex data.

**Question 1: Do you agree with the methodology for allocating central funding in 2016-17, as set out in paragraphs 2.6 to 2.8?**

The methodology is a welcome improvement on that employed for allocating RSG reductions in 2013-14 to 2015-16 and goes some way to redressing many years in which poorer metropolitan authorities have received an unequal share of central funding.

It does however fall short of the method proposed by SIGOMA and others which is a simple pro rata reduction according to a properly formulated, prudently estimated spending power.

The methodology used continues to give pre-eminence to New Homes Bonus with the effect that though our authorities do see an improved settlement funding position, this is eradicated by the effect of New Homes Bonus.

The impact is illustrated in the following table, showing that poorer metropolitan and unitary authorities continue to receive core funding settlements with higher than average cuts.

**Headline allocations at key funding levels:**



This inequality of cuts in government defined core spending power has been consistent over the last two spending reviews.

Since 2010 up to the provisional settlement for 2016-17 the overall cash terms cut in core funding has been 19% but the equivalent cut to SIGOMA members has been 25% with SIGOMA authorities worse off in every individual year but one. Yet SIGOMA authorities have faced, and will continue to face, the greatest pressure in spend per head of all authority types.

We recommend that the whole of core spending power is taken into account in considering the allocation of cuts. Failing this we contend that the changes to funding formula are, as we have shown, long overdue and should not be subject to damping adjustments.

**Question 2: Do you agree with the proposed methodology for calculation of the council tax requirement for 2016-17, as set out in paragraphs 2.10 and 2.11?**

We have pointed out in previous comments that the settlement includes a multiple reward to high tax base authorities in that:

* New Homes Bonus continues to grow at the direct expense of other settlement funding cuts.
* Use of banding for New Homes Bonus better rewards authorities with a higher banding profile.
* As Settlement funding reduces, the value of Relative Resource adjustment within settlement diminishes, whilst of course the related tax does not.

Incorporating historic Council Tax requirement into settlement calculations is therefore a welcome change, however we feel that using a static Council Tax requirement in formula adds to the above multiple incentive for high tax base authorities and fails to reflect the variation in funding due to tax base differentials.

**Question 3: Do you agree with the proposed methodology in paragraph 2.12 for splitting the council tax requirement between sets of services?**

We agree with the pro rata allocation of Council Tax between tiers.

**Question 4: Do you wish to propose any transitional measures to be used?**

SIGOMA would not support transitional measures which remove grant funding from authorities in need to support historically higher allocations to better off authorities.

We wish to remind government that the baseline funding allocations which underlie settlement funding already include damping adjustments.

**Question 5: Do you agree with the Government’s proposal to fund the New Homes Bonus in 2016-17 with £1.275 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.15?**

SIGOMA does not agree with the topslicing of funding to pay for New homes Bonus and the pre-eminence this places on housing needs above all other priorities, as we explained in Q1.

We welcome the recognition that adult social care is receiving as a priority in later years but suggest that more could be done earlier to rectify the distortion on distributions to authority funding caused by the NHB topslice by accelerating the exchange of NHB for additional Better Care funding in 2017-18

We call on government to recognise that the national housing crisis can not be resolved solely from tapping into local authority funding at the same time that authorities are being required to implement cuts which continue to be the highest of all public services.

Members further note and object to the reduction in the government contribution to New Homes Bonus, resulting in a greater topslice than would otherwise be the case

**Question 6: Do you agree with the Government’s proposal to hold back £50 million to fund the business rates safety net in 2016-17, on the basis of the methodology described in paragraph 2.19?**

We do not, nor have we ever agreed with this top slice. We would remind government that the intention was that Safety net would be financed from Levy. The impact of safety net topslice over the last two years is that some of the most deprived authorities in the country have contributed to a subsidy of some of the most affluent.

**Question 7: Do you agree with the Government’s proposed approach in paragraph 2.24 to paying £20 million additional funding to the most rural areas in 2016-17, distributed to the upper quartile of local authorities based on the super-sparsity indicator?**

We do not agree to this payment on the basis that it is not underpinned by any calculations of the additional costs resulting from sparsity. We would welcome an analysis of the costs of delivering services for all authorities, in which sparsity would of course be a factor.

**Question 8: Do you agree with the Government’s proposal that local welfare provision funding of £129.6 million and other funding elements should be identified within core spending power in 2016-17, as described in paragraph 2.28?**

LWP is incorporated in 2015-16 Settlement funding totals at the amount stated however we would remind government that this is a memo amount only, grant funding having been withdrawn. Moreover LWPG even as a memo item, has been reduced for each authority in line with individual cuts to RSG.

Therefore we do not agree with the proposal to include LWP at the amounts shown.

**Question 9: Do you agree with the Government’s proposal to include all of the grant funding for the Care Act 2014 (apart from that funded through the Better Care Fund) in the settlement, using the methodology set out in paragraph 3.2?**

Members recognise the simplicity of transferring the funding into settlement but some are concerned that costs will continue whilst the funding diminishes. We recommend that the department reviews ongoing costs of the Care Act as was recommended by the National Audit Office.

**Question 10: Do you agree with the Government’s proposal to include all 2015-16 Council Tax Freeze Grant in the 2016-17 settlement, using the methodology set out in paragraph 3.3?**

This follows the accepted practice of previous years. Most (but not all) SIGOMA members would welcome the fact that Freeze grant will no longer be preserved at the expense of cuts in other RSG elements and call on government to resist proposals to reverse this decision.

**Question 11 : Do you agree with the Governments proposal to include 2015-16 Efficiency Support Grant in the settlement and with the methodology set out in paragraph 3.5?**

Our objection to this grant is not the fact of rolling in but the fact that it was calculated on the basis of an incorrect spending power total, as acknowledged by DCLG in the restatement of spending power. We recommend that efficiency support grant is recalculated using the new measure before being rolled in.

**Question 12 Do you agree with the governments proposal to include funding for lead local flood authorities in the 2016-17 settlement, as described in paragraphs 3.6 and 3.7?**

Flooding is clearly a priority of the moment and it is right that authorities should receive adequate funding for the responsibilities they have, as they should for all other demands whether inside or outside of settlement funding.

**Question 13: Do you agree with the Governments proposal to pay a separate section 31 grant to lead local flood authorities to ensure funding for these activities increases in real terms in each year of the parliament?**

See answer to question 12. The creation of this grant will be dwarfed by the wider funding issues facing authorities including flood authorities.

**Question 14: Do you have any view on whether the grant for lead local flood authorities described in paragraph 3.8 should be ring fenced for the spending review period?**

Members do not support the ring fencing of grants. This is contrary to the principle that government trust in the local knowledge and expertise of authorities.

**Question 15 Do you agree with the proposals to adjust councils tariffs / top ups where required to ensure that councils delivering the same set of services receive the same percentage change in settlement core funding for those sets of services?**

The concern of SIGOMA members remains not with the mechanism of redistribution but the lack of fairness within the underlying measures and the fact that these have not kept pace with current demographics See answer to Q16.

**Question 16: Do you have an alternative suggestion for how to secure the required overall level of spending reductions to settlement core funding over the parliament?**

Whilst SIGOMA members do not in principle have objections to incentivising authorities to grow business rates and housing, we do not feel that this should take priority over adequately funding councils for the services that they provide.

We suggest that the funding set aside for rate retention and NHB incentives should first be used to ensure that every authority has adequate funding for the services it is required to deliver with the balance being available for incentivising growth, rather than, as is currently the case, giving rate retention and NHB priority with the balance being borne as lower RSG or adjusted top up and tariff.

Our proposals were illustrated in our document Protecting Vital Services in 2015 [[1]](#footnote-1). We were encouraged to hear some of the points made in our document being acknowledged by the Minister and look forward to further dialogue in the future.

**Question 17 Do you have any comments on the impact of the 2016-17 settlement on persons who share a protected characteristic and on the draft equality statement published alongside this consultation**

Our comments are as follows:

We welcome the statement and the fact that it acknowledges the risk caused to vulnerable groups by reduced funding. Further comments are:

Section 7: The statement refers to IPSOS Mori polling in respect of elderly care services. It notes that 41% of service users (172 people in the survey group) expressed an opinion that elderly care services had worsened in the last 5 years without drawing any conclusions from this data. We note that the same survey showed worsening satisfaction levels in almost every other aspect of local authority services poled.

The section DCLG analysis states: “[settlements] increase the resources available to local government.”

This is at best a partially correct statement. Core funding as measured by DCLG decreases in 2016-17 by £1.3 billion and again by £0.6 billion in 2017-18 only rising in later years. This puts services (and hence those at risk) under pressure in those years.

Mitigations

* Authorities delivering the same set of services will receive the same % change in core funding.

We cannot equate this statement with the funding tables which as we have shown gives our Members a full 1% higher cut than the average to English authorities

* Safety net will ensure that no authority’s income will fall below 92.5% of their baseline funding”.

Unfortunately this can prove incorrect through an error in the safety net scheme. If an authority initially estimates it will need safety net and takes funds from the collection fund based on that estimate but then subsequently achieves higher actual rate income the authority may receive no safety net payment but its income from collection fund will remain at the lower level in that year.

* The advantage of a multi year settlement is that councils can smooth the impact changes over time.

Multi-year settlements are welcome but cannot mitigate the impact of cuts. One of the methods of smoothing would be the use of reserves, which are under attack from ministers at the moment.

The equality statement makes no mention of public health Funding. Since this has already been cut in-year in 2015-16 by £200 million there appears to be every prospect that this funding may be cut in 2016-17. This budget covers the health of those in protected categories. DCLG should reference this in the document with an assurance that a separate equality statement will accompany the public health funding announcement.

In the view of SIGOMA and other commentators the statement highlights the need to establish a minimum standard of care in key areas affecting those at risk, linked to a cost and funding requirement.

15 January 2016

1. http://www.sigoma.gov.uk/Documents/Public.aspx?year=2015&id=92 [↑](#footnote-ref-1)