A Fair Future?

The true impact of funding reductions on local government

SIGOMA
Special Interest Group of Municipal Authorities
(outside London) within the LGA

Who we are

SIGOMA is a group of 45 Municipal Authorities and is a recognised special interest group within the Local Government Association (LGA). Its membership comprises 33 Metropolitan Districts and 12 major Unitary Authorities with similar characteristics. The combined population of SIGOMA Authorities amounts to over a quarter of the population of England and its members account for over 25% of English local government expenditure. The membership also comprises most of the largest housing authorities in England.

We are the collective voice of urban areas representing most of the large towns and cities in the Northern, Midland and South-Coast regions of England.

MEMBER AUTHORITIES

Merseyside	Halton
	Knowsley
	Liverpool
	St Helens
	Wirral
Midlands	Coventry
	Derby
	Dudley
	Leicester
	Nottingham
	Sandwell
	Stoke-on-Trent
	Walsall
	Wolverhampton
North East	Durham
	Gateshead
	Newcastle
	North Tyneside
	South Tyneside
	Stockton
	Sunderland
North West	Blackburn
	Blackpool
	Bolton
	Bury
	Manchester
	Oldham
	Rochdale
	Salford
	Stockport
	Tameside
	Warrington
	Wigan
South	Plymouth
	Portsmouth
Yorkshire and Humberside	Barnsley
	Bradford
	Calderdale
	Doncaster
	Hull
	Kirklees
	Leeds
	Rotherham
	Sheffield
	Wakefield

In this paper we seek to identify the true, holistic impact of the Government's recent and proposed local government funding reforms.

Through analysis and modelling we clearly show that the municipal authorities represented by SIGOMA:-

- **started off the from a position of disadvantage;**
- **have borne a disproportionate burden of cuts under the Spending Review; and**
- **carry the greatest risk of the highest cuts in the future.**

SIGOMA also provides an overview of the impact of changes to Benefit and Welfare reforms and the detrimental impact that these are likely to have on our communities.

Ultimately through this document SIGOMA seeks to provide colleagues with a set of robust analyses and conclusions that can be used to attempt to steer Government back towards of its stated intention to act with "Fairness" – which along with "Freedom" and "Responsibility" represents the key themes of the Coalition's programme for Government.

Introduction

When the Government's 2010 Spending Review announced the level of contribution required from local government to support the deficit reduction it was not entirely unexpected. It was after all widely acknowledged that tough measures were going to be needed to reduce the nation's debt.

The Spending Review effectively sought to impose £5.9 billion in cuts to funding allocations. This equated to a total reduction of over 25% from 2010 to 2015.

At the time of the announcement, of greatest concern to many in local government was the severe front-loading of the cuts. The Government's intention was to implement £3.2bn in cuts by 2012, effectively a 28% reduction in formula grant from 2010 to 2012.

Then in June 2010 David Cameron appeared to offer hope to the most disadvantaged when he announced:

"This Government will not cut this deficit in a way that hurts those we most need to help, that divides the country, or undermines the spirit and ethos of our public services."

The reality however sits in stark contrast to this promise. The cuts, both in terms of grants to local authorities and benefits to individuals, have in fact been focussed on some of the most deprived areas of the country.

Many of the policies introduced by Government are working to exacerbate further the disparities between areas of deprivation and more prosperous areas. The "worse off" are being further disadvantaged to the benefit of "better off".

The Government has produced some individual policy assessments around the impact of individual initiatives. These are too narrow and fail to provide a broad, cohesive analysis of the combined distributional impact of all their funding reforms nor the likely impact of current policy on years beyond 2014-15.

Characteristics of need

First of all it may be useful to establish why SIGOMA authorities should reasonably expect help from Government.

Compare the following quotes from Government[1] with the statistical evidence which follows.

Quotation:
"Difficult decisions have to be taken... but we will ensure that fairness is at the heart of those decisions so that those most in need are protected".

Evidence:
- 7 out of every 10 of SIGOMA residents live in an authority ranked within the top 20% most deprived in England. This compares to a national total of 3 in 10 , 5 in ten for London and for the South East 3 in 100!

- In a national ranking of Super Output Areas, more than one fifth of SIGOMA SOAs fall within the worst 10% for deprivation.

Quotation:
"The Government believes that we need to reform our schools system to tackle educational inequality"

Evidence:
- The achievement of children at GCSE level continues to be below the English average in SIGOMA authorities. Five of the ten lowest achieving authorities in 2012 were SIGOMA members.

Quotation:
"We need an ambitious strategy to prevent ill health."

Evidence:
- Life expectancy for SIGOMA authorities is lower than the English average (2 years less for men and 1.6 years less for women) with SIGOMA authorities having nine out of the worst ten life expectations in the country.

Quotation:
"We will support sustainable growth and enterprise, balanced across all regions and industries."

Evidence:
- Current unemployment rates for SIGOMA are 10% which is 2% above the average for England.

[1] *(Coalition-our programme for Government - May 2010)*

Starting from behind

In recent years SIGOMA has persistently alerted Government to the fact that they are seeking to introduce funding reforms that ultimately will unfairly divert resources from the needy to those areas of the country having demonstrably less need.

As illustrated in the table below, in the year preceeding the 'cuts' SIGOMA authorities were already receiving funding at levels less than their assessed need. At the same time the more affluent received resources they did not need.

Funding shortfall 2008/09 to 2010/11

Region / Class ~	Formula Grant Distance over (+) or under (-) target funding (08/09-10/11) £m	PCT Funding Distance over (+) or under (-) target funding (08/09-10/11) £m	Total Funding Distance over (+) or under (-) target funding (08/09-10/11) £m
London	+972	+2,449	+3,421
North East	-61	-207	-268
North West	-315	-344	-659
East Midlands	-291	-883	-1,174
West Midlands	-275	-578	-853
Yorks & Humber	-281	-524	-805
South East	+507	+761	1,268
South West	-178	-231	-409
East	-71	-386	-457
SIGOMA	**-618**	**-1,217**	**-1,835**

~excludes GLA, Police and Fire Authorities

The obvious conclusion that can be drawn from the above is that SIGOMA authorities were already suffering significant target funding shortfalls immediately prior to the 2010 Spending review

We didn't begin the funding reform process on an equal footing with other, more affluent authorities.

Deficit reduction begins: In-year cuts 2010/11

In May 2010 the Chancellor kick-started the deficit reduction programme when he outlined plans to cut £6.2bn in public sector funding.

Included within the programme was £1.2bn in cuts that related specifically to Communities and Local Government.

As the chart below illustrates, the cuts in funding were disproportionate in terms of the impact with some of the most deprived communities suffering the largest % reductions.

Analysis by authority type of revenue cuts in the year - 2010/11

Significantly the analysis reveals that:

- Of the top 50 most deprived authorities in the country, 46 suffered a reduction in funding that was above the English average.
- Metropolitan areas suffered cuts of £12 per head compared to the English average of £8.75.

The implementation of the cuts has once again resulted in funding being disproportionately diverted away from those areas of greatest need.

These outcomes sit in stark contrast to the Government's stated intention to:

"Limit as far as possible the impact of reductions in spending on the most vulnerable in society and on those regions heavily dependent on the public sector"

(Source: 2010 Spending Review)

The inequality continues: 2011/12 - 2012/13.

Despite lobbying the Government with serious concerns around the distribution of the further funding reductions they pressed on and applied a two year settlement that would continue penalising those most in need.

The settlement featured inequitable cuts in formula grant and reductions affecting overall spending power of many of the most deprived.

The trend that began in 2010 continued with poorer authorities once again losing out to the better off – a theme that is evidenced throughout this paper.

To illustrate this the table below provides examples of reductions in spending power from 2011/12 to 2012/13[3].

EDUPSS[3] authorities - highest and lowest individual reductions in spending power*					
2012-13			2011-12		
Borough/County	% Spending power change	Index of deprivation	Borough/County	% Spending power change	Index of deprivation
Liverpool	-7.1%	5	Liverpool	-11.3%	5
Manchester	-6.9%	4	Manchester	-10.9%	4
Hackney	-6.8%	1	Knowsley	-10.8%	12
Newham	-6.6%	2	Blackburn with Darwen	-10.5%	26
Knowsley	-6.5%	12	South Tyneside	-10.5%	39
West Sussex	-1.7%	125	Wokingham	-0.6%	149
Richmond upon Thames	-1.6%	142	Richmond upon Thames	-0.6%	142
Surrey	-1.5%	147	Buckinghamshire	-0.6%	143
Wokingham	-1.5%	149	Surrey	-0.3%	147
Dorset	-1.1%	118	Dorset	0.2%	118

** From CLG spending power tables for 2011/12 and 2012/13. Spending includes: Council Tax requirement, Learning Disability grant, Early Intervention Grant, Formula Grant, Preventing Homelessness Grant, Council Tax Freeze Grant and NHS funding for Social Care. Index of Deprivation from County summaries of Indices of Deprivation 2010, published by the DCLG*

Detailed analysis shows that the "least deprived" ten percent of authorities actually have a relatively small reduction in revenue spending power when compared to the "most deprived":

This runs counter to the assertions of senior Government figures, including the Prime Minister, that "those with the broadest shoulders should bear their fair share".

Grant Allocation by Deprivation, Single Tier Authorities, 2011/12[4]

Deprivation decile	Revenue spending power	Total Non ringfenced central government provision	Formula grant	Non ringfenced specific grants
1 (most deprived)	-8.4%	-11.0%	-10.9%	-11.6%
10 (least deprived)	-2.2%	-5.2%	-13.5%	24.6%

The analyses clearly show that the impact of the fiscal measures taken by Government is at odds with their own policy statements and the assurances given to the public and local authorities.

SIGOMA believes that simple changes could have been made to the system to ensure that such disparities in impact did not happen, for example by allocating cuts pro rata to spending power or by having differential rates of reduction for under funded and over funded authorities so as to narrow funding gaps.

[3] *Education and Personal Social Service Authorities*
[4] *House of Commons Research Paper 11/16: The Local Government Finance Settlement 2011-13 (8/2/11) (the report contains data for all deciles)*

The erosion of equality: mechanisms to further widen the resource gap

In addition to the inequitable cuts in general and specific grants outlined above the Government has gone on to introduce initiatives that have already redistributed resources further away from those most in need and will continue to do so if unchecked. These are outlined below:

The New Homes Bonus Scheme (NHB)

Launched in 2011/12, NHB was introduced as a means of incentivising local authorities to grant planning permissions for new homes and bring empty properties back into use.

For every additional home on its local list, a local authority receives an annual 'bonus' payment equal to the Council Tax generated. Bonus is paid on each new house for six years from when it joins the list.

Whilst Government initially funded the NHB scheme from its own resources it has increasingly top sliced funding from formula grant to support the scheme. At it's peak, it is estimated that the NHB scheme will cost £2 billion[5] and will be funded entirely from local government top slice.

SIGOMA has major concerns around NHB particularly the impact of increasing NHB on future Revenue Support Grant under the new rules on Business Rates.

By top slicing funding from RSG it takes funding from those authorities that most need it.

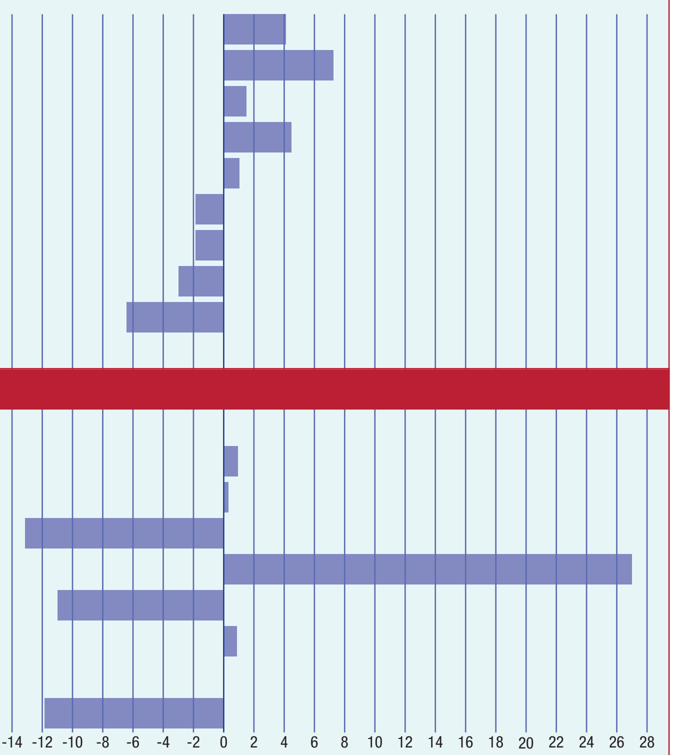
The following table compares the impact of receipt of NHB against the estimated loss of RSG and shows that available grant to the poorest authorities is reduced in order to fund new housing in some of the most affluent.

Increases in New Homes Bonus topslice will reduce Revenue Support Grant (RSG) on a £ for £ basis. In 2014-15 RSG reduces by £300 million due to NHB topslice increase. The impact can be seen in the pie charts on page 18.

[5] *By Government - when first proposing NHB top slice amount for Business Rate Retention*

New Homes Bonus - Top slice impact v NHB distribution[6]

Region	Excess (shortfall) from NHB distribution £m	%
South West	25.7	4.1%
South East	46.1	7.3%
London	8.7	1.4%
Eastern	27.2	4.3%
East Midlands	7.0	1.1%
West Midlands	-11.7	-1.9%
Yorkshire and the Humber	-11.8	-1.9%
North East	-19.6	-3.1%
North West	-40.1	-6.4%
Authority Type		
Inner London Borough	7.0	1.1%
Outer London Borough	1.7	0.3%
Shire Counties	-83.9	-13.3%
Shire Districts	170.5	27.0%
Metropolitan Districts	-68.9	-10.9%
Unitary Authorities	5.2	0.8%
SIGOMA	**-74.5**	**-11.8%**



Ultimately SIGOMA authorities have again faired badly when compared to others, losing around £74 million (11.8%) under the scheme. For example Newcastle will lose £3.3m whereas Wiltshire will gain £3.4m.

As John Healey MP, the then Shadow Housing Minister put it when commenting on NHB;

"We could quite literally see Government robbing Peterborough to pay Poole."

Council Tax Freeze Grant (CTFG)

Introduced in 2011/12 the Government portrayed Council Tax Freeze Grant as a reward for not increasing Council Tax. It has however revealed itself as another example of an initiative to be funded via reductions in general funding to local government.

Of the latest freeze grant Local Government Secretary Eric Pickles said:

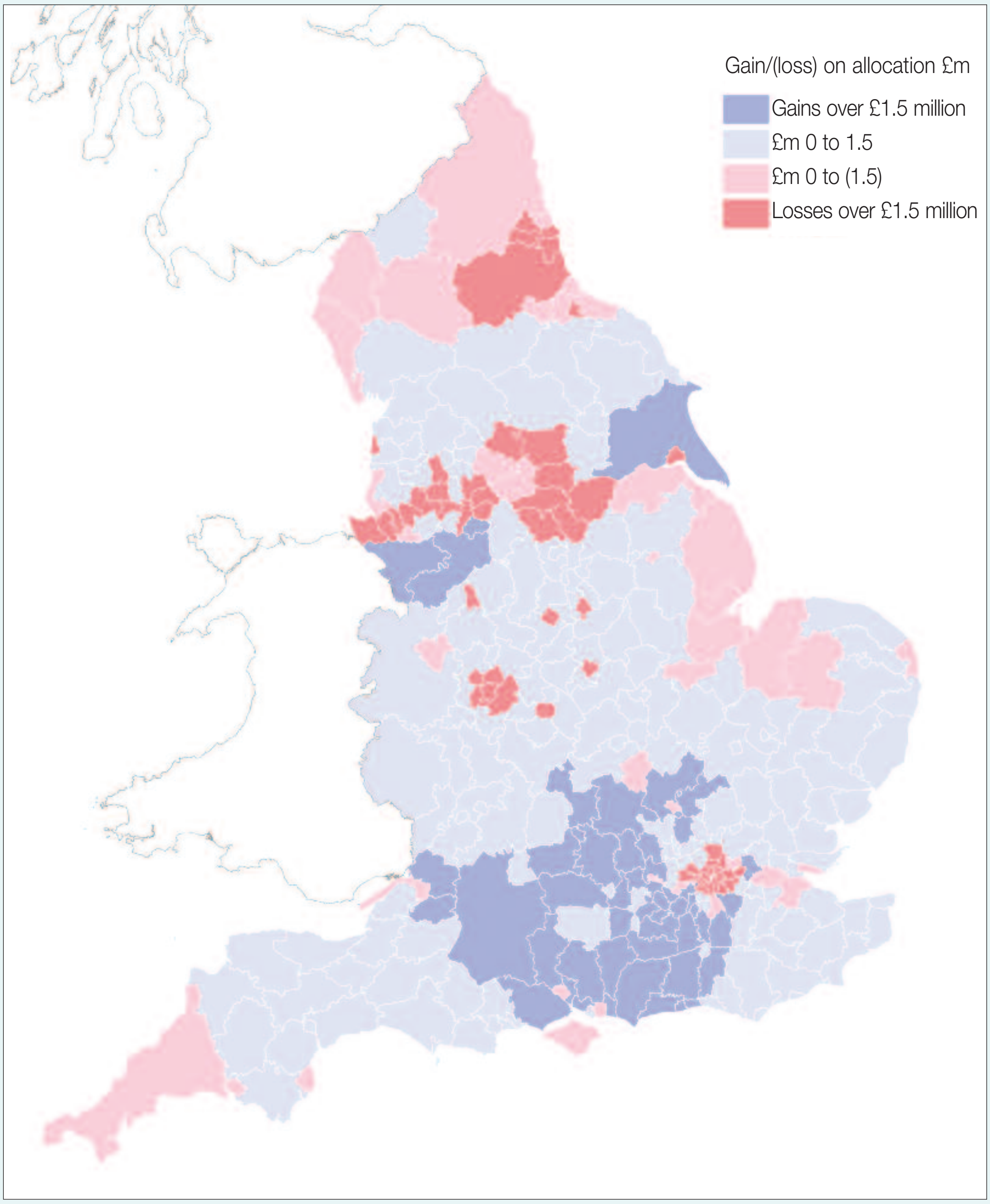
"Freezing bills again will really help hard working families and those on fixed incomes, such as pensioners with their cost of living."

In these austere times the freeze grant will no doubt bring some welcome short term financial respite to Council Tax payers. There will however, unavoidably, be some significant impacts beyond the short term for Council Tax payers, local authorities and service provision when the offer of freeze grant eventually ends.

In addition, the basis of distributing freeze grant means that resources allocations effectively move away from allocation according to need to one of giving the highest funding to local authorities with highest Council Tax base. The redistribution impact can be seen in the map of winners and losers.

[6] £631m of NHB grant re-allocated according to shares of formula grant in 2012/13 excluding police authority and with fire authority shares excluded from Regional analysis. Includes some minor rounding adjustments. 80% of single tier NHB is paid to Shire districts with 20% going to counties, therefore the benefit to Shire areas is the combination of the two ie +£86m

Winners and losers from freeze grant



To put this into context, analysis shows that:

- If Manchester had received a distribution based on its formula needs it would have received around **£18.6m,** whilst in fact it is estimated to receive **£7.0m** of Freeze Grant. **A 'loss' of some £11.6m**

- The County of Essex on the other hand will receive **£29.0m** rather than **£21.0m** based on a needs allocation. **A 'gain' of £8.0m**

Government have locked the 2010-11 tax freeze grant into Business Rate Retention allocations and offered a 1% incentive for authorities who freeze tax in 2013-14 and 2014-15.

This 1% will be based on Basic Council Tax amounts which for those authorities who have accepted the earlier freeze grants remain unchanged for over two years.

The table shows that negative damping tends to lead to a higher dependency on Council Tax which therefore plays a bigger part in the authority's budget. Temporary grants, when withdrawn, leave a bigger gap[7].

Unitary authorities - Relation of damping grant to Band D Council Tax

Highest and lowest average band D authorities **Top 5 - all unitaries**	Gain/(loss) from 2012/13 Damping adjustment £'000	2012/13 Band D Council Tax £	2011-12 Temporary Freeze Grant £'000	Freeze grant % of Total Budget Requirement %
Wandsworth	42,702	377.0	1,196	0.36%
Westminster	1,993	378.0	1,228	0.31%
Hammersmith and Fulham	29,093	781.3	1,619	0.55%
Kensington and Chelsea	15,813	782.6	1,947	0.70%
Tower Hamlets	15,695	885.5	1,968	0.39%
SIGOMA bottom 5				
Durham	-9,678	1,361.8	4,972	0.75%
Stockport	-2,874	1,363.0	3,395	1.13%
Nottingham	-202	1,377.6	2,511	0.56%
Walsall	-3,833	1,384.6	2,725	0.74%
Gateshead	-2,087	1,443.3	2,137	0.75%

Ultimately when the offer of 'freeze grant' grant ends many local authorities will be left in a position where they have to make some very tough decisions around Council Tax increases given that their base funding levels will still be at 2011/12 levels.

Many poorer local authorities will have little prospect of being able to raise Council Tax to a level necessary to 'catch up' on the baseline erosion that will be the legacy of the Freeze Grant as well as meet the inflationary increases.

The final column of the table shows that Council Tax increases can have varying significance in terms of total budget requirement between authorities. In addition, the inequalities caused by damping adjustments will be incorporated into the baseline funding position of the rates retention model, perpetuating inequality.

There is a link between shortfalls in 'target' (i.e. undamped) funding and higher Council Tax charges, as authorities seek to bridge gaps between local demand and funding, for example:

- Blackpool has **lost over £18million** of damping grant over the last three years (equating to an annual average of £86 per dwelling per annum) and has a **band D Council Tax of £1,306.**

- Kensington and Chelsea have **received over £45 million** of damping grant in the last three years (equating to £170 per dwelling per annum) and has a **band D Council Tax of £782.**

The relationship between Council Tax and Total Budget requirement will take on even greater significance under the Business Rate Retention framework. Many poorer areas will be unable to generate additional significant funding from Business Rates (in fact may be in decline) whilst Revenue Support Grant is expected to decline.

[7] *Source CLG statistical table 10:2012-13 budget requirement and chargeable dwelling figures*

Health Spending

Previous SIGOMA reports[8] have highlighted the inequality in allocations of PCT funding, with many deprived authorities receiving less than target funding whilst better off authorities receive above target.

In 2012/13 Government gave an across the board increase of 3% to all authorities. Whilst any increase is welcome it exaggerates further the inequalities between health authorities in terms of their "Distance From Target (DFT) i.e. from their assessed spending needs.

Gaps of over 25% exist between the "best off" and "worst off" authorities under the latest awards, SIGOMA authorities face some of the most challenging health improvement issues in the country, yet are amongst the worst affected, as the table below illustrates.

Authority **Top five**	Estimated DFT £m 2012/13	Percentage DFT 2012/13	Ranking of DFT out of 150
Hammersmith and Fulham	66.8	23.7%	1
Kensington and Chelsea	64.5	21.7%	2
Camden	73.4	17.7%	3
Westminster	69.6	17.1%	4
Wandsworth	76.7	16.3%	5
SIGOMA			
Wakefield	- 20.6	-3.3%	130
Plymouth	- 14.7	-3.3%	131
Nottingham	- 23.4	-4.3%	143
Leicester	- 23.7	-4.3%	144
Derby	- 19.9	-4.3%	145
Stoke On Trent	- 26.5	-5.2%	150

This allocation, in which the gap between best and worst off has increased, will also be built into the health fund transfer when local authorities take over public health budgets in 2013-14.

SIGOMA regards good health services as being a critical importance if the Government's aspirations to reduce benefit dependency and the encouraging availability for work are to be fulfilled.

The decision taken by Government around health spending appears to be contrary to the achievement of these aspirations.

[8] *The latest in page 6 of "All in this together?" published by SIGOMA in 2011*

Overall Impact to date: Conclusions

We've so far demonstrated that in each case the impacts to date have been most detrimental to those areas least able to support themselves.

This clearly undermines the Government's claim that "we're all in this together".

Taken in isolation the impact of some of the individual actions and initiatives introduced by Government appear to be relatively modest. If however we take a more holistic view of the combined impacts – **something the Government have so far failed to do** – the differences are startling.

This summary table illustrates the redistribution of funding that has taken place regionally since the 2010 Emergency budget. It shows the underlying transfer of resource from poorer regions to the better off, both in total and on a per capita basis.

The heat map on the following page illustrates the regional differences at authority level.

Sharing the burden? – The cumulative impact of funding and cuts in 2012[9]

The summary figures in the chart shows the change in funding per head based on total population estimates.

The difference would be even worse if the populations were weighted to reflect those in need of the services which councils are required to provide and which drive costs.

This is something that the Government ignores in its measures.

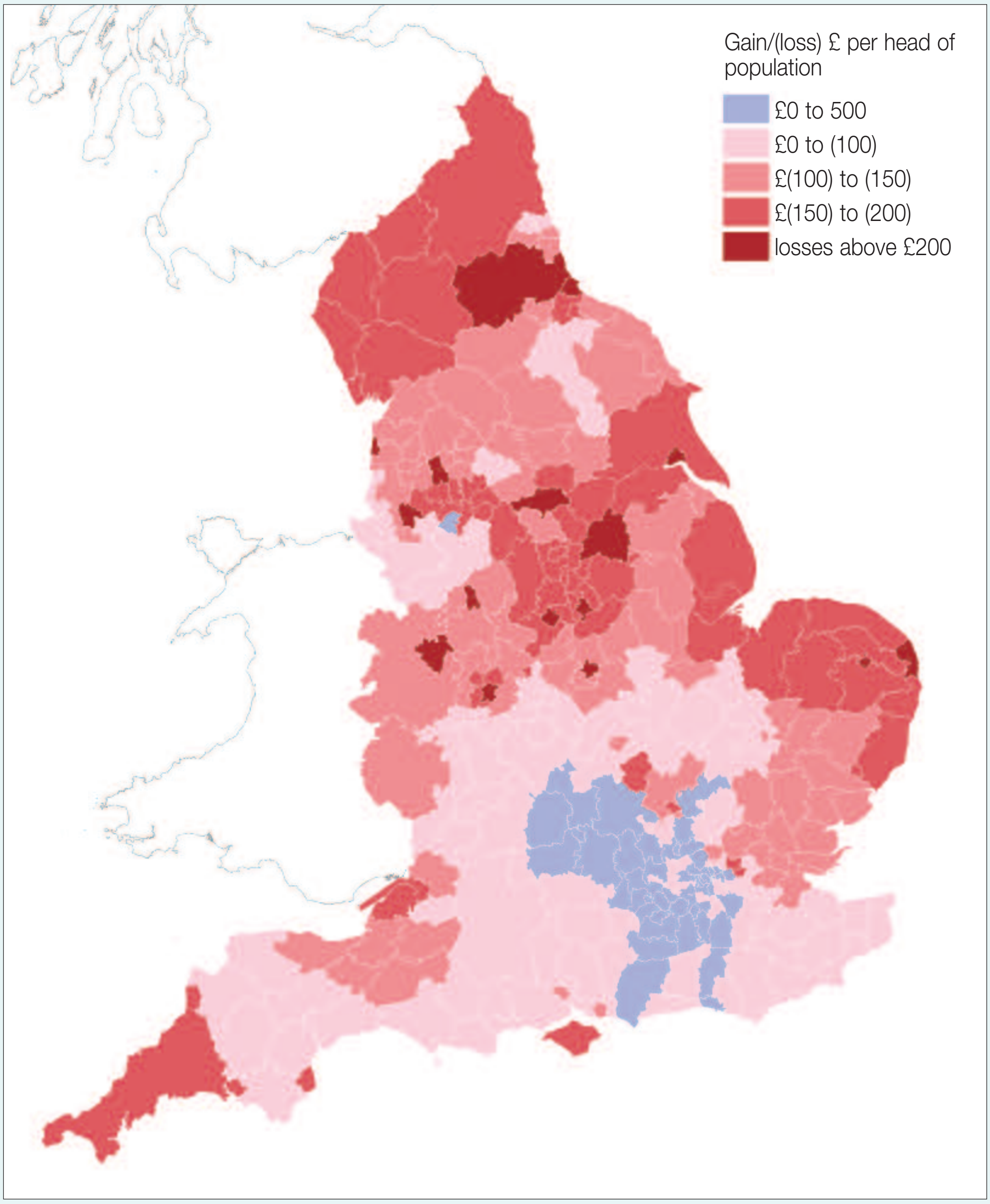
Detailed analysis shows that:

- In the last three years, a net £235 million has been added to the budgets of London and the South East.
- Every other region has shared in a net £4.5 billion cut in resource.
- This doesn't take account of the £4.6 billion from which London and the South East have already benefited between 2008 and 2010 from damping and health grant.
- SIGOMA authorities make up 15 out of the 20 worst affected authorities.

The individual extremes of winners and losers which underlie the averages, are illustrated in the following map.

[9]*Excludes police and single tier fire authorities. Population is 2013 projected.*

Impact of local government finance cuts 2012 - £ per head



2013-14 Settlement and future changes

Having considered the impact of Government actions and initiatives to date we will now move on to outline and then analyse the likely impact of the Government's next raft of funding proposals, considering 2013-14, 2014-15 and future years up to 2017-18.

Changes to the system in 2013-14

Of major concern from 2013/14 is the introduction of a system that will allocate funding based on the ability of individual authorities to grow businesses and build houses.

Whilst the current system is flawed it is at least driven by allocations based on evidenced need and ability to pay and takes account of the increasing or decreasing resources of authorities.

This "needs based" approach will however disappear from 2013/14.

It is felt inevitable that as a result the gaps between the most affluent and most needy will widen even further.

The new system begins by setting a one-off allocation of settlement "Start up Funding", using the demographic needs data and formula from 2012.

Each Authority will receive a "Start up" funding allocation comprising three basic components:

- Half of its own locally collected Business Rates
- A top up received from, or tariff paid to, Government
- Revenue Support Gant (RSG) from Government

"Start up" funding allocations will not in themselves distort the funding inequalities between authorities. In fact the initial outcome supports the Government's assertion that no authority would lose shares at the beginning.

The 2013-14 Settlement

As expected the 2013/14 Settlement contained further reductions to local government funding - an average reduction of some 3.9% being felt across the sector[10]. The following should be noted:

- The average reduction of 3.9% does not reflect the 10% reduction on Council Tax benefit added into the settlement total which will impact disproportionately on the poorest authorities.

- Damping grant is still a huge distortion. £524 million is taken from needy authorities[11] to maintain the income of others. A net £45 million is taken from SIGOMA authorities. Worryingly, damping is now built into the Business Rate Retention scheme.

- The Resource block in formula, which removes funding according to Council Tax resource, has been increased by 5.8%. The additional funds generated of £1.2 billion have however been allocated to authorities per capita, rather than according to needs as was suggested by members of the consultation group. Again this is frozen in the new scheme.

- The settlement amount is not certain. Each authority depends in part on its local Business Rate income to attain the settlement total (explained further in later sections).

- The reduction incorporates significant topslices for New Homes Bonus (£500 million), capitalisation (£100 million) and safety net (£25 million). These reduce allocations based on need.

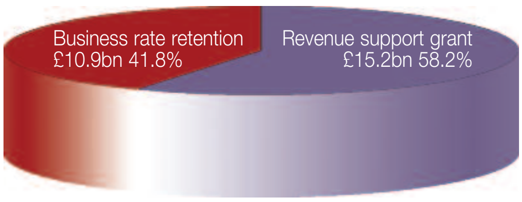
The real impact of the new system will however become more apparent if we consider the 2014/15 provisional Settlement.

[10]Calculated after taking account of £8billion of new grants rolling in
[11]Within EDUPSS authorities

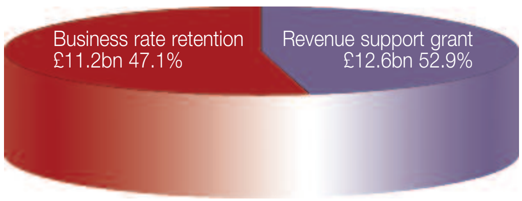
The 2014-15 provisional settlement

The Settlement total of £26.1 billion in 2013-14 reduces by 8.4% to £23.8 billion in 2014-15.In addition the amount set aside to pay for Business Rates retention increases. The effect on Revenue Support Grant (RSG) is shown by the following two pie charts.

2013-14 Resource £26.1bn



2014-15 Resource £23.8bn



There is an average reduction in RSG of 16.8% between the 2 years. What is not evident from the above is that every authority loses RSG at a different rate due to scales set arbitrarily by the Government. Hence SIGOMA authorities lose by 17.3%, with the worst hit being Coventry at -18.2%. Selective percentage reductions on elements within RSG are possible under the new system without justification and without reference to needs or fairness.

Moreover the change in 2014-15 (unlike 2013/14) will take no account of changes in population or needs. In fact according to our analysis the trend is for a higher reduction to the more deprived authorities.

In addition the amount set aside to pay for Business Rates retention increases by 3.1% which reduces the amount set aside for RSG. Not only does this impact on authorities with the biggest needs **but any authority not achieving a 3.1% growth in Business Rates will suffer a further cut.**

This is contrary to Governments' own Policy Statement.

In summary, the main issues are:

- **Funding shortfalls caused by variations in Business Rate income compared to estimates.** Less worrying for prosperous authorities with a strong business rate base but a major concern for those authorities with stagnant or declining economies.

- **An increasing portion of funding will depend on Business Rate performance rather than need.** As the overall settlement total reduces, RSG will reduce on a £ for £ basis. As a result, authorities with higher demand for services face the greatest problem.

- **Only authorities with Business Rate increases above RPI keep pace, some will lose in cash terms.** In 2014-15 Government take away an assumed increase in Business Rates, taking more away from those in need.

- **Government manipulation of RSG reductions.** Selective percentage reductions on elements within RSG are possible without justification and without reference to needs or fairness. This is apparent in 2014-15.

- **Authorities carry a greater burden of risk on nationally determined issues -** such as charitable relief and appeals on Business Rates, which reduce income to the authority.

Modelling the future: 2014-15 and beyond

The previous section highlighted SIGOMA's concerns around the new BRR system, particularly its failure to recognise need.

Going forward we fear that there will be a significant deterioration in income for those authorities who are dependent on receiving a higher proportion of income from Council Tax and a low or weak Business Rate base.

In order to test this SIGOMA has modelled the impact of the new system on income generation through from 2013/14 to 2017/18. In doing this we have used the following assumptions:

- RPI at 2.4% per annum from 2015-16.
- Decline in start up funding of 8.6% to £22.5 billion by 2017-18.
- New Homes Bonus topslice increases to £1.6 billion by 2016-17.
- Council Tax increases at 2% per annum from 2015-16.
- Varying Business Rate growth based on past 5 years movement.
- Pooling offsets ignored.

Prior to outlining the results of the modelling exercise it's perhaps worth outlining our key concerns around the system post-2014/15:

Future lack of ability to grow Council Tax

- Government are likely to continue to exercise control over authorities' ability to raise funds via Council Tax.
- Keeping increases at below RPI levels will inevitably result in a real term decline.
- This will be compounded by the impact of localisation of Council Tax Support in 2013-14 which reduces Council Tax bases.

Future reductions in RSG

- Using Government predictions of reduced Departmental funding the inevitable conclusion is continued reductions in start up funding.
- Any future reductions in funding will impact £ for £ on RSG, as is seen in the 2014-15 provisional Settlement.
- If RSG is reduced by Business Rate growth using an average rate, this will further disadvantage weaker authorities who cannot achieve the same growth as stronger ones.
- Of equal importance for future settlements will be increasing topslice for New Homes Bonus. This will increase from its 2013-14 level of £400 million to an estimated £2 billion at its peak. By 2015-16 NHB will be funded entirely by local authority topslice, unless policy changes.

Taking the above factors into account we have modelled a reduction of 23% in RSG by 2017-18. Other commentators have suggested higher funding cuts than this[12].

Relative share of Business Rates

Even if all authorities grow Business Rates at an equal percentage, the different size of rate base, relative to total income will leave some authorities at a disadvantage as the following table shows.

Business Rates as a proportion of total income[13]

[12]25% cash term cut in total funding was suggested by Tony Travers for the Local Government Chronicle 21/3/2013. This would reduce RSG by 34% over the same period, other things being equal.
[13]Total income is start up funding under business rates plus Council Tax.

Future lack of ability to grow business

Authorities in areas of high dependency but low Business Rates income will struggle to offer incentives for business growth. This may result in them becoming trapped in a cycle of declining/stagnating income and localised increased demand for support from residents, falling behind other authorities.

This will have a direct impact on the ability to fund local services.

In the last four years the increase or decrease in Business Rate income by authority varied from +11.8% to -4.7%. Comparing rate growth to RPI over the 4 years:

- London Boroughs were higher than RPI by 0.63%
- South East authorities were higher by 0.15%.
- SIGOMA authorities were 0.5%.lower

We have used the individual data to model rate growth in the future.

SIGOMA's modelling exercise: The outcome

Our modelling exercise projects a reduction in total income of £2.9 billion in cash terms between 2013-14 and 2017-18. This is around 6.5%.

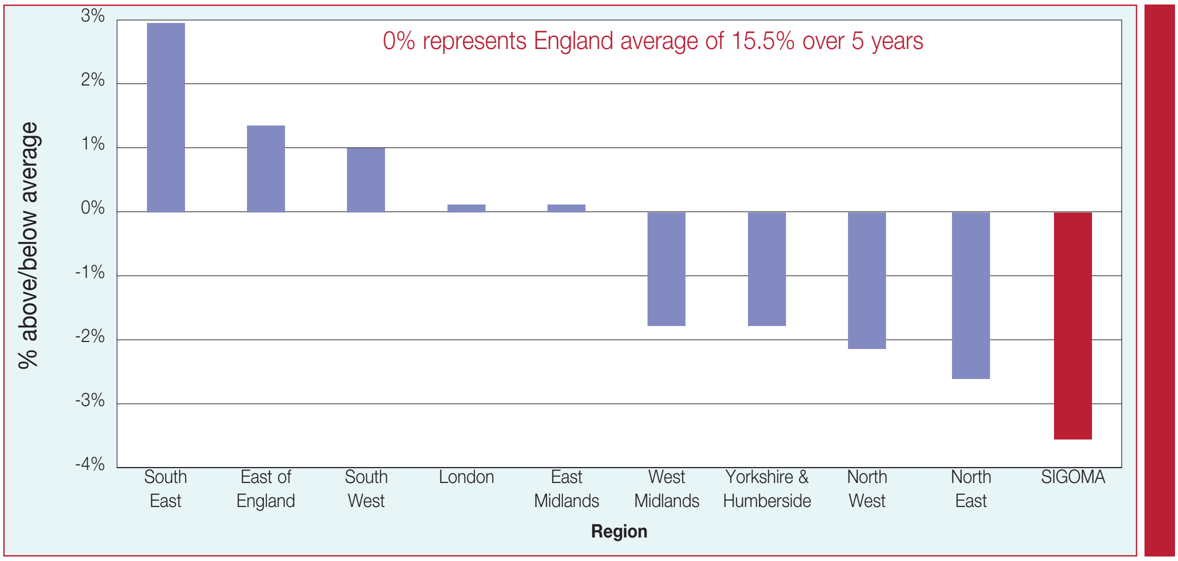
In real terms we expect the impact to be much worse. We estimate an overall real term loss of 15.5%.

The regional variance is shown in the chart below. It measures variance above or below the average loss of -15.5%.

The chart clearly shows that some regions fare better than the average, for example South Eastern authorities at -12.7% are better by +2.8%. Other regions show below average performance.

SIGOMA authorities are 3.2% worse than the average.

Change in total income[13] relative to the national average over five years - (using historic rate growth trends)



Other facts that have emerged from the modelling exercise are:

- £380m of a projected £441 million paid out as Safety net over the years would be used to support high rate bases of Tariff authorities.
- 42 of the 45 SIGOMA members are worse than the national average of 15.5% under this scenario
- 10 SIGOMA authorities would be amongst the 58 authorities losing by 20% or more.
- Already, in 2013-14, some authorities such as Manchester and Hammersmith have Business Rate estimates that are below the Government estimates and will lose funding in 2013-14 as a result.

The detail at authority level is shown in the following table of "high and low real term losses". SIGOMA are represented in the lowest 5 by Manchester and Nottingham.

[13] *Start up funding plus Council Tax*

Single tier authorities real term income losses - high and low

Authority	Business Rate growth in last four years* annual %	Real term loss £m	Real term loss %
West Berkshire	11.9	-7.3	-5.9
Wokingham	6.6	-10.9	-9.3
Rutland	3.7	-3.5	-10.8
Windsor and Maidenhead	3.8	-10.6	-10.9
Cheshire East	3.8	-31.5	-11.1
Southwark	3.0	-77.0	-21.3
City of Nottingham	2.0	-70.4	-22.0
Hammersmith and Fulham	4.1	-45.7	-22.1
Wandsworth	1.7	-50.4	-22.2
Manchester	2.3	-128.4	-23.4

So we see a realistic scenario where:

- Manchester who are ranked 4th on the IMD[14] lose 23%,
- Nottingham ranked 20th on the IMD lose 22%,
- West Berkshire ranked 288 on the IMD lose 6% and
- Wokingham ranked 325 on the IMD lose 9%.

Even assuming the same percentage growth for all authorities there would still be wide variances in projected total income. Authorities with a larger Business Rate base will be an advantage.

Single tier authorities real term losses with equal growth in Business Rates*

Authority	Real term loss %
West Berkshire	-10.1
Wokingham	-10.0
Rutland	-10.4
Windsor and Maidenhead	-10.3
Cheshire East	-10.7
Southwark	-20.5
City of Nottingham	-20.5
Hammersmith and Fulham	-22.1
Wandsworth	-21.0
Manchester	-22.1

**(RPI +1%.)*

The mechanism that the Government have set in train will bring about the above results and perpetuate them until 2020, without any further action by Government.

In short, the poorest regions and the poorest in society will pay whilst others gain.

[14]Index of multiple deprivation 2010 a measure of relative prosperity published by DCLG.

Further changes: Further inequality

In addition to the changes to local government funding highlighted above, the Government are introducing a number of Benefit and Welfare reforms – some examples of which are explained below.

Worryingly it appears that once again these will impact adversely on the poorest and those in greatest need in society.

Localising Council Tax Benefit

From 2013 onwards Councils will become entirely responsible for the former Council Tax Benefit, officially referred to as Council Tax Support.

Under the revised arrangements Government will pass on a fixed grant, at a reduced amount from which local authorities will be expected to fund a demand led budget.

This is likely to have a significant impact on local authorities and Council Tax payers alike.

It will mean that authorities will have to introduce their own local discount schemes creating a “postcode lottery” of discounts.

Those authorities in deprived areas will be hard pressed to bear the cost of such schemes from existing resources. It is inevitable that they will need to ‘pass on’ reductions in funding.

The direction from Government that pensioners must be protected from any changes will almost certainly mean that the brunt of the total reduction will fall on poor people of working age.

Government has taken no account of the proportion of pensioners in each authority when setting the grant.

Although a headline reduction in funding of 10% has been announced, the Government has already incorporated assumptions of a reducing number of claimants. This means that the cut in cash terms is actually greater, based on 2011/12 figures, nearer to 11.4%.

The Government prediction of falling claimant numbers is not yet reflected in actual data and claimant numbers are still rising.

Despite Government protestations to the contrary, this grant has already been cut by a further 10% in the 2014/15 provisional settlement and will without doubt suffer even further cuts.

The following table illustrates why some authorities find it easier than others to absorb the cut in support within their annual budget. The cut represents a much greater proportion of Council Tax Requirement for authorities such as Hackney and Liverpool than it does for Hart and Wokingham.

SIGOMA authorities make up 23 out of the 50 worst affected.

Individual authorities - Highest and lowest impact of cut as a % of Council Tax requirement

Council	Under 65s claimants Number	Total cut impact £million	Cut per under 65 claimant £	Cut as a % of Council Tax requirement %
Hackney	30,036	4.0	132.03	3.93%
Liverpool	49,409	7.0	142.98	3.70%
Knowsley	15,756	2.3	147.18	3.68%
Newham	27,305	3.5	128.32	3.63%
Manchester	51,129	5.7	110.64	3.39%
South Bucks	1,579	0.4	235.76	0.76%
South Northamptonshire	1,714	0.4	217.10	0.75%
Mole Valley	2,164	0.4	205.67	0.72%
Surrey Heath	2,016	0.4	205.50	0.71%
Hart	1,687	0.3	202.01	0.61%
Wokingham	3,165	0.6	184.99	0.61%

Cutting benefit will without doubt affect worst those areas with the highest proportion of claimants. It will contribute towards increased costs of collection for affected authorities, whilst also directly impacting on issues such as homelessness, repossession and eviction for those living on the margin.

Incapacity Benefit reforms

By March 2014 all existing Incapacity Benefit claimants will need to go through a new, tougher, evaluation which will lead to many claimants being removed from the new benefit system.

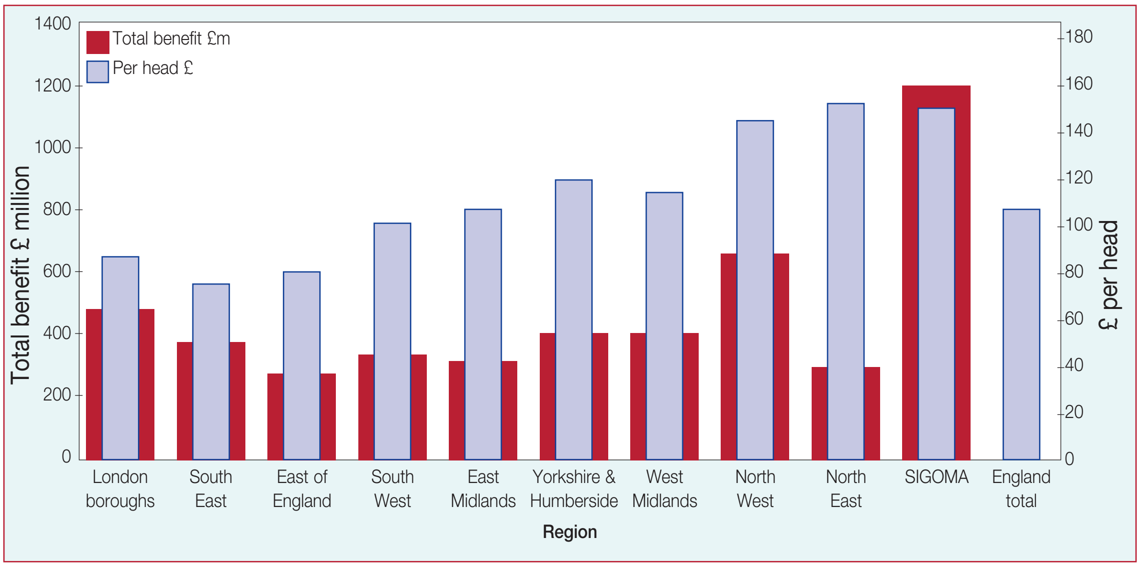
A detailed examination of Incapacity Benefit changes was undertaken by Sheffield Hallam University in November of 2011[15]. In the words of that report:

"...incapacity benefit claimants are far from evenly spread around the country. In Britain's older industrial areas, in particular, the share of adults of working age claiming incapacity benefits often exceeds 10 per cent. By contrast, in large parts of southern England the claimant rate is far lower, typically 2-4 per cent. What this means is that the incapacity benefit reforms are poised to have a far greater impact in some areas than others, and it is Britain's most disadvantaged communities that will often be hit hardest."

A later report by Sheffield Hallam[16] estimated that by 2015-16 the lost benefit in England would be £3,520 million a year, £103 per head of working age population on average.

Of this total, ***£1,240 million, would be born by SIGOMA authorities. SIGOMA authorities would lose an average £148 per head[17].***

Where will Incapacity Benefit fall?
Regional picture, in total and per head of working age population



More detailed analysis of the regional data highlights the Government's failure to consider our most vulnerable communities.

[15] *Incapacity benefit reform - the local and regional impact. Christina Beatty and Steve Fothergill.*
[16] *Hitting the poorest places hardest. The local and regional impact of welfare reform. Christina Beatty and Steve Fothergill.*
[17] *Calculated by SIGOMA, using Sheffield Hallam data.*

Local impact of Incapacity Benefit - high and low

Authority	Estimated lost support £ million	Lost support per head of working age population £ per head
Knowsley	23	242
Blackpool	19	216
Barrow-in-Furness	9	211
Stoke-on-Trent	32	200
Barnsley	29	197
Merton	7	48
Rutland	1	43
Richmond upon Thames	5	42
Kingston upon Thames	5	42
Wokingham	4	35

Cutting benefits without a concerted retraining and deployment programme will not of itself resolve localised dependency issues. It is more likely to result in highly reactive and expensive spend to deal with a range of social and health issues as they emerge.

Wider impact of welfare reform

Incapacity benefit reform is not the most significant reform, nor the one with the highest financial impact. An overwhelming wave of welfare reforms will hit the country over the current parliamentary period and beyond, these include:

- Changes to support for private sector rentals
- Reduced benefit for “under occupation” of housing
- Increased deductions for non-dependent household members
- Reduction in Council Tax benefit
- Disability living allowance – harder qualification test
- Incapacity Benefit reductions
- Child Benefit freeze and rule changes
- Reduced Child Tax Credit and Working Family Tax Credit
- Replace CPI inflation with 1% cap on benefits

The financial impact of these reforms have been evaluated in the report by Sheffield Hallam University . The report considers the impact by 2014-15.

The report projects UK savings for Government of almost £19 billion a year by 2014-15 - an average of £470 per working age adult in England . The cuts do not however impact equally across the country as the following table extract illustrates.

Overall impact of welfare reforms by English region at 2014/15[18]

Authority	Estimated Loss £m p.a.	Loss per working age adult £ p.a.
North West	2,560	560
North East	940	560
London	2,910	520
Yorkshire & Humberside	1,690	500
West Midlands	1,740	490
East Midlands	1,310	450
South West	1,440	430
East of England	1,490	400
South East	2,060	370
England Total	16,140	470
SIGOMA	**4,796**	**570**

SIGOMA authorities are amongst the worst affected in the country, with Blackpool being the overall worst losing £910 per capita, closely followed by Knowsley (£800), Liverpool (£700) and Rochdale (£680).

This creates challenges for individuals and will also remove funding on a large scale from some local economies.

Beyond the direct financial impact there are wider considerations for authorities including:

- Demand for support services of health, debt, housing and finance and childrens and adult welfare services
- Migration patterns of benefit claimants from high cost into low cost housing areas
- Increased cost of evictions, debt collection and vagrancy
- Overwhelmed charitable support services
- Emergency every day living support impact
- Increased crime.

The Sheffield Hallam report concludes:

"There is a clear and unambiguous relationship...as a general rule the most deprived local authorities are hit hardest. The loss of benefit income, which is often large, will have knock on consequences for local spending and thus for local employment, which in turn will add a further twist to the downward spiral. A key effect of the welfare reform will therefore be to widen the gaps in prosperity between the best and worst local economies in the country".

The Sheffield report highlights the devastating regional impact of the measures. Information which the Government is not providing.

Support for regional economic development, welcome though it is, must be evaluated along with the local economic impact of welfare reform and other measures. For example, the total in Lord Heseltine's[19] single funding pot proposals work out at an average of £12.3 billion a year, compared to the estimated £19 billion lost in local economies from welfare reform.

Who will be the winners and losers when the effects of welfare reform and regional development are considered together?

[18]An extract from table 4 of the Sheffield Hallam report. The SIGOMA values have been calculated using data underlying the report.
[19]In pursuit of growth - The Rt Honourable Lord Heseltine.

Each of the Government initiatives referred to in this document will undoubtedly have a significant future impact on all our local economies.

When considered as a whole, as illustrated in the table below, their impacts are extremely disturbing. Our analysis shows a further shift in support away from communities most in need towards those requiring it the least.

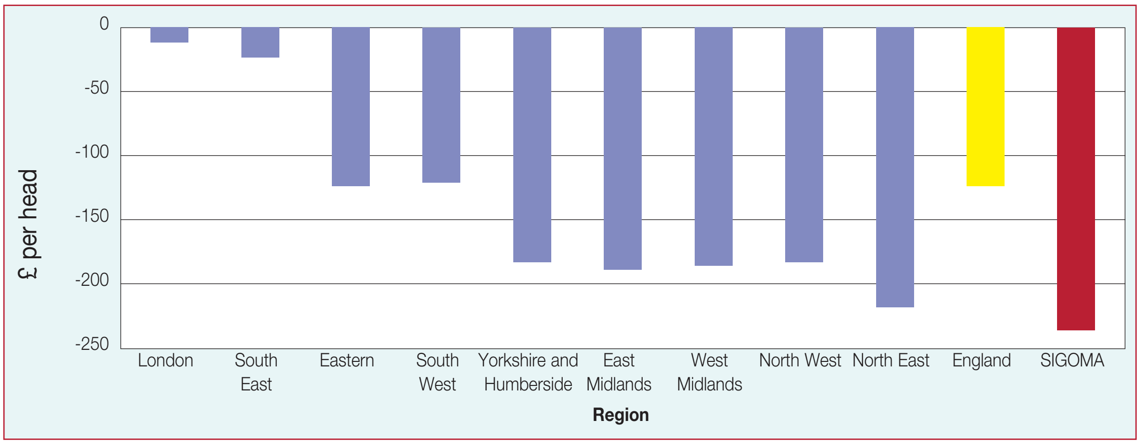
Projected impact of funding cuts and distributions by 2017-18 Nationally and on SIGOMA authorities*

Cut	England £m	SIGOMA £m
Up to 2012		
Emergency cuts	-447	-164
Formula cuts to 2012	-4,491	-1,289
Damping	-	-275
New Homes Bonus distribution	-	-74
Council Tax freeze distribution	-	-118
Health Distance from Target	+404	-153
From 2013 to 2017-18		
Reductions in Start up Funding	-4,187	-1,356
Increases in Council Tax	1,168	230
New Homes Bonus increase	1,000	173
Total Impact	**-6,553**	**-3,026**
	£	**£**
Impact £ per head	**-121.8**	**-231.9**

**Figures are a combination of the impact to 2012 and the projected impact by 2017-18.*

SIGOMA authorities make up 17 out of the 20 worst affected authorities on this basis. The relative impact on SIGOMA is illustrated in the Regional table.

Loss per head 2017-18 - Summary by Region[20]

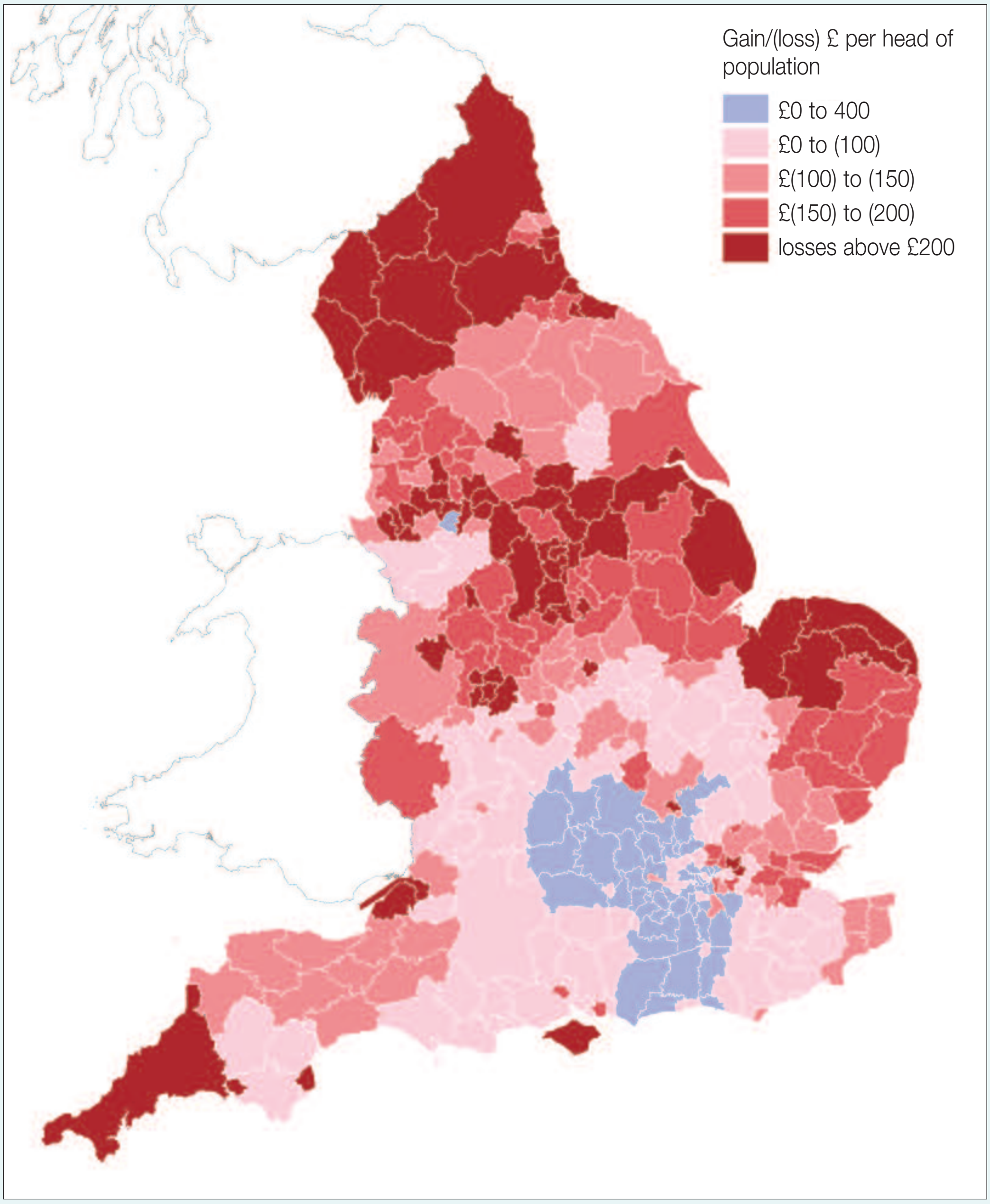


A map of the impact per head across England , overleaf, illustrates the regional differences highlighted above in more detail. It shows the individual authorities that bear the greatest and the least impact of the cuts.

[20]*Excludes police and single tier fire authorities. Population is 2013 projected*

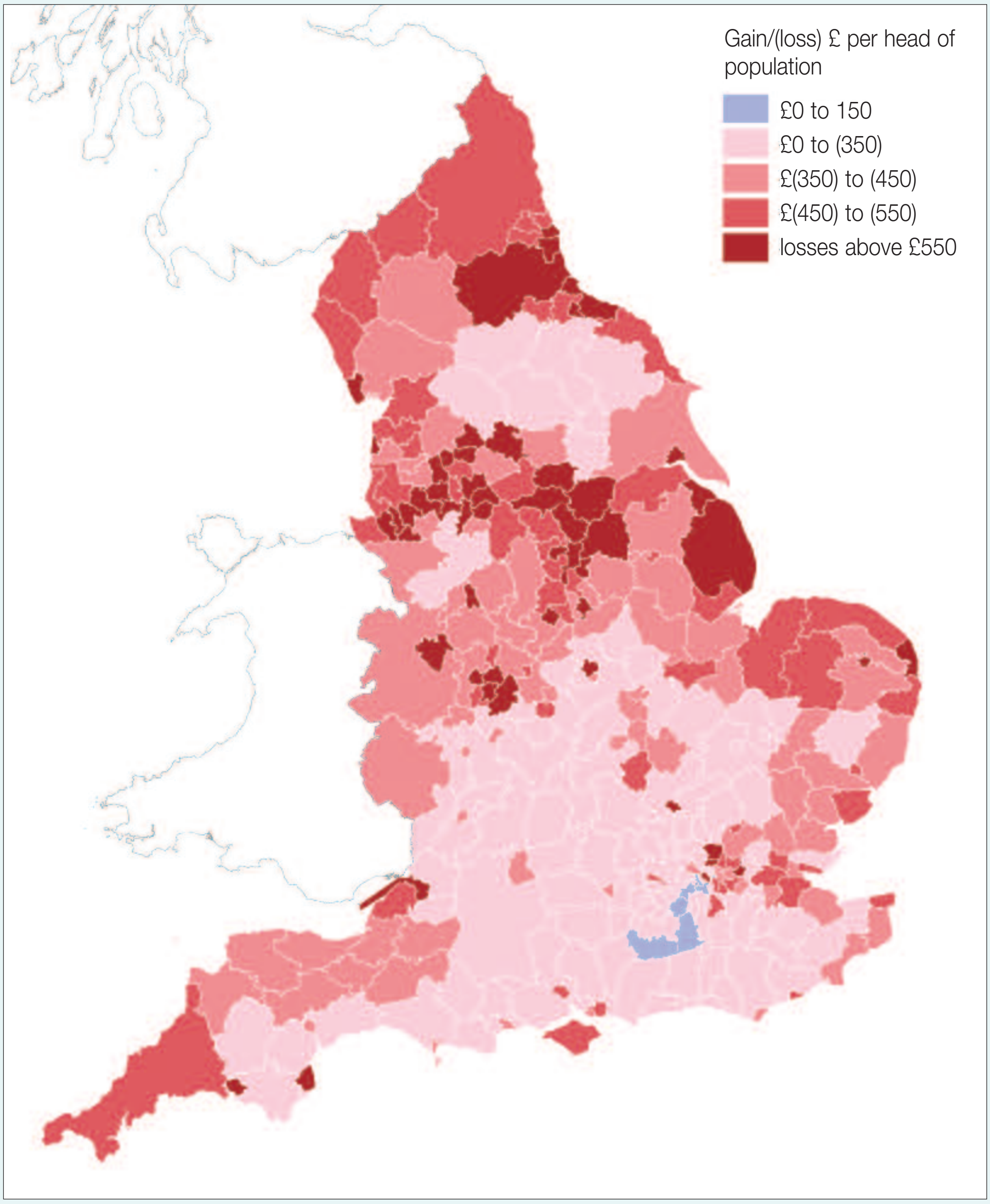
Overall future potential impact

Projected impact of local government finance cuts by 2017-18



The map combines the impact of the cuts at 2012 with our projected impact by 2017-18. Examination of individual examples within the bandings cause even more concern, with differences of over £700 per head between those least and worst affected.

Combined impact in 2017-18 welfare reform and local government finance



The map combines loss per head at 2012, the projected impact modelled for local authority settlements by 2017-18 and projected welfare reform impact. The map shows at a glance the concentration of cuts in the poorest regions of the country whilst the South and South East are protected. It is also apparent that the disparity is increased. The steps in the key are measured in £100 increments. The gap between the least and worst affected exceed £900 per head.

The profile of who will win and who will lose from the changes is evident in the two maps.

Authorities with the greatest demand on resource and least well placed to sustain a recovery will lose out to the benefit of some of the most economically self sustaining in England.

Worryingly, the above analysis is not based on the most pessimistic outlook being suggested. Since the 2013 Budget projections of a 25% cash terms cut in total funding by 2017-18 have been offered by commentators, based on the implied DEL figures contained in OBR estimates[21].

Based on a 25% reduction our model suggests the overall reduction would be a further £1.8 billion worse than the total shown on page 26.

At £8.4 billion the effect on SIGOMA would be a loss of around £3.9 billion, an even greater proportion.

Combining the results of welfare reform cuts with cuts in direct funding to authorities underpins and emphasises the re-distribution that is taking place, as is seen in the map of loss per head. It shows that the differences in allocation will over a short period of time, threaten the economic existence of regions on a widespread basis.

This is not only SIGOMAs view. In their November 2012 report[22], the Audit Commission in commenting on prospects for future financial health said that they felt that the majority of councils were well placed to cope financially, but there were some concerns, namely:

- 12% of councils were identified as representing an ongoing risk
- A further 25% of councils represent a future risk ie they are well placed to deliver their 2012-13 budget but less so for the remainder of their medium term financial plan.

To put it another way, one third of councils have a risk of financial failure in the medium term under the current financial proposals according to the Audit Commission

[21]Table B4 - Office for budget responsibility 'Economic and fiscal outlook'.
[22]Councils' financial health in challenging times.

Working together for a fairer future

We strongly urge Government to evaluate and temper the mechanisms described above in order avoid the devastating impact they will have on our communities.

We are clearly not "all in it together". In fact according to a recent survey[23], only 27 percent of the British public think that the pain of the cuts is being shared equally.

SIGOMA believe that the right way, the only way, to address the acknowledged national problems is through consensus.

At the height of the current financial crisis the Government saw the rescue of failed banks as an essential action for the benefit of the national and international economic community, yet cannot seem to perceive the support of local economies as being a future benefit for the nation as a whole.

As part of the budget 2013 the Government has recognised the recommendations of Lord Heseltine and we await the detailed outcomes of the resources that will support that recognition. In the words of Lord Heseltine.

"The country was not made powerful and wealthy by London. It was made wealthy by major industries in places such as Manchester, Leeds, Birmingham and Bristol".

We appeal to Government not to turn its back on those towns and cities that have made the country wealthy nor on the individuals who have the misfortune to live in the wrong place during difficult times.

SIGOMA calls on the Government to help regenerate weak local economies, not only for their benefit but in the interest of the wider economy. We have illustrated that a great deal could be done whilst still giving to others what they need and by recognising strong local economies as a sign that less support is needed, not more.

Before its too late Government need to recognise the inequities their reforms are going to cause and take the necessary action to reverse them.

This document contains evidence that clearly demonstrates the injustices that have taken place and will be made worse under the proposed funding regime.

We would welcome, firstly a rational measure by Government of the holistic effect of their policies and, secondly engagement with those most affected about a fair method for redressing those imbalances to give a fairer future for all.

[23]ComRes survey reported in the Independent. The same survey reported that 61% actually disagree that cuts are being shared equally.

Sources

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9 Tony Travers for the Local Government Chronicle "The Budgets Great Unloved" 21 March 2013.

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11 The Rt Honourable Lord Heseltine. In pursuit of growth Oct 2012.

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SIGOMA

SIGOMA

PO Box 609

Barnsley

S70 9FH

Telephone: 01226 773101

Email: enquiries@sigoma.gov.uk

www.sigoma.gov.uk

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