

SIGOMA

DRAFT RESPONSE TO THE CONSULTATION ON THREE – YEAR REVENUE AND CAPITAL SETTLEMENTS

SIGOMA is a special interest group of 46 Municipal authorities located outside London and is a recognised special interest group within the LGA. Its membership comprises 35 metropolitan districts and 11 major unitary authorities, which meet its membership criteria. The combined population of SIGOMA authorities amounts to over a quarter of the population of England and its member authorities account for over 25% of English local government expenditure.

SIGOMA welcomes the Government's commitment to considering opportunities for achieving improvements in both the predictability and stability of funding for Local Authorities.

SIGOMA members have previously been supportive of initiatives that improved both timeliness and transparency in the publication of detailed information required to assist the longer term financial planning undertaken within our organizations, and would wish to work with Government on developing such mechanisms further.

It is vital for Government to improve the degree to which resources can be relied upon, only then can local authorities improve their ability to engage in forward planning. To illustrate, FSS Control Totals published in Spending Reviews are not adjusted for service and specific grant transfers - the absence of such information means that the headline figures are an unreliable basis upon which to plan. Similarly, by applying the grant methodology 'freeze' to the FSS formula but not the wider revenue support grant calculation, the benefits of the three year moratorium have been inhibited - the unexpected announcement of the abolition of grant ceilings in 2005/6 is a case in point.

Changes addressing issues such as those above would result in improved predictability and stability, and would at least go some way towards giving local authorities sufficient assurances for them to place greater reliance on the three year budget plans they are to produce, whether or not the Government goes as far as implementing the system set out in the consultation paper.

FORMULA GRANT SETTLEMENT

Question 1:

In the Government's view there is merit in considering a system involving a basic ("floor") increase for each type of authority and a variable top up depending on characteristics of each authority. Views are invited on the future shape of the formula grant system for three-year settlements.

SIGOMA believes that there are two key issues that need to be addressed alongside the development of 3-year settlements as they may potentially have a significant impact on the way forward.

- *Firstly the outcome of the Lyons review may result in a shift in the balance of funding and therefore a reduction in the overall significance of government funding.*

- *Secondly the proposals for the future funding of education, it is important that there is consistency of approach if the benefits expected from changes are to be realised.*

SIGOMA is concerned that despite the recent major review of the formulae used to distribute resources the Government now appears to be considering an alternative approach.

SIGOMA believes that a crucial element of achieving successful and acceptable 3-year settlements will be ensuring that the 'base level' assessment of need is robust and fair.

Whilst supporting in principle the continued use of a basic floor increase the final level needs to be established on the principle of protecting authorities that would have lost resources due to changes such as population decline rather than as currently happens in Education to negate the needs element of the formula.

It is also appropriate to point out that any change in the method of grant funding provides the opportunity for any proposed floors to be financed from outside the system (thus allowing authorities in general the full amount of resources that the formulae dictate). SIGOMA would welcome a consideration of the latter and also takes this opportunity to emphasise that the present funding system (which scales back grant to resource the floor) is especially unfair to highly geared authorities, who rely much more on grant – as a consequence, any scaling back of their grant increases affects a much higher proportion of their overall resources.

Question 2:

Views are invited on when changes in the grant formulae, data and funding totals should be allowed to happen.

SIGOMA would agree that if the proposals are to deliver predictability and certainty, it would appear sensible to continue to freeze formulae changes over the period as currently happens. The maintenance of the formulae throughout a cycle is not inconsistent with the current formula moratorium although planning would be helped if the changes proposed for the next spending review period could be exemplified as early as possible.

It would also appear reasonable that the data and funding totals used in the allocations should also only be updated at the end of the period. This however will only be acceptable providing that the proposals for forward projection of data is considered to be robust and mechanisms for additional resources to be provided through specific grants where necessary.

Question 3:

At this stage, the Government believes that the best way forward would involve using some form of forward looking data for population and council tax base and frozen multi year averages for other data items. Views are specifically sought on when, how and how far to update the data used in the formulae.

Whilst in principle SIGOMA would agree that in order to achieve a balance between fairness and predictability some form of forward projection for the major data sets appears reasonable, this will only be acceptable if robust mechanisms and extrapolation techniques can be agreed – forward projection are essentially estimates, and are inherently unreliable

to varying degrees. The risk associated with data set projections must be minimised in order to give credibility to the levels of funding proposed.

In addition, some corrective mechanism would probably have to be adopted to bring the data into line with census figures or other relevant statistics periodically – indeed, there would need to be interim methods of adjusting for tax base changes or confirming the tax base used within the grant system, in between major revaluations.

Question 4:

In the Government's view no retrospective amendments to the formula grant settlement as a rule is likely to be the best option, though it is possible that these could be considered if a major systematic error were discovered. Views are invited on this issue, and on whether floors should be set at higher levels in change years.

SIGOMA would agree in principle that retrospective adjustments would negate the benefits of three years settlements sought. However this will only be feasible if the data projections are robust so that differences are minimal. Clearly there needs to be a mechanism to address major errors as we now have with amending reports.

If the floor mechanism relates to grant in previous years then SIGOMA is not sure why higher levels should be necessary. There appears to be no good reason why the floor in change years should be higher than in normal years – a minimum increase in overall resources should be made adequate whether or not there has been a change to the funding formula.

Also, having a higher grant floor in the change year would mean that change within the system, already slow from freezes, would become even more sluggish. As well as being counter to the principle of equalisation, this would unduly reward those authorities for whom the freeze represented a favourable position, and penalise authorities that were receiving either the correct amount or less than the correct amount of grant. A higher floor than previous would also result in those authorities above the floor contributing a larger proportion of their funding to supporting the floor that would otherwise be the case if the threshold was held at the same level.

SPECIFIC REVENUE GRANTS

Question 5:

For three-year settlements to work effectively, specific revenue grants need to move to a three-year basis unless there are compelling reasons which suggest an alternative approach for particular grants. To this end, the Government invites views on:

- whether there are ways in the which categories identified above could be better incorporated into a three-year framework; and
- whether the types of grants identified are indeed those where allocation on a three-year basis would be most difficult.

Whilst SIGOMA would agree that there are grants that may not fit a three- year approach, we do believe that information on potential grant levels and criteria over the longer term could be improved, and more clearly signaled in advance.

The grants identified do not generally support the core services of the authority and therefore expenditure can be more easily varied in relation to grant.

Question 6:

Views are invited on the Government's proposals for increasing predictability of annual grants.

SIGOMA would welcome the proposals and would wish to see, at the very least, the publication of national totals of all specific formula grants, together with their allocation mechanisms and eligibility criteria. However, should this information be announced annually, it would severely inhibit the forward planning advocated by the proposals within the consultation document.

CAPITAL ALLOCATIONS

Question 7:

Views are invited on the Government's proposals for treating bid-based programmes and performance rewards.

SIGOMA would agree that in the future bid-based programmes should be considered over the same time frame as the revenue settlements to improve predictability and joined up working

Performance rewards should be given on agreed criteria where the authority can judge over time whether it is likely to benefit and plan accordingly.

Question 8:

Views are invited on the proposed handling of funding for emergencies.

Clearly in any proposed system there needs to be capacity for dealing with emergencies and the proposals to retain a proportion of funding to deal with this appears reasonable. However, this must be evidence based with the capacity to 'recycle' funds not required into future settlements. Details on the administration of such a fund and the criteria for allocation should be published.

Question 9:

Views are invited on how major projects should be defined. Should there be one or more cash value threshold(s) and, if so, what value should they be set at and why? Or should thresholds be set as a percentage of an authority's on going capital programme? Or are there other approaches that could be used?

Another approach that could be considered is to have agreed thresholds for different categories of authorities; using a single threshold might disadvantage smaller authorities in that schemes they view as major might not cross the threshold level, and as such they would never benefit from any redistribution of slippage.

Question 10:

Views are invited on whether the benefits of three-year allocations would outweigh the advantages of the current arrangements for small bid-based programmes.

SIGOMA believes that unless there are compelling reasons for any programme of funding to be excluded from the 3-year approach it should be adopted. Arrangements to allow the payment of capital grants for 'emergencies' may resolve some of the issues raised

Question 11:

Views are invited on whether a move to capital grants for emergencies or large one-off projects would be helpful.

SIGOMA would support the use of capital grants to provide flexibility where required.

Question 12:

Views are invited on what more might be done to provide three-year certainty for PFI.

Financial forecasting would be improved if the national PFI top-slice from the Debt Charges FSS could be known in advance. SIGOMA would therefore welcome three-year announcements of this figure (as for any of the FSS sub-block control total).

In addition, proposed arrangements need to consider how to deal with funding 'released' as a result of slippage in PFI. Currently, slippage is redistributed to authorities through the existing system of annual funding allocations, but thought needs to be given to the treatment of top-slice over-estimates for PFI if a proposed system of three-year allocations is to proceed.

THREE YEAR BUDGET AND COUNCIL TAX INFORMATION

Question 13:

Views are invited on the proposed general approach to providing greater stability and certainty through the publication of forward indications of budget levels and council tax.

The majority of authorities currently undertake financial planning over the medium term that involves deliberation of future years budgets and tax considerations.

The introduction of 3-year settlements would obviously provide greater predictability of the resources available to authorities over the period but would not address the issues of need and local accountability.

Whilst indications of future budgets and tax levels may be seen as providing certainty to tax, it needs to be acknowledged that both will change due to unforeseen pressures, uncertainties (eg: relating to inflation and interest rate levels, changes in national tax and local demographics), and political decisions. It would be unacceptable to elected members to take all decisions for three years without potential to take on board ongoing local priorities and respond to changed circumstances in their own localities. Indeed, authorities unable to change the council tax level to reflect changed circumstances would be forced to seek to balance the budget by other means – most probably by reductions in service levels. In other words, proposed funding from central government, and guaranteed council tax levels from the local authority, would still be no guarantee of certainty to service users.

Perhaps, as with the prudential borrowing regime, expected ranges of council tax should be announced, rather than absolute indications.

Question 14:

Should there be legislation, similar to that which we are proposing for local authorities, requiring parish councils and levying bodies to publish forward projections of budgets and in the case of parishes corresponding figures for contributions to council tax to mirror three-year settlements?

SIGOMA would agree that in order to maximise the benefits of 3 year settlements it would be appropriate for such bodies to undertake financial forecasting on the same basis.

Question 15:

The Government believes that there should be a legal requirement to publish forward projections of budgets and corresponding figures for contributions to council tax to mirror three-year settlements. Views are invited on how this might best be achieved.

SIGOMA does not believe that a legal requirement to publish this information is required but that each individual authority is best placed to determine how better information about future plans should be provided within its community.

Question 16:

In the absence of a statutory basis for three-year budget requirements, the Government also invites views on the options for, and practicality of, a voluntary arrangement to the same effect, in advance of any introduction of a statutory basis.

SIGOMA believes that all arrangements in this area should be voluntary but strongly opposes the introduction of a voluntary system introduced “in advance of any introduction of a statutory basis”.

Question 17:

Views are sought on:

- what types of circumstance might merit alteration to three-year budget plans and council tax forecasts, consistent with the aims of transparency and stability underpinning three-year settlements; and
- what controls could be put in place to ensure that alterations are made only in these circumstances, on either a statutory or a voluntary basis.

SIGOMA is greatly concerned that the Government appears to consider that the improved predictability through three-year settlements will result in three-year plans that themselves are fixed.

There is strong argument that restricting the ability to alter three-year plans is tantamount to advance capping in Years 2 or 3 of the cycle, and will cause authorities to put aside contingencies in Year 1, which encourages council taxes to be higher in that year.

The determination of spending plans and council tax levels will always only be indicative as local pressures and priorities will change. Locally elected representatives must retain the ability to vary ‘plans’ without any further restraint from Government outside resources allocated and the potential for capping. Any controls would undermine local democracy and accountability.

To reiterate, budget plans and council tax forecasts must never be required to be more than broadly indicative. Authorities must always have the flexibility to address previously unforeseen pressures and to react to changing circumstances.

CONTEXT FOR IMPLEMENTATION

Question 18:

Views are invited on the merits of such an approach and its practicability.

It would be sensible to align LAAs with the cycle of three-year settlements, thereby making funding streams more predictable and better informing those parties that are linked to the agreement.

Question 19:

In the light of these issues, views are invited on how best to move to a three-year settlement for HRA subsidy

Within the HRA subsidy mechanism, indicative future subsidy levels (subject to changes in stock levels, inflation and deprivation data) would be appreciated.