

S.I.G.O.M.A.

*The Special Interest Group
of Municipal Authorities (Outside London)
Within the LGA*

RESPONSE TO THE PROVISIONAL 2007/08 LOCAL GOVERNMENT FINANCE SETTLEMENT

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Annex 1 – Specific Grant for Social Services Damping

1. BACKGROUND

SIGOMA AUTHORITIES

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 34 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. Its member authorities account for over 25% of English local government expenditure and SIGOMA members comprise most of the largest housing authorities in England.

SIGOMA is pleased to have the opportunity to set out its views in relation to the 2007/08 settlement, the second (and final) year of this multi-year period. These views are the result of consultation with our members, and aim to address the impact of the proposed settlement from the perspective of SIGOMA authorities that face their own particular issues.

OVERVIEW OF THE PROVISIONAL SETTLEMENT

SIGOMA's concerns with the settlement are set out in the following pages. They relate mainly to the poor settlement for our authorities in comparison with others despite our recognised needs, and to the continuing lack of movement towards the full allocation of resources in accordance with the revised system introduced in 2003/04 and updated for 2006/07.

An overview of the settlement shows the following increases:

	Actual Increase in Grant 2006/07 %	Adjusted Increase in Grant 2007/08 %
England	3.3	3.8
Inner London	3.2	3.6
Outer London	2.5	3.2
Metropolitan Unitaries (without Fire)	3.0	3.5
Shire Counties (without Fire)	6.8	7.6
Shire Districts	3.8	4.7
SIGOMA	3.1	3.7

Once again, SIGOMA authorities have received a relatively poor settlement for 2007/08, with 11 of our members being brought up to the floor of 2.7%. This is despite the recognition of our increased needs and the low tax bases that many of our authorities face.

It is clear that this settlement cannot fully reflect the underlying aspirations for improved and fairer public services, and so SIGOMA authorities call for improvements to be made and additional support provided for those not receiving the resources they have now been acknowledged as needing.

SIGOMA would also wish to reaffirm its opposition to the 4 block system introduced last year. The lack of identifiable fairness, transparency, simplicity and robustness within this system makes it difficult to assess the adequacy of settlements particularly with regard to high needs and low taxbase Authorities.

2. KEY CONCERNS OF THE 2007/08 PROPOSED SETTLEMENT

A) THE QUANTUM

Whilst the formula grant allocations made to authorities are identical to those published in January 2006, a fundamental difference between this recent settlement announcement and that at the start of the year is the increase in the contribution that business rates has made to the quantum of formula grant for 2007/08.

A comparison between the two announcements reveals that the distributable amount of National Non-Domestic Rates (NNDR) to be paid over to local government has increase by £1bn (or 5.7%) from £17.5bn to £18.5bn. Whilst this additional NNDR funding (provided by the Treasury) has been welcomed by local authorities, DCLG has chosen to reduce the level of Revenue Support Grant (RSG) by a corresponding amount so that the net effect on the overall quantum available to fund our local government services is zero. A summary of the resources so far provided is shown below:

	Provisional Settlement Jan 2006	Latest Announcement Nov 2006	Variance	
	£bn	£bn	£bn	%
NNDR	17.5	18.5	1	5.7
RSG	4.1	3.1	-1	-24.4
Formula Grant	21.6	21.6	0	0

Whilst DCLG may argue that this change in the balance of funding is to be expected, given that the contribution of revenue support grant to formula grant is a balancing figure, SIGOMA would argue that the £1bn RSG being held back had already been earmarked for local authority use (as part of the multi-year settlement announced last year), and so should remain within the quantum for allocation to councils.

This £1bn funding could potentially be used to:

- ◆ help alleviate some of the severe cost pressures currently faced by our authorities including:
 - social care for children, younger adults and the elderly
 - waste disposal costs, recycling and climate change
 - single status and equal pay

- ◆ give a major boost to local government in the light of the forthcoming strengthened role envisaged in the recent white paper, and
- ◆ help reduce the need to significantly increase council tax.

A brief survey of our members conducted on 1st December 2006, showed that on average, a SIGOMA authority faces a budget shortfall of around £7.7m for 2007/08; this could be eradicated or at least significantly reduced if government were to distribute the RSG they have chosen to set aside

Specifically, such monies could be used to address the difficulties authorities are experiencing as a result of the application of damping to social services relative needs formulae.

B) SOCIAL SERVICES DAMPING

The introduction of new social services formulae, for use in 2006/07 and beyond, was eagerly awaited by our members.

Detailed papers produced by SIGOMA helped to demonstrate the implausibility of the then current assessment of relative needs, and so acceptance by government that a new methodology should be implemented - more adequately reflecting the requirements of the most vulnerable in today's society - was welcomed with enthusiasm.

However, social services funding persists in being a major concern for SIGOMA, as the damping regime introduced in the previous year continues to be applied to the children's and younger adult's sub-blocks. A provisional estimate shows the net losses our authorities have suffered are approximately £227m in 2007/08 (in addition to the £250m in 2006/07). The table below highlights the extent to which our members have 'lost' funding:

	Gain 2007/08 £m	Loss 2007/08 £m	Net Position 2007/08 £m
England	+437	-437	0
London areas	+297	-15	+282
Metropolitan areas	+8	-195	-187
Shire areas	+132	-227	-95
SIGOMA	+11	-238	-227

SIGOMA persists in lobbying for the removal of social services damping; government has accepted our technical arguments and amended funding formulae accordingly, but must now act to remove restrictions caused by damping, so that social care resources can flow through the grant allocation system without restriction and meet the needs that have been shown to exist in our urban areas.

To reiterate our response to the consultation on the local government finance system, SIGOMA believes that if damping is to take place at all, it should only be implemented at the very end of the grant process if local government is to be seen to have a fair, clear and transparent grant distribution system

If DCLG determines that damping on social services needs will not be removed, SIGOMA has a major concern with regard to the length of time it will take for the damping to “unwind” – initial estimates suggest that it will be many years before authorities receive the level of grant they are due and entitled to. The fact that the formula is not allowed to work in directing resources to meet need, through this use of extreme damping, casts heavy doubts over the fitness of the system as a replacement for the previous one.

To continue with such specific damping within future three years settlements is unacceptable.

C) OVERALL DAMPING

Whilst SIGOMA supports the principle of floors as providing some stability and predictability in grant levels, and as giving some support to those authorities losing resources through data losses, the level of current scaling is unacceptably high.

Improvements in the funding formula to better reflect the needs of today are effectively negated to a large extent by the level of scaling and little benefit is seen by Authorities such as those in SIGOMA, despite their recognised needs.

Clearly the current balance between stability and funding of agreed needs requires reconsideration.

SIGOMA remains of the view that the cost of overall damping should be found from outside the current system. This is referred to later in section 3.

D) POPULATION

A further issue to be highlighted relates to population data. Each year of a multi-year settlement incorporates a population projection, which is itself based on an estimate of mid-year population generated by the Office of National Statistics (ONS). So:

- in 2006/07, the population projections for 2006 were derived from the mid year estimates (MYEs) for 2003, and
- in 2007/08, the population projections for 2007 were derived from the mid year estimates (MYEs) for 2003.

DCLG determined, after consultation on the local government finance system, that projections for each year of a multi-year settlement period would remain as announced at the start of that period, unless there were 'exceptional' circumstances that warranted a revision.

It appears, however, that the population projections currently in use are erroneous. Analysis has been undertaken which compares recently published MYEs for 2005 with population projections for 2005, based on MYEs for 2003; the former data set shows a population count for England of 50.431m, which is 163,000 higher than in the projections, and a number of authorities have expressed their own concerns that their population appears to be significantly underestimated.

It appears reasonable to infer that the errors already exposed in the projections for the period 2003 to 2005 have been replicated in the projection that have been utilized in the last two settlements. This is because the population projections are both part of the same 2003-based series and use the same assumed trends drawn from the five years prior to 2003. This ultimate cost to authorities with a significant underestimation of their population is a loss of revenue grant.

As a result, it may be appropriate to add additional funding into the latest settlement, to compensate those authorities that are worst affected by the erroneous population data.

SIGOMA would also ask that DCLG give additional thought to the use and reliability of projections to be used in future multi-year settlements and is more than happy to work with the ONS and Government to deliver a more robust solution.

E) CAPITAL FINANCING

SIGOMA had previously called for a review of the arrangements for supported borrowing following the introduction of the Prudential Borrowing System from 2004/05. This was to ensure that any new system properly took account of need, and reflected the differing capacities of authorities to raise other resources for funding capital expenditure.

A concern that still exists, despite the new grant distribution system, relates to capital financing costs and revenue support; in previous years, authorities had been able to undertake major capital schemes which were funded by traditional borrowing with a reasonable expectation that the annual revenue costs of the borrowing would be largely met by additional revenue support grant.

This was achieved by treating the capital financing debt charges element of the spending needs assessment (previously FSS) as an additional amount of grant outside of any grant 'floor' arrangements. The increase in grant could be seen and it could be demonstrated that it was passed through to authorities.

The new grant arrangements announced for 2006/07 onwards changed this, with the capital financing needs element forming part of the main revenue grant, which is subject to the floor arrangement. This means that there is no longer any transparent funding for supported borrowing approvals.

The impact of the change can be very significant, particularly for major schemes funded from supported borrowing – for example, Building Schools for the Future schemes (BSF) or major transport schemes. Indeed, this issue needs to be resolved before major new schemes, funded by supported borrowing, are likely to be able to proceed, and we would ask that DCLG give this concern urgent consideration to alternative approaches, including funding by capital grants, so that it is rectified in time for the next three year multi-year settlement commencing in 2008/09.

F) COUNCIL TAX INCREASES /CAPPING

SIGOMA shares the Government's concern over increasing council tax levels, particularly as its communities are often those who can least afford to pay for the services they need.

There are, however, a number of fundamental issues that need to be addressed if authorities within SIGOMA are to be able to deliver both council tax increases that are 'acceptable' to Government and the services that our communities demand.

The majority of our authorities had made assumptions that the implementation of revaluation from 2007/08 would alleviate some of the pressures currently faced by having to support crucial services from relatively low tax bases of our authorities. The Government's decision not to undertake this will seriously impact on the resources available other than through raising taxation.

In addition to the underlying inequity, the Government's proposals for damping the introduction of new formula which should direct additional resources to those authorities with most need will once again mean that the level of resources needed to fund adequate services will not be forthcoming and again pressure to fund this gap will inevitably fall on the council tax.

Further pressures from the relatively low settlements outside Education, particularly for the liveability agenda, will also increased pressure to maintain this through local means. All of these must be addressed. In other words, we must have needs based funding if we are to have adequate funding at a local level.

SIGOMA strongly opposes the principle of capping as being fundamentally in conflict with the accountability of local authorities. However, if the Government insists on adopting such an adversarial course then SIGOMA believes that the circumstances of each authority must be considered on an individual basis, so that a full explanation of the proposed council tax increase can be provided.

Indeed, there is considerable confusion about capping criteria, and in particular whether it is to be based on a percentage increase in council tax and/or an increase on budgets.

3) SOLUTIONS

Clearly the potential £1bn of ‘windfall’ resources, held back by Government, could be used in the forthcoming financial year to provide additional support to Authorities through a number of mechanisms in recognition of pressures.

a) SOCIAL SERVICES DAMPING

SIGOMA believes that the priority for such funding is to provide support for those Authorities losing resources through the current specific damping regime .

Full support to these authorities would still leave well in excess of £0.5bn (£1bn - £0.437bn gross loss for England) to be used to meet other government priorities.

We would ask that additional funding be allocated in the form of a special grant direct to the authority, so as to avoid any erroneous misappropriations that may result from allocating the resources via the revenue grant distribution model. This method would also ensure against any impact on those fewer authorities that do actually gain from the damping regime.

An additional allocation would be gratefully received by all our damped authorities especially those with Primary Care Trusts (PCTs) that are also facing severe financial difficulties. The fact that both crucial services may be suffering from a severe lack of resources means that social care provision in our areas continues to be subject to situation recognised as ‘compounded under-funding’.

A separate paper outlining the proposal and the impact is attached for further information.

b) FUNDING FOR OVERALL FLOORS

As indicated earlier in our response, SIGOMA also believes that funding should also be provided in support of the overall costs of the floor protection mechanism, which would provide stability for many but also allow resources to flow through to those recognised as requiring further support.

Again the overall cost of the floor – some £345m could again be accommodated through the remaining ‘windfall’ after providing specific grant for the Social Services Damping.

c) ADDITIONAL MEASURES

There are also a number of other issues and concerns raised within our response, where additional resources would provide much needed support for Authorities during 2007/08 and SIGOMA would ask for consideration to be given to providing further funding for

- ◆ Authorities losing through inaccuracies in population estimates
- ◆ Funding for the lack of Revaluation and the impact on resource equalisation
- ◆ The significant impact that equal pay and single status will have on already stretched budgets.

Impact of Social Services Damping

Local Authority	2007/08					
	Gross Loss		Gross Gain		Net Effect	
	LAs	£m	LAs	£m	LAs	£m
England	87	-437.177	63	437.177	150	0.000
London area	4	-14.928	29	297.095	33	282.167
Metropolitan areas	32	-195.320	4	8.141	36	-187.179
Shire areas	51	-226.929	29	131.869	80	-95.061
Isles of Scilly	0	0	1	0.072	1	0.072
SIGOMA	42	-238.200	4	11.645	46	-226.555

- ◆ 87 Authorities lose an estimated £437m due to the damping
- ◆ Over ½ of this loss is in SIGOMA areas.
- ◆ Grant could be targeted to these individual Authorities in line with losses.
- ◆ No overall impact on those gaining from the damping
- ◆ Even at full level 'windfall' to Treasury from reduced RSG would still be over £1/2 Bn.

POTENTIAL DIRECTED GRANT
BASED ON SOCIAL SERVICES DAMPING LOSSESS

LONDON	
Barking and Dagenham	-3.748
Enfield	-1.089
Newham	-8.372
Redbridge	-1.720
GREATER MANCHESTER	
Bolton	-5.458
Bury	-1.920
Manchester	-7.185
Oldham	-4.578
Rochdale	-4.768
Salford	-2.965
Tameside	-4.242
Trafford	-0.216
Wigan	-7.935
MERSEYSIDE	
Knowsley	-5.463
Liverpool	-14.065
Sefton	-3.592
St Helens	-5.283
Wirral	-7.634
SOUTH YORKSHIRE	
Barnsley	-9.997
Doncaster	-9.498
Rotherham	-7.763
Sheffield	-4.255
TYNE AND WEAR	
Gateshead	-2.515
North Tyneside	-0.427
South Tyneside	-1.526
Sunderland	-6.375
WEST MIDLANDS	
Birmingham	-23.527
Coventry	-3.164
Dudley	-3.792
Sandwell	-7.670
Walsall	-5.446
Wolverhampton	-3.504

WEST YORKSHIRE

Bradford	-11.883
Calderdale	-1.458
Kirklees	-7.483
Wakefield	-9.734

ALL PURPOSE AUTHORITIES

Blackburn with Darwen	-5.372
Blackpool	-4.239
Darlington	-1.699
Derby	-3.690
East Riding of Yorkshire	-3.523
Halton	-4.039
Hartlepool	-2.841
Herefordshire	-1.387
Isle of Wight Council	-2.106
Kingston upon Hull	-5.286
Leicester	-4.990
Luton	-2.835
Medway	-2.185
Middlesbrough	-2.879
Milton Keynes	-1.530
North East Lincolnshire	-2.387
North Lincolnshire	-3.087
North Somerset	-0.316
Nottingham	-4.710
Peterborough	-2.670
Plymouth	-1.156
Redcar and Cleveland	-2.978
Stockton-on-Tees	-2.728
Stoke-on-Trent	-9.078
Swindon	-0.143
Telford and the Wrekin	-3.923
Thurrock	-1.315
Torbay	-2.463
Warrington	-1.184

SHIRE COUNTIES

Cheshire	-1.638
Cornwall	-9.013
Cumbria	-8.209
Derbyshire	-15.386
Devon	-2.625
Dorset	-0.512
Durham	-14.906
East Sussex	-0.767
Essex	-0.246

Kent	-5.531
Lancashire	-16.072
Lincolnshire	-11.921
Norfolk	-9.601
Northamptonshire	-3.474
Northumberland	-4.149
Nottinghamshire	-12.356
Shropshire	-2.061
Somerset	-4.806
Staffordshire	-7.713
Suffolk	-5.922
Warwickshire	-1.540
Worcestershire	-1.742

-437.177