



# SIGOMA

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

Chair: Councillor Sir Stephen Houghton CBE (Barnsley MBC)      MPs Group Chair: Marie Rimmer MP (St. Helens South and Whiston)      Vice Chair: Councillor Steve Eling (Sandwell MBC)

The Rt Hon. James Brokenshire MP  
Secretary of State for Housing,  
Communities & Local Government,  
2 Marsham Street,  
London,  
SW1P 4DF

Date: 12 September 2018  
Contact: Frances Foster  
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Dear Secretary of State,

In my capacity as chair of the SIGOMA group of MPs, I, along with the undersigned am writing in response to the [2019-20 Settlement consultation](#) to express our deep opposition to your Department's preferred option regarding the treatment of "negative RSG".

The option in question is laid out in that consultation as follows:

"The Government considers direct elimination of Negative RSG via forgone business rates receipts the preferred approach to resolve Negative RSG, meeting the key criteria of being both fair and affordable."

Negative RSG, as you will know, occurs as a result of your department's own change of methodology for allocating Revenue Support Grant, introduced in 2016-17, which rightly sought to ensure that authorities delivering the same set of services received the same percentage change in funding by taking account of the main resources available to them, rather than focusing only on revenue support grant.<sup>1</sup>

Negative RSG therefore affects only those authorities whose council tax and business rates bases are strong enough to reduce their relative needs adjustment to less than zero according to that methodology. Had the correct methodology existed from the beginning of business rate retention the adjustment would have been to Tariff. Over 220 authorities have Tariff in excess of their Revenue Support Grant in 2016-17.

These include manifestly affluent authorities like Surrey and Wokingham which, insulated by their strong rates bases, have made cumulative cuts this decade of just 4 and 6 percent respectively and are deemed, by your department's own reasoned methodology, to generate more resources locally than they require to support the needs of their populations.

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<sup>1</sup> <https://www.nao.org.uk/wp-content/uploads/2017/02/Transition-grant-and-rural-services-delivery-grant.pdf>

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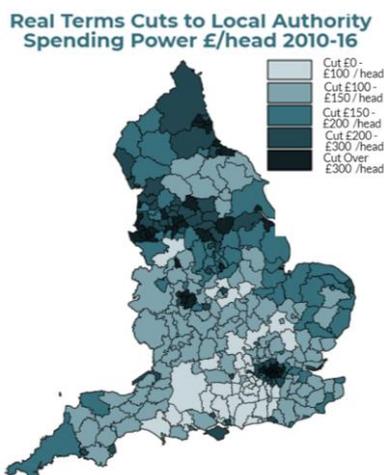
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Deprived authorities like Manchester and Knowsley meanwhile, who have been forced to make cuts of 31 and 33 percent respectively, are rightly unaffected by negative RSG.

A heat map, showing the wide variation in cuts to date, is provided below to illustrate this point. This variation is the result of reductions to RSG since 2010 failing to take locally raised resources into account – a picture your department’s 2016-17 allocation methodology would have helped to improve.



The elimination of Negative RSG cannot therefore be considered “fair” because it takes no account of relative need, nor the impact of cuts to date. In fact, recent evidence provided to the Fair Funding review has identified that it is the same authorities benefiting through this proposal that are seeing significantly higher growth in Business Rates, which authorities such as ours are not.

Importantly, as you point out in your consultation, 97% of authorities accepted the 4 year deal, which included this adjustment.

Even though it results in no absolute reduction in funding to deprived authorities, it does represent a very real relative reduction and, most importantly, a significant opportunity cost of £153m.

The proposal also follows on from the allocation of Transition Grant for two successive years to address the same issue, a practice which compensated affected authorities in direct proportion to their losses, by a total of £300m<sup>2</sup> and which warranted a detailed investigation by the National Audit Office.

The continuation of this unjustifiable trend, in your department’s current proposal to eliminate negative RSG, therefore raises deep concerns for the Fair Funding Review, potentially undermining its integrity entirely.

If a fairer formula were to be introduced, for example, what assurance would we have that it would not be permanently damped as your department has persistently opted to do for its own 2016-17 allocation methodology, to the benefit of some of the richest authorities in the country?

The only fair way to resolve this issue, from our point of view, would be to inject additional funds into Core Funding based on relative needs, in order to lift all authorities in proportion to their needs to a point where all negative allocations would be eliminated.

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<sup>2</sup> <https://www.nao.org.uk/wp-content/uploads/2017/02/Transition-grant-and-rural-services-delivery-grant.pdf>



Your Department notes that:

“The quantum of funding needed to completely eliminate Negative RSG through this methodology is excessive, totalling over £2 billion. This level of funding is not affordable.”

We would argue, however, that it is neither excessive nor unaffordable. The LGA has identified a funding gap of £5.8bn in local government funding by 2020. An injection of £2bn to boost the quantum of local authority funding would address less than half of this shortfall. The NHS has also recently received a funding boost of £20bn by 2023. A funding boost of £2bn (a tenth the size), which would benefit all care providing authorities working to keep people out of hospital, cannot therefore be dismissed as unaffordable.

We would argue too that the fact that £2bn would be required in order to eliminate negative RSG through a needs based allocation provided on a symmetrical basis (to both those with both negative and positive allocations in proportion to their needs), highlights just how unfair allocating £153m on an asymmetrical basis (to only those with negative allocations) really is. It is the tip of the ice berg, and our constituencies are below the waterline.

We hope, therefore, that, when evaluating responses to this aspect of the technical consultation, your department will consider the weight of evidence rather than the weight of lobbying pressure and chose to either eliminate negative RSG fairly, i.e. on the basis of demonstrable need, or nor at all.

We hope that you take this opportunity to engage fully with our position as you have done with other groupings and we therefore look forward to a positive response.

Yours Sincerely,

Rt Hon Dame Rosie Winterton, DBE, MP

Andrew Gynne MP

Paul Blomfield MP

Mary Creach MP

Angela Raynor MP

Dan Jarvis MBE MP

Rt. Hon. John F. Spellar MP

Stephanie Peacock MP

Valerie Vaz MP

Caroline Flint MP

Alex Cunningham MP

Dr Paul Williams MP

Diana Johnson MP

Sarah Champion MP

Rt Hon George Howarth MP

Liz Twist MP

Alex Norris MP

Jonathan Reynolds MP

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