Consultation Response

Local Government Finance Settlement 2014-15: Consultation

Response by London Councils

London Councils represents all 32 London boroughs and the City of London. It is a cross-party organisation that works on behalf of all of its member authorities regardless of political persuasion. We develop policy, lobby Government and others, and run a range of services designed to make life better for Londoners.

The following response has been endorsed by the Society of London Treasurers (SLT).

Introduction

1. London Councils welcomes the opportunity to comment on the Local Government Finance Settlement 2014-15 and the illustrative 2015-16 funding allocations.

2. This settlement raises significant concerns about the transparency, and long-term sustainability of the local government finance system, namely:
   - The disproportionate impact of SR2010 and SR2013 on local government,
   - The lack of transparency and coherence within the proposals and the disproportionate impact on London boroughs;
   - Treatment of the New Homes Bonus Grant for London in 2015-16;
   - The lack of funding for Local Welfare Provision in 2015-16 and beyond;
   - The misleading nature of the Revenue Spending Power calculation;
   - On-going concerns about the business rates retention system;
   - The lack of clarity and certainty around Government's plans for the Council Tax Referendum principles.

3. London Councils would also like to raise concerns on the timing of the local government finance settlement. For the last two years, the settlement has been announced extremely late. While there may be a number of reasons for this, and it may be helpful for Central Government, it does little to provide local authorities with the level of certainty and funding assurance needed when formulating their budgets, and setting council tax levels, for the following financial year. It is imperative that local authorities have confirmation of their funding allocations as early as possible so that robust and sound business plans can be formulated and implemented. This is particularly important at a time of rapidly reducing resources.

The disproportionate impact of SR2010 and SR2013 on local government

4. At the beginning of the current Spending Review period, local government faced a higher level of funding reductions, proportionately, than most other parts of the public sector –

28 per cent in real terms over the four year period compared to 8 per cent on average for central government departments. Since SR2010, further incremental cuts and 'top-slices' to funding means that by 2014-15, core funding to local government will have fallen by 35 per cent in real terms[1].

5. The recent Spending Round 2013 (SR2013) confirmed that local government will once again be required to deliver a disproportionately higher level of savings. The 10 per cent real terms cut for local government was one of the largest of all departments, compared to the average real terms reduction of 2.2 per cent across other Whitehall departments. This settlement reveals that this will mean a 16 per cent real terms cut to settlement funding assessment (SFA) in 2015-16 for London boroughs.

6. Local government is arguably the most efficient part of the public sector[2], and has repeatedly been asked to deliver cuts on behalf of other Whitehall departments' These have included the localisation of council tax support, the social fund and support for children on remand. Whilst we believe that local government should strive for, and be given, greater devolved power and flexibility, new burdens and responsibilities must be transferred in a manner that is transparent, fair and fully and properly funded.

7. Against this backdrop of reduced resources, demographic changes caused by rising population and the elderly living longer, and increasing levels of mental health and other disabilities, are putting unprecedented pressure on the cost of adult and children's social care. In addition, in London, these demographic changes are putting acute pressure on school places, housing, waste and transport.

8. In other words, London is facing the double whammy of disproportionately high funding cuts and dramatic increases in demand. Looking to the future, it is clear that without significant changes to the way cuts are applied across the public sector, many London boroughs will quickly reach an unsustainable position.

9. The latest modelling suggests that London local government faces an overall financial pressure of as much as £3.4 billion (31 per cent) by 2019-20. Despite some of the recent changes announced by Government (for instance the £3.8bn pooled fund for health and social care), London local government could see an overall increase in service pressure of £2 billion (22 per cent) and a decrease in projected funding of £1.4 billion (15 per cent) between 2012-13 and 2019-20.

The lack of transparency and coherence within the proposals and the disproportionate impact on London Boroughs;

10. The Settlement also confirms that the funding allocations are based on a number of inconsistencies that undermine the ability to provide stability and predictability in local government funding.

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[1] Defined as funding now in the Settlement Funding Assessment adjusted to a like-for-like basis (excluding funding for police and fire authorities)

[2] http://www.theguardian.com/local-government-network/2013/aug/14/lga-urge-whitehall-to-collect-tax-more-efficiently

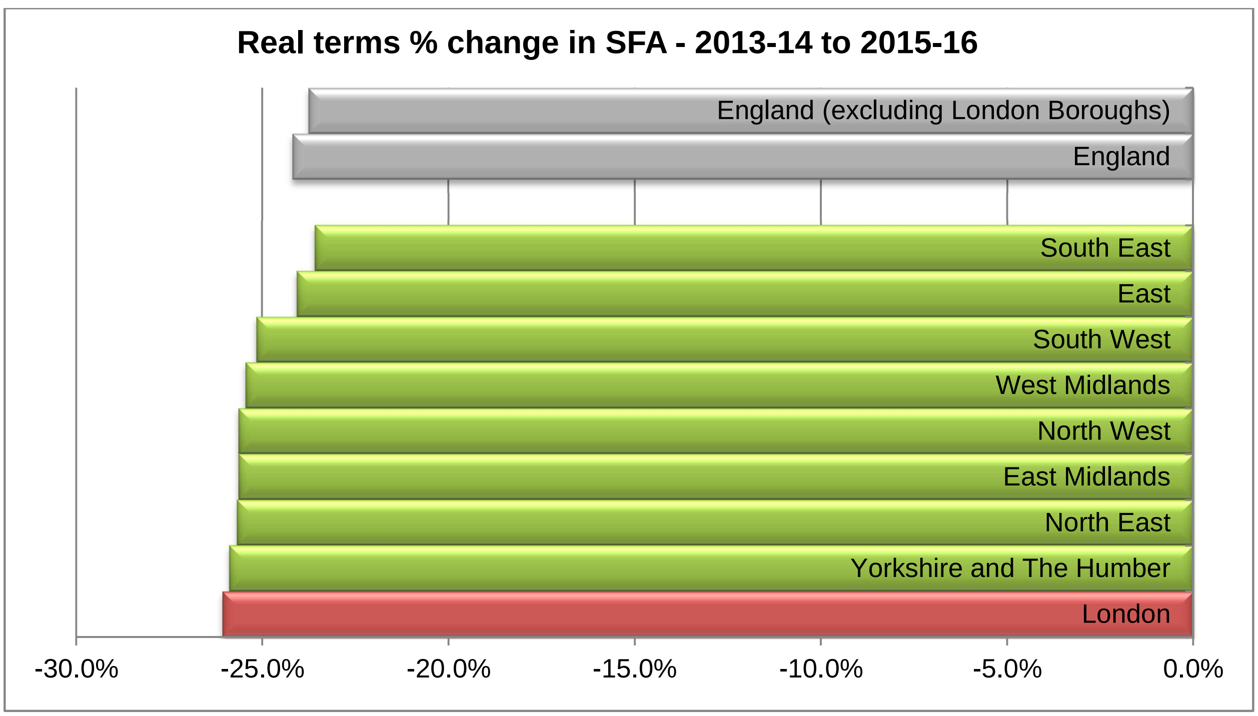
11. For example, the grants rolled into the Settlement Funding Assessment have been largely protected, in contrast to much larger proportionate cuts for upper and lower tier funding. Government has failed to provide sufficient explanation for this decision, which not only penalise authorities that receive a larger proportion of their funding from the tier funding element, but create further confusion and complexity within an already complex system.

12. Within this, London Councils remains disappointed with the lack of transparency around the funding for council tax support in 2014-15 and beyond. Funding for council tax support is now lost within the wider formula funding allocations and is now subject to the broader cuts to local government funding.

13. Further complexity can be seen in the way the Government has taken a different approach to applying the additional 1 per cent LG DEL cut to the 2014-15 SFA control total than it has to applying the reductions in 2015-16. For the additional 1 per cent LG DEL cut, an equal percentage cut is made to each element of RSG (excluding the Council Tax Freeze grant), while in 2015-16 the cut to RSG is applied differently to the different constituent elements.

14. A consequence of the, apparently arbitrary, protections for some funding streams within SFA means that there is a clear correlation between those authorities assessed to suffer from higher levels of deprivation and their levels of funding reductions. As such, London boroughs will be required to deliver a proportionately larger share of the overall reduction to local government than elsewhere in the country (Chart 1 below). The average real terms cut to SFA for London boroughs between 2013-14 and 2015-16 is 26.1 per cent compared to 23.8 per cent for the rest of England. London boroughs also account for 7 of the 10 single tier authorities with the largest percentage cut to SFA over that period.

Chart 1 – SFA will be reduced more in London than other regions in the next 2 years



Note: Figures are for councils only, therefore exclude Fire Authorities and the GLA

15. Even using the Government's concept of Spending Power and spend per dwelling, London local government is shouldering a significant part of the Government's deficit reduction programme. Between 2010/11 and 2015-16, the average reduction in spending power per dwelling in England is £300.[3] In London, the reduction per dwelling is £544, this is £244 (81 per cent) higher than the national average. In 2014-15 and 2015-16 alone, London will face an overall reduction in spending power per dwelling of £294 compared to the England average of £117. This scale of divergence raises fundamental questions about how the cuts have been applied and the extent to which the reductions will impact disproportionately on London.

New Homes Bonus Grant in 2015-16

16. London Councils is strongly opposed to the Government's recent decision to require London local government to transfer £70 million of its New Homes Bonus Grant to the GLA, for use by London Local Enterprise Panel – an advisory panel chaired by the Mayor of London.

17. This policy will divert almost two-years of NHB grant away from key local services while fundamentally failing to provide the same level of support to London local government as elsewhere in the country. In responding to the pressures of a growing population, it is not clear why London should be treated differently to any other region or city in the country.

18. At the time of the Autumn Statement, references were made to London's unique governance structure, the Mayor's democratic relationship with Londoners and the Mayor's planning powers. However, it is felt that none of these references properly explain why London's local authorities should have been treated in this way. London boroughs and the City of London work closely with the Mayor on his overall, strategic responsibility. New Homes Bonus, however, was designed to incentivise councils to get new homes built. It is the direct planning powers of boroughs that are key to this, alongside the effectiveness of boroughs in working with their communities and developers to put in place all the conditions necessary to accelerate this development. These are not decisions taken by the Mayor or the London LEP.

19. London Councils strongly believes that the Government should reverse this decision and treat London local government in the same way as the rest of the country.

The lack of funding for Local Welfare Provision in 2015-16 and beyond

20. London Councils is extremely concerned that the decision to cease funding for local welfare provision, without proper consideration and consultation, is premature and has been made without a full assessment of the operation of existing local schemes.

[3] Newcastle City Council: http://democracy.newcastle.gov.uk/documents/s66782/Cabinet%20Report%20grant%20settlement%202014%202.pdf

21. This decision undermines the significant efforts and resources committed by local authorities to set up local welfare provision schemes following the abolition of crisis loans and community care grants as Government controlled schemes in April 2013.

22. The Department for Work and Pensions had previously indicated their intention to carry out a full review of the operation of new local welfare schemes during 2014-15 in order to shape future provision. It is regrettable that this review has not been allowed to take its course in advance of a decision being taken on future funding. London Councils is extremely disappointed that no indication was given to local authorities that funding would only be in place for two years at the time of the initial settlement.

23. Local authorities in London have expended significant resource and efforts in establishing local welfare provision schemes in time for the abolition of crisis loans and community care grants and now face funding reductions of £32 million across London. Many have entered into agreements with providers, brokered products with credit unions, used funding to establish financial capability training and crucially provided emergency food, utility and other financial and in-kind support for households in extreme financial crisis or to those leaving institutions such as care or prison.

24. In line with Government expectations, local government has targeted those most in need. In the context of significant welfare reform and increased incidences of benefit sanction, it is likely that demand for emergency crisis financial and in-kind support will remain and potentially grow. London local authorities would be worried at the possibility that this demand could be met by loan sharks and payday loan companies, and would be further concerned at the increasing burden on an overstretched and overburdened voluntary sector and on statutory local authority services.

25. The devolution of this funding to local government followed almost immediately by cessation of that funding places further financial pressure onto local government. Once again, local government is being asked to deliver savings on behalf of a Central Government department. Given the extremely challenging financial climate for local government, London Councils believes that this funding decision raises significant questions about the ability of local authorities to continue to provide local welfare provision through general resources. Arguably, this is unlikely to be possible in most cases, especially if local government funding cuts continue into the future.

The misleading nature of the Revenue Spending Power calculation

26. London Councils is extremely concerned that the spending power calculation is misleading for elected Members, officers and the general public. London Councils understood that the underlying objective of the revenue spending power definition was to capture the full resources under the <u>direct</u> control of a local authority. However as currently constructed, the calculation includes funding that is largely, or entirely, beyond the direct control of a local authority and is based upon a number of assumptions made by Government for which there has been little or no supporting evidence. Key issues include:

   a. <u>New Homes Bonus:</u> In 2015-16, the full (estimated) level of NHB grant is included within the spending power calculations for each London borough. This is at odds with the Government's stated intention to transfer £70 million of the grant to the London Local Enterprise Panel (LEP) – an advisory panel. London Councils strongly objects to the fact that the Spending Power figures ignore this policy decision. This overestimates the level of spending power for London local government by £70 million. If the NHB LEP transfer is removed from the funding allocations of the London boroughs, London Councils analysis suggests that three boroughs will be eligible for the Efficiency Support Grant in 2015-16.

b. Council Tax: The calculations have made a number of assumptions around future council tax income for each local authority. While the settlement indicates that these have been "estimated by assuming the historic growth rate in local authority tax bases continues and that there are no increases in Council Tax levels", it is not entirely clear how these figures have been arrived at. It is arguable that previous growth in the taxbase is no guide to future movements. . Furthermore, it is not clear to which time period the historic trend relates. The introduction of local council tax support schemes and the reduced funding for their operation will impact on future levels of council tax income and as such, this raises further questions about the assumptions underlying this calculation. The Government should publish full supporting evidence behind these figures.

c. Other Revenue Funding: Within the calculations, there are a number of funding streams that are arguably beyond the direct control of local authorities. For example, public health funding is a ring-fenced grant with specific conditions on how it is spent. Equally, spending on health and social care via the Better Care Fund requires formal approval by the Health and Well Being Board. These are two examples of where a local authority has limited or partial discretion of how these resources are deployed, but the Spending Power calculation treats them as equal to unhypothectaed funding such as upper or lower tier funding or wider resources such as council tax. This is misleading and incorrectly assumes a higher level of financial flexibility for local authorities.

27. London Councils believes that the spending power calculation is misleading and fails to capture the full extent of the reductions to local government resources. Analysis carried out by London Councils would suggest that the real terms reduction to funding in London is closer to 20.2 per cent across 2014-15 and 2015-16 (17.4 per cent for the rest of England) rather than the 10.4 per cent suggested within the settlement announcement.

On-going concerns about the business rates retention system

28. London Councils remains disappointed that the Government is continuing the practice of including the uplift in the local share/baseline funding when calculating RSG. London Councils strongly believes that this should be treated as local growth and not part of the wider local government control total. Not only does this act as a disincentive to grow, it is effectively a further cut to RSG. In combination with the significant size of the central share, this undermines the principles underlying the business rates retention scheme.
London Councils continues to disagree with increasing the safety net hold back. This penalises local authorities through no fault of their own because of the complex system the Government has established. The main reason for the increase in the safety net hold back is because of lower than expected business rates yield as forecast by local authorities. A significant contributing factor to these low forecasts is the effect of outstanding and future ratings appeals. Local authorities should not be financially penalised, via what is effectively a cut to RSG, for the increase in the safety net holdback because not enough assurance has been built into the system around the effect of appeals – which are entirely outside the control of local government.

29. London Councils continues to believe that the overall safety net should be allowed to remain in surplus or deficit and that it is not unreasonable for central government to support a one-off deficit, particularly when the system is in its infancy. It is also our expectation that in future years, the safety net holdback will no longer be required as all safety net payments will be fully funded from the levy pot, as proposed in the initial design of the scheme.

30. London Councils would also expect the new policy initiatives on business rates announced in the Autumn Statement (such as the extension of the small business rates relief) to be fully funded by Government under the New Burdens doctrine. Given these are new policy initiatives, London Councils would expect that these are funded by additional resources rather than by existing local government resources.

31. London Councils would also point out that these policy announcements will also create additional administrative and IT implementation costs for local authorities. As such, London Councils would expect these to be fully funded under the New Burdens doctrine.

The lack of clarity and certainty around Government's plans for the Council Tax Referendum principles.

32. London Councils is extremely concerned that the Government has failed to announce the council tax referendum principles for 2014-15, particularly when no indication has yet been provided of when these can be expected. To have such uncertainty at this stage of the council tax setting process for local authorities is unacceptable. This not only limits the amount of time for local decision making, but also shows a lack of awareness from Government of the governance processes within local government.

London Councils has provided some further technical comments below.

Questions

Question 1: Do you agree with the Government's proposal to remove the capitalisation holdback and re-allocate the funding?

- London Councils welcomes the Government's belated decision to remove the capitalisation holdback. This was purely an accounting convention to comply with the Government's definition of public sector debt. Local authorities funded these costs through borrowing or the use of capital receipts. The Government did not provide any funding, it simply approved whether the costs could be capitalised or not and then top-sliced an amount from the control total.

- London Councils does not agree with the reallocation of the capitalisation hold back to fund the Efficiency Support Grant or rural funding element. Any holdback removes direct funding for local government, provides an additional level of complexity for financial planning and further diminishes the already questionable growth incentive within the system by removing funding that would have been distributed to all authorities. If the Government wishes to provide funding for specific purposes, it should provide additional resources of its own rather than financially penalise local government.

- In addition, London Councils does not agree with the proposed increase of £95 million in the overall holdback for the safety net in 2014-15 and the use of £50 million from the removal of the capitalisation holdback. London Councils believes the overall safety net should be allowed to remain in surplus or deficit and that it is not unreasonable for central government to support a one-off deficit, particularly when the system is in its infancy. It is also arguable that if local authorities had had access to more robust and transparent information on appeals from the VOA, the forecast business rates for 2013-14 might have been higher. However, the absence of any meaningful data from VOA meant local authorities had to adopt particularly prudent positions.

Question 2: Do you agree with the Government's proposal to reduce the New Homes Bonus holdback from £800m to £700m?

- London Councils agrees that the hold back should be reduced by £100 million.

- However, London Councils believes in the basic principle that whenever a surplus arises from a hold back, the surplus should be returned to local authorities on the same basis as it was removed from the system.

- On this basis, London Councils remains opposed to the method for distributing the New Homes Bonus surplus back to authorities. It is our understanding that, because the rolled-in grants are being 'protected' within the settlement funding assessment, these top-slices are effectively being taken from the tier funding element of SFA. The surplus should therefore come back to authorities in proportion to the distribution of this funding rather than the overall SFA, as planned.

Question 3: Do you agree with the Government's proposal to increase and roll in funding for rural authorities?

- As mentioned in the response to question 1 above, the Government should provide additional funding if it wishes to fund specific authorities rather than financially penalising the whole of local government.

- The existence of this funding stream also raises questions about the funding of urban areas, particularly as historic funding has failed to reflect fully the pressures on London, most notably in terms of its underestimated population and the failure to properly recognise the impact of daytime visitors.

- Data from Census 2011 confirmed previous analysis by London Councils and our members that London's population has been consistently undercounted over the last decade. Analysis has been undertaken of population projections based on the Census 2011 figures and how they compared to the population projections used within the 2011-12 and 2012-13 local government finance settlements. The modelling suggests that London's population was undercounted by close to 375,000 as a result of using the projections based on the older census figures.

- This has meant that London local government has received less funding than it should have done. London Councils analysis suggests that in 2012/13, the loss of funding through under-counting was approximately £580 per person in formula grant before damping. It follows therefore, that authorities lost £580,000 for every 1,000 of uncounted population through this grant stream alone.

- Current funding allocations also fail to reflect the full impact of daytime visitors in London. Analysis suggests that London's daytime population rises to close to 10.8 million – an increase of 2.5 million or 30 per cent from its usual resident population. This significant level of growth places increased pressure on local authority services and infrastructure.

- London Councils believes that if the Government is minded to further recognise some of the financial pressure on rural authorities, it is not unreasonable to expect further consideration to be given to the unique pressures faced by urban authorities, and particularly those that pertain in London.