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Date: 15 January 2014
Our Ref: S.P. Cabinet
Your Ref:

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Dear Councillor

CABINET - THURSDAY 16TH JANUARY, 2014 – BOOTLE TOWN HALL – 10.00 A.M.

I refer to the agenda for the above meeting and now enclose the following document which was unavailable when the agenda was printed (please see recommendation (ii) of the report under Agenda Item 6, page 49).

Agenda No.	**Item**
6.	**Update on the Provisional Local Government Finance Settlement and consultation feedback on the Council Tax Reduction Scheme** (Pages 277 - 282) Proposed response to the Local Government Finance Settlement.

Yours sincerely,

G. BAYLISS

Director of Corporate Services

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Consultation on the Local Government Finance Settlement 2014/15

Introduction

This paper is submitted on behalf of Sefton Metropolitan Borough Council in response to the Consultation on the Provisional Local Government Finance Settlement. It addresses the specific questions raised in the Consultation paper as well as bringing to your attention our views on other matters relating to the Provisional Settlement.

Scaling back the Local Government Departmental Expenditure Limit

We are disappointed that the Government have decided to press ahead with the approach proposed in the previous Consultation. This approach penalises those authorities most reliant on grant funding whilst those authorities with large tax bases see lower deductions in their spending power.

Capping the small business multiplier

We welcome the Government's announcement that the small business rate multiplier will be capped at 2% rather than set at the same level as the change in the September Retail Price Index (3.2%) as previously proposed. This will benefit businesses in our area many of whom are struggling to compete against competition from online retailers and the large shopping complexes.

However, the decision to compensate local authorities for the resulting loss of business rates income via a separate grant appears to add an additional layer of complexity to an already overly complex funding system. Surely it would have been simpler to compensate local authorities by increasing their Revenue Support Grant (RSG).

On examining the detailed reports issued with the provisional settlement there appears to be an error in the amount that has been top-sliced from the Settlement Funding Assessment (SFA) to pay for this new grant. The ***Spending power 2014 to 2015 supporting information*** table indicates that £117.950m has been distributed via the new grant whilst the ***Derivation of the national total for revenue support grant*** table indicates that £143.053m has been transferred out of the SFA. This means that an extra £25.103m has been deducted from the SFA with no reason given. We estimate that this unexplained deduction has reduced Sefton's 2014/15 RSG by approximately £136,000. We would appreciate an explanation of the reason for this deduction.

We also welcome the extension of the higher level of small business rate relief beyond 1 April 2014 and the other new reliefs announced in the Autumn Statement 2013. These reliefs will also help businesses in our area. However, we are concerned that we have not yet received any payment for the additional small business rate relief provided in 2013/14. This has cost the council in excess of £1m in lost revenue to date. We would like to know as a matter of urgency when the Section 31 Grant to cover the cost of this policy decision will be received?

We hope that in 2014/15 you will recompense local authorities on a more timely basis for all of these reliefs.

Increasing the safety net holdback

We are disappointed to see that the Government intend to holdback additional funding to support the safety net. This clearly indicates that the tariff level set by the Government is too low and this needs to be addressed. We are also concerned that a large proportion of the forecast safety net payments will be made to Westminster Council an authority with one of the highest levels of spending power per dwelling and the lowest Band D council tax in the country.

The Government needs to act urgently to close the loop hole in the business rates retention system that allows some local authorities to claim the full cost of providing for outstanding appeals in a single year (rather than over five years) and to pass on this cost to other authorities via the safety net holdback.

Removing the capitalisation holdback

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

We agree with the proposal to remove the capitalisation holdback.

However, we do not agree with the proposal to use this funding to provide new support to rural areas. See response to Question 3.

Whilst we have previously supported damping within the local authority finance system we do not support the use of the capitalisation holdback to pay for the proposed efficiency support grant. The fact that the spending power calculations show such a wide variation between authorities is a clear indication that Government's current approach to local authority funding is unfair and needs to be re-examined. Previous damping arrangements have been funded by those that could most afford it, this proposal uses funding previously top-sliced from some authorities that received higher than average spending power reductions in 2013/14 and therefore cannot be the right approach.

New Homes Bonus

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

We agree with proposal to reduce the New Homes Bonus holdback provided that the effect of the proposal is neutral to those authorities that would have received a refund through the New Homes Bonus Adjustment Grant. However, paragraph 3.3.3 of the consultation paper suggests that 'the £100m would be returned to authorities through the upper-tier, lower tier and fire funding elements of the Revenue Support Grant'. As Fire Authorities do not receive a New Homes Bonus allocation and have not contributed to the holdback, we see no justification for returning any part of this funding to Fire Authorities as proposed. The Government should return all of the £100m via the upper-tier and lower tier blocks only.

We welcome the Government's decision to reverse the proposal to force local authorities outside of London to pass on a proportion of their New Homes Bonus to the Local Enterprise Partnership.

However, we believe that the New Homes Bonus is not working. The Quarterly House Building Statistics published in November 2013 show that the number of new starts has been lower (below 30,000) in almost every quarter since the New Homes Bonus was introduced in April 2011. The Net Housing Supply Statistics published in November 2013 also show that the number of Net Additional Dwellings has been lower in 2011/12 and 2012/13 than it had been in any of the previous ten years. Clearly the New Homes Bonus is not achieving the required increase in housing growth and a different approach is needed.

The Government must urgently consider scrapping this policy which is redistributing vast sums of money, whilst failing to deliver a material increase in housing growth. This money should be put back into the Settlement Funding Assessment.

Transfer of 2013/14 council tax freeze grant into the settlement

We welcome the Government's decision to baseline the 2013/14 council tax freeze grant. This will ensure that those communities that took up the Government's offer to freeze their tax are not penalised for accepting this offer.

The Consultation also indicates that council tax freeze funding for 2011/12 has also been protected. However, examining the detailed breakdown of the SFA it appears that Sefton's 2011-12 Council Tax Freeze Compensation block has been reduced from £2,947,435 in the 2013/14 SFA to £2,934,258 in the 2014/15 SFA and to £2,933,276 in the 2015/16 SFA.

We would also like to see the Government to protect council tax support funding which under the propose SFA distribution is set to reduce by more than 10% in 2014/15, see further comments in response to Question 4.

Additional funding for rural authorities

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

We do not agree with this proposal.

Funding for rural areas was topped-up in the Relative Needs Formula that formed the baseline of the Start-Up Funding Assessment in 2013/14. In fact the weighting given to sparsity top-ups was increased from 2:1 to 3:1 and the proportion of the Relative Needs Formula accounted for by the population sparsity indicator under the District Level Environmental, Protective and Cultural Services block was increased from 3.7% to 5.5% as part of the 2013/14 Settlement. These changes increased funding for rural areas by approximately £80m according to DCLG exemplifications published in Business Rates Retention Technical consultation (July 2012). We can see no justification for further enhancing funding in rural areas at the expense of urban districts.

Draft Equality Statement

Question 4: Do you have any comments on the impact of the 2014-15 settlement on protected groups, as set out in the draft Equality Statement?

The provisional settlement fails to protect those communities that have higher than average numbers of low income households, particularly those with high numbers of pensioners such as Sefton.

The 2013/14 Settlement included funding to compensate councils for the loss of council tax benefit. The funding was provided via a council tax support (CTS) grant which was built into the Start-up Funding Assessment. This funding should have been protected as councils are required to provide a statutory discount to pensioners as well as setting their own scheme for working age claimants. However, the CTS funding has been subsumed within the upper and lower tier blocks of the SFA which have been reduced by -10.61% and -14.28% respectively in the provisional settlement. This element of the SFA should have been separately identified and protected in order for local authorities to be able to discharge their statutory duty to provide council tax support.

Announcement of Council Tax Referendum Principles

Last summer the Government announced on pages 9, 30, and 38 of the Spending Round 2013 Report that they planned to set the council tax referendum threshold at 2 per cent for 2014/15 and 2015/16. We are disappointed with the low level that was to be set as it is below both the Consumer Price Index (CPI) and Retail Price Index (RPI) inflation measures and gives local authorities no capacity to react to increases in demand for statutory services or unavoidable costs such as increases in utility bills without having to incur the cost of a referendum.

Given that the Secretary of State has not made an announcement on this issue we would like him to consider increasing the referendum threshold in line with the September RPI annual increase of 3.2%. We would also urge him to make a permanent link to the September RPI as this would be consistent with the statutory increase in business rates, putting both council taxpayers and business rate payers on an equal footing.

Brandon Lewis's statement on 18 December 2013 that he is 'open to representations suggesting that some lower threshold be applied to all or some categories of authorities' contradicts the previous published announcement and undermines local authority budget plans. How can authorities implement invest to save schemes and sensibly plan their future service provision when there is such uncertainty around the level of council tax income they can generate without incurring the unnecessary costs of a referendum?

Reports from the LGA Finance Conference suggest that an announcement on the referendum criteria might not be made until mid-February. The lack of clarity on this issue is preventing local authorities from finalising their budgets as we are unable to calculate whether or not we are setting an excessive council tax. Uncertainty at this stage is unhelpful and does not assist us in complying with our statutory duty to set a balanced budget.

Cumulative Impact of Spending Power Reductions

Sefton's spending power has fallen by more than the national average in every year since 2010. The Provisional Settlement for 2014/15 and the Illustrative Settlement for 2015/16 continue this pattern despite the addition of significant new resources for integrated services coming through the Better Care Fund in 2015/16. The table below compares the reduction in spending power in Sefton with the average for England in each year and shows how much extra funding has been cut from our community's services in comparison with the National Average:

Sefton's Spending power calculation						
Year	Previous Year Adjusted	Current Year	Change	Change %	National Average %	Compared to National Average
	£m	£m	£m			£m
2011/12	289.028	269.486	-19.542	-6.76%	-4.50%	-6.542
2012/13	266.257	255.807	-10.451	-3.93%	-3.34%	-1.545
2013/14	254.829	249.330	-5.500	-2.16%	-1.67%	-1.234
2014/15	271.588	260.453	-11.135	-4.10%	-3.09%	-2.755
2015/16	263.499	255.824	-7.675	-2.91%	-2.03%	-2.333
Total			**-54.303**			**-14.409**

These figures do not give the full picture as they do not include the impact of cuts made mid-year in 2010/11 (-£4.2m), business rates retention (-£2.8m), and localising council tax support (-£2.7m). They also ignore the impact of inflationary pressures and growth in demand for statutory services such as children's and adult social care.

The table shows that Sefton's residents are being asked to pay more towards the Government's deficit reduction programme.

In contrast the table below shows the same comparison using Spending Power information for Dorset (County) over the same period.

Dorset's Spending power calculation						
Year	Previous Year Adjusted	Current Year	Change	Change %	National Average %	Compared to National Average
	£m	£m	£m			£m
2011/12	289.232	289.932	0.700	0.24%	-4.50%	13.709
2012/13	288.988	285.744	-3.244	-1.12%	-3.34%	6.422
2013/14	285.906	281.317	-4.589	-1.61%	-1.67%	0.197
2014/15	296.871	294.455	-2.416	-0.81%	-3.09%	6.745
2015/16	300.989	306.792	5.802	1.93%	-2.03%	11.904
Total			**-3.747**			**38.977**

Residents of Dorset appear to be receiving more favourable treatment. Dorset's adjusted spending power was only £0.204m higher than Sefton's in 2010/11, however, they are set to enter 2015/16 with an extra £50.968m of spending power.

We ask the Government to reconsider the proposed distribution in 2014/15 and 2015/16 and to provide greater protection for those authorities that have already seen larger than average reductions in spending power in 2011/12, 2012/13 and 2013/14. The Department for

Communities and Local Government must do more to balance the cumulative impact of cuts on councils to ensure that town halls are able to manage the reductions.

Local Welfare Provision

On 1 April 2013, the Government abolished the system of discretionary payments from the DWP Social Fund. Responsibility for the new replacement scheme was passed to Local Authorities. Funding of £1.157m in 2013/14 and £1.141m for 2014/15 is to be received by Sefton to support both the administration of the replacement scheme and for programmed expenditure as a result of this new responsibility.

Grant funding for 2015/16 has not been announced. However, we are concerned that the Government's spending power calculations for 2015/16 indicate that no such grant will be paid in 2015/16.

Can you confirm as a matter of urgency that local authorities will continue to receive Social Fund grant allocations in 2015/16?