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Town Hall  
Trinity Road  
Bootle  
L20 7AE

To: Members of the Cabinet

Date: 14 January 2016  
Our Ref:  
Your Ref:

**Please contact:**  
Steve Pearce  
**Contact Number:** 0151 934 2046  
**Fax No:**  
**e-mail:** [steve.pearce@sefton.gov.uk](mailto:steve.pearce@sefton.gov.uk)

Dear Councillor

## **CABINET - THURSDAY 14TH JANUARY, 2016**

I refer to the agenda for the above meeting and now enclose the following paper which was unavailable when the agenda was printed.

<b>Agenda No.</b>	<b>Item</b>
10.	<b>Budget 2016/17 and Medium Term Financial Plan 2016 - 2020 (Pages 247 - 254)</b>  Proposed response to the consultation on the Local Government Finance Settlement 2016/17 attached

Yours sincerely,

J. COULE

Head of Regulation and Compliance

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## Consultation on the Local Government Finance Settlement 2016/17

### 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.

### Overall local government funding and new burdens

There were some positive headlines in the secretary of state's statement to parliament on 17 December 2015. The announcement that core spending power will be reduced by only 0.5% between 2015/16 and 2019/20 in cash terms and 6.7% in real terms, is better than we had expected last summer. These headline figures will no doubt raise the public's expectations that local government will be able to deal with this level of cuts through greater efficiencies and not by raising council tax. Unfortunately this does not reflect the reality of the situation:

- Local authorities have already faced real terms cuts in their core grant of around 40% and in Sefton's case the Council's grant funding has been cut by 46%, so most of the efficiencies have already been identified and taken.
- The Government have placed significant Unfunded New Burdens on local authorities including the change in National Insurance contributions, National Living Wage, and the Apprenticeship Levy. These changes are expected to increase Sefton's costs by around £20 million by 2019/20.
- Other grant funding streams (excluded from the core spending calculation) are being cut significantly over the spending review period. These include Public Health Grants which will be lower in 2016/17 than in 2015/16 despite additional responsibilities for 0 to 5 years olds being passed to Councils. Education Services Grant is also due to be cut by £600m (nationally) over the spending review period which will undermine the services supported by that grant stream.
- Additional Better Care Fund and Care Act monies have been included in the core funding calculation. This funding is needed to meet the increasing burden of an aging population and the new responsibilities under the Care Act. Offsetting this funding against the impact of the cuts is misleading and means that meeting our responsibilities for adult social care can only be achieved by cutting other local services.
- The Government's core funding projections assume an increase in council tax income of 21.4% in Sefton over the next four years.

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## **Revised approach to local government funding**

We welcome the move to a Core Funding approach that recognises the variation in different local authorities' abilities to raise funds locally through council tax. We would like to suggest that application of this equalisation approach be backdated to 2010/11 or 2013/14 (when the Business Rates Retention system was introduced) in order to correct the inequitable funding distribution used in the past five years. Please see our response to question 1 for more detail.

The move to offering multi-year settlements is welcomed but funding certainty should not be contingent on local authorities preparing additional efficiency returns which would be a cumbersome and bureaucratic approach. Local authorities already have a duty to prepare financial plans and produce a balanced budget. This should be sufficient.

It is also not clear what level of certainty is being gained as paragraph 5.3 of the consultation indicates that future settlements would be subject to the same changes as in previous years.

## **Funding for Adult Social Care**

Settlement recognises the significant pressure on adult social care services and provides additional funding via the 2% increase in the referendum threshold and the additional better care fund money. Both of these changes are welcome.

As an authority with a higher than average elderly population we would expect to fair better than other authorities who do not provide adult social services. However, our core spending power is reduced by 1.4% (£3.1m) over the 4 years compared to a national average reduction of 0.5% (£1.1m). Can you explain why this is the case when the Government says it is prioritising funding for adult social care?

## **Use of Reserves**

Despite the headline that funding is maintained at current levels over the next four years there is in fact a significant up front cut in local authority funding between 2016/17 and 2018/19. Managing the cuts in these years without impacting on services would require significant use of reserves.

There is a significant variation in the level of reserves held by different Council's. However, there is no recognition in the Settlement of the level of reserves held by local authorities and it does not address the impact of this on their ability to manage the front ending of the cuts.

At the end of March 2015 local authorities held reserves totalling £22.495 billion (DCLG press release issued on 19 November 2015). That is approximately £414 per head of population (based on ONS 2014 mid-year estimates). On the same date Sefton held reserves equivalent to £180 per head. This means that Sefton has a significantly lower capacity to smooth the impact of the funding cuts announced in the settlement.

We would like to see the level of funding given to those authorities holding the highest level of reserves reduced further between 2016/17 and 2018/19 in the Final Settlement and a greater level of funding passed to those authorities who have the lowest levels of reserves in order to increase their capacity to smooth the funding reductions over the next three years.

## **Distribution of Central Resources**

**Question 1:** Do you agree with the methodology for allocating central funding in 2016-17, as set out in paragraphs 2.6 to 2.8?

Yes.

The proposed change in distribution method is a welcome improvement on 2015/16 as it takes account of each authority's ability to raise income locally from council tax. However, it takes no account of the damage done to Sefton's resources between 2010/11 and 2015/16. During that time Sefton's spending power was reduced by 19.6% in cash terms (31.5% in real terms) compared to the average for England of 14.4% in cash terms (26.3% in real terms).

Sefton has a high proportion of elder residents. In 2014, 22.4% of Sefton's population were aged 65 years and over compared with 17.7% for England and Wales.

The higher level of funding reductions imposed since 2010/11 has had a significant impact on the Council's ability to deal with adult social care pressures. So we would like to see a larger share of the funding allocations between 2016/17 and 2019/20 targeted at those authorities that have been hardest hit by the funding reductions during the last parliament. This could be achieved by calculating the settlement core funding using a 2010/11 baseline. Authorities who would lose more funding as a result of this approach could be protected using a transitional pace of change approach that would ensure that by 2019/20 all authorities providing similar services are returned to their needs based funding levels. This would inevitably result in some high tax base authorities losing funding in comparison with the settlement set out in the consultation. However, those authorities have benefited from higher funding levels for the last 5 years so they should have sufficient resources and capacity to achieve greater efficiencies over this settlement period.

## **Council tax requirement for 2016/17**

**Question 2:** Do you agree with the proposed methodology for calculation of the council tax requirement for 2016-17, as set out in paragraphs 2.10 and 2.11?

Yes. This appears to be a sensible approach.

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**Question 3:** Do you agree with the proposed methodology in paragraph 2.12 for splitting the council tax requirement between sets of services?

This approach is consistent with previous settlements using the 2013/14 baseline. However, the actual service provision split will have changed between 2013/14 and 2016/17 as a result of the impact of funding cuts and prioritisation of services.

**Question 4:** Do you wish to propose any transitional measures to be used?

We would support transitional measures that assist those council's that have seen reductions in funding above the national average over the past five years as set out in our response to Question 1. We would not support transitional arrangements that would benefit high tax base authorities that have suffered from lower cuts in their core funding over the past five years.

## **New Homes Bonus**

**Question 5:** Do you agree with the Government's proposal to fund the New Homes Bonus in 2016-17 with £1.275 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.15?

We agree that the amount top-sliced should be matched as closely to the amount distributed as possible whilst allowing a margin for increases in the final allocation.

However, we believe that the New Homes Bonus is not working. The Department for Communities and Local Government's components of net housing supply statistics indicate that housing growth has been on average 50,666 per annum lower in the period (2010/11 to 2014/15) since the New Homes Bonus was introduced compared to the preceding four years (2006/07 to 2009/10) .

The New Homes Bonus scheme is not achieving the required increase in housing growth and a different approach is needed.

The Department's analysis of the financial impact of the New Homes Bonus (published in December 2014) showed a redistribution of funding from Metropolitan Districts and Shire Counties to London and Shire Districts. The report suggests that Sefton is £1.543 million worse-off as a result of the scheme in 2014/15. We estimated that the 2015/16 Settlement increased this funding loss to around £2.5m based on similar assumptions. This level of funding redistribution is unacceptable.

We welcome the Government's consultation on reform of the New Homes Bonus, however, we would like to see the proposals go further and the scheme be scrapped altogether.

**Question 6:** Do you agree with the Government's proposal to hold back £50 million to fund the business rates safety net in 2016-17, on the basis of the methodology described in paragraph 2.19?

We do not agree with this proposal.

The proposal to hold back £50 million to fund the business rates safety net demonstrates that the business rates retention system is not working properly. The safety net was intended to be from the levy and clearly this is not happening. The Government should reset the levy mechanism so that it fully funds the safety net. Alternatively the £50 million should be levied only against tariff authorities and not against top-up authorities who would not be subject to the levy.

### **Additional funding to support rural areas**

**Question 7:** Do you agree with the Government's proposed approach in paragraph 2.24 to paying £20 million additional funding to the most rural areas in 2016-17, distributed to the upper quartile of local authorities based on the super-sparsity indicator?

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. Those changes increased funding for rural areas by approximately £80m according to DCLG exemplifications published in Business Rates Retention Technical consultation (July 2012).

Also the DCLG analysis of the financial impact of the new homes bonus in 2014/15 showed that shire districts have seen a significant increase in their funding as a result of that scheme. So we can see no justification for further enhancing funding in rural areas at the expense of urban districts.

### **Local welfare provision funding**

**Question 8:** Do you agree with the Government's proposal that local welfare provision funding of £129.6 million and other funding elements should be identified within core spending power in 2016-17, as described in paragraph 2.28?

We agree that where specific grants / new responsibilities are transferred into the settlement funding assessment (SFA) they should be identified in separately. This ensures that such transfers do not result in an unintended redistribution of resources. However, in this case the published allocations are misleading as the Government did not fully fund the transfer in 2015/16. As a result the published allocations can only serve to raise expectations that can only be matched by cutting services elsewhere.

We would also like to see funding for Council Tax Support transferred to local government in 2013/14 identified within the settlement.

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## Care Act 2014

**Question 9:** Do you agree with the Government's proposal to include all of the grant funding for the Care Act 2014 (apart from that funded through the Better Care Fund) in the settlement, using the methodology set out in paragraph 3.2?

No. We would prefer to see this funding continue as a separate grant.

## Council Tax Freeze Grant 2015-16

**Question 10:** Do you agree with the Government's proposal to include all 2015-16 Council Tax Freeze Grant in the 2016-17 settlement, using the methodology set out in paragraph 3.3?

The proposal is consistent with the treatment of council tax freeze grant in previous years.

## Efficiency Support Grant 2015-16

**Question 11:** Do you agree with the Government's proposal to include all 2015-16 Efficiency Support Grant funding in the settlement and with the methodology set out in paragraph 3.5?

The proposal is consistent with the treatment of efficiency support grant in previous years.

## Funding for lead local flood authorities

**Question 12:** Do you agree with the Government's proposal to include funding for lead local flood authorities in the 2016/17 settlement, as described in paragraphs 3.6 and 3.7?

No. We would prefer to see the funding continue as a separate grant.

**Question 13:** Do you agree with the Government's proposal to pay a separate section 31 grant to lead local flood authorities to ensure funding for these activities increases in real terms in each year of the Parliament?

We would prefer to see all flood monies paid as a separate grant.

**Question 14:** Do you have any views on whether the grant for lead local flood authorities described in paragraph 3.8 should be ring-fenced for the Spending Review period?

We are opposed to the ring-fencing of funding streams. Particularly when that funding stream is included within the core settlement funding



## Future local government finance settlements

**Question 15:** Do you agree with the Government's proposal to adjust councils' tariffs / top ups where required to ensure that councils delivering the same set of services receive the same percentage change in settlement core funding for those sets of services?

Yes.

The proposal appears to offer an improvement on the approach taken in previous years (2013/14, 2014/15, 2015/16) as it recognises that local authorities have different abilities to raise money locally from council tax and business rates whilst at the same time they are required to provide similar statutory services to their communities

**Question 16:** Do you have an alternative suggestion for how to secure the required overall level of spending reductions to settlement core funding over the Parliament?

Please see response to Question 1.

## Equality impact assessment

**Question 17:** Do you have any comments on the impact of the 2016-17 settlement on persons who share a protected characteristic, and on the draft equality statement published alongside this consultation?

No specific comments.

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