SEFTON METROPOLITAN BOROUGH COUNCIL

Response to the Consultation on Payments in Connection with Local Retention of Non-Domestic Rates and Revenue Support Grant for 2013-14 and Related Matters.

Introduction

I am responding to the above consultation on behalf of Sefton Council.

My comments on specific areas of the consultation are set out below. I would ask the Minister to pay particular attention to the following areas:

- Council Tax Support Funding (Page 2)
- Council Tax Freeze Grant (Page 4)
- Council Tax Referendum Principles, Alternative Notional Amounts, and the impact of Levies (Page 5)
- Error in the Proportionate Shares Data for 2011/12 (Page 8)

Late Announcement of Settlement

The late timing of the settlement announcement and the late availability of supporting data has hindered the Authority's ability to fully assess the implications of the settlement and respond to the changes introduced as fully as we would have liked.

The limited time made available to construct a response has been particularly unhelpful given the significant changes made to the way local authorities are funded from 1 April 2013.

In a number of instances we are still awaiting information on our funding allocations e.g. Education Support Grant, Small Business Rate Relief Funding, and Extended Rights to Free Travel Grant.

Funding Cuts Announced in the Autumn Statement

We note that the funding cuts in 2014/15 are higher than previously expected as a result of the announcements made in the Autumn Statement 2012.

Whilst it is a relief that local authorities have been spared an additional 1% cut in 2013/14 it is disappointing that the Government have chosen to apply a further cut of 2% in 2014/15. This comes on top-of the local authorities facing 28% real terms cuts as a result of the Spending Review 2010, a further 1% cut as a result of the announcement on pay (Autumn Statement 2011), a 10% reduction in council tax benefit funding and the redistributive affects of both New Homes Bonus and Business Rates Retention.

Local authorities are struggling to reduce their spending against a backdrop of increasing demand for services and rising costs. **As well as reducing our funding the Government needs to address the level of burdens on local authorities.**

Council Tax Support Funding

As part of the 2010 Spending Review the Government announced that it would reduce spending on Council Tax Benefit by 10% and localise it from 2013/14. We have compared the level of funding provided in the settlement with supported expenditure in 2011/12 (latest available outturn data) and found that the reduction is actually 11.4%. Whilst the Government is anticipating a reduction in the value of benefit claims, we have not experienced this decline, in fact the value of claims in 2012/13 has continue to increase to take the funding shortfall up to 12.3%. If this trend continues, as we expect, the funding shortfall will be closer to 13.3% in 2013/14.

The Council has little option but to pass on the majority of this funding cut to working age claimants. Our scheme is still to be approved but is expected to cut council tax support by 20% in 2013/14. If we had passed on the full cost we would have had to cut support by more than 25%.

In our response to the technical consultation on business rate retention we asked the Government **not** to combine council tax support with formula funding in the start-up funding calculation as this would disadvantage those authorities with high levels of pensioner claimants. Local authorities have no power to reduce the level of support provided to pensioners yet funding for this group appears to have been cut year on year under the business rates retention scheme.

A comparison of the amount of formula funding and council tax support provided in the start-up funding calculation for 2013/14 and 2014/15 shows that Sefton's allocation has been reduced by 10.2%. Despite the Government indicating otherwise it appears that council tax support funding has been cut by 10.2% in 2014/15. If this pattern continues in future years we will not have sufficient funds to provide any support to working-age claimants by 2019/20. The table below shows how by 2019/20 the funding provided through the business rates retention scheme could be insufficient to meet the cost of council tax support to pensioners and would fail to meet the Government's own new burdens principle. Moreover there would be no funding within the business rate retention scheme to support working-age claimants from the full impact of their council tax bills.

Year	Council Tax Support Funding	Change %	Cost of Pensioner Claimants (November 2012)	Available for Working Age Claimants
2013/14	£24,202,400	-13.3%	£13,302,400	£10,900,000
2014/15	£21,733,700	-10.2%	£13,302,400	£8,431,300
2015/16	£19,516,900	-10.2%	£13,302,400	£6,214,500
2016/17	£17,526,200	-10.2%	£13,302,400	£4,223,800
2017/18	£15,738,500	-10.2%	£13,302,400	£2,436,100
2018/19	£14,133,200	-10.2%	£13,302,400	£830,800
2019/20	£12,691,600	-10.2%	£13,302,400	Nil

In a recent Department of Work and Pensions Report (Council Tax Benefit: Forecasts and Assumptions December 2012) they made the following comments (Section 3.2):

'Turning to the period beyond 2011/12, and excluding the 10% reduction in subsidised expenditure, we estimate that CTB expenditure will be roughly stable in Wales across the medium term and will decline in Scotland. For England we estimate that CTB expenditure will decline in 2013/14, increase in 2014/15 and then remain roughly stable.'

Can you explain why the Government appears to have reduced funding for council tax support in the period beyond 2013/14?

Can you also explain why you have chosen to treat council tax support differently from council tax freeze grant within the start-up funding calculation? This inconsistency penalises those authorities with high numbers of council tax benefit claimants whilst protecting those authorities with high tax bases who rely less on revenue support grant to meet the cost of national policy measures.

Given the significance of this change in funding we believe council tax support grant hshould bekept separate from formula funding or paid outside of the business rates retention scheme as a separate Section 31 grant.

We also disagree with the Government's decision not to fund the cost of entitlement relating to the previous financial year as announced in November 2012. This is yet another unfunded burden placed on local authorities.

Changes to the Formula Funding Model

In our response to the technical consultation on business rates retention we commented that the concessionary travel formula and top ups for the cost of rural services should not be changed. We continue to support the view that stability should have been maintained in setting the baseline for the business rates retention system.

We are disappointed to see the continued use of population projections in the calculation of the baseline as these have proven to be inaccurate in previous years. We support the use of the latest available data which would have been the mid-year estimates.

We support the move to update the level of relative resources to better reflect each authority's ability to raise funds locally. However, the way in which the formula funding model is constructed fails to achieve this. This has been made worse in 2013/14 as the forecast tax base fails to take account of the impact of the localisation of council tax support. There would have been little difficulty in amending the calculation for this change as the Government have already calculated the required tax base adjustment as part of Alternative Notional Amounts calculation.

Damping

We welcome the continued use of banded floor damping in 2013/14. However, in the last two settlements the gap between group 1 and group 2 has been limited to 1%. We anticipated that this would continue in 2013/14. The additional 1% reduction in damping has reduced our baseline funding by £1.163m in 2013/14. **We believe that it is essential that the previous 1% gap is restored in the final settlement calculation.**

Data Correction

We have checked were possible the Relative Needs Formula Indicator Data. Only one minor error has been identified. **We note that table 1 shows 380 secondary pupils in low achieving ethnic groups, whereas our records indicate 381.**

Spending Power

The spending power calculation published with the settlement papers understates the reduction in spending power between 2012/13 and 2013/14 for the following reasons:

a) Council tax support funding is included in the 2012/13 Start-up funding figure when no funding was received.
b) No adjustment has been made to the council tax requirement in 2013/14 to reflect the loss of council tax benefit.
c) The adjustments for Early Intervention Grant transfers and top-slice underestimate the reduction in spending power in this area.
d) Housing Benefit Subsidy Administration Grant has been excluded from the calculation when another new administration grant, the Social Fund Administration Grant, has been included. Housing Benefit Subsidy Administration Grant was included in the 2011/12 spending power calculation so this treatment is inconsistent with previous calculations.

The combined impact of these changes would increase the reduction in spending power for Sefton from -2.18% to -3.93%.

The spending power calculation continues to highlight the significant variation in the impact of the Government's funding policies on different authorities. Whilst our communities face spending power reductions in each year of the spending review period, other authorities continue to see their spending power increase.

Council Tax Freeze Grant

We welcome the announcement that council tax freeze grant allocations will be based on the tax base calculated without taking into account reductions in council tax to be awarded under a council tax reduction scheme to ensure that calculation of the freeze grant is consistent with previous years.

We are disappointed that councils such as Sefton that have worked with the Government over the past two years to freeze council tax might be caught out by the referendum criteria in 2013/14 whilst still qualifying for the freeze grant. This occurs as a result of the impact of the levies and council tax reduction schemes on the referendum calculation.

We have sensibly planned with our levying bodies to produce a budget that would allow us to freeze council tax in 2013/14 and accept the grant offered by the Government only to find that the alternative notional amounts calculated as part of the referendum criteria would mean that by freezing our Band D tax we would trigger a referendum. Holding a referendum in order to freeze council tax is not a sensible use of public funds. Surely this could not have been the Government's intention when it introduced the council tax referendum regulations in the Localism Act.

We request that you modify the referendum criteria to allow those local authorities who froze their council tax in 2012/13 to avoid the referendum criteria if they freeze their Band D tax in 2013/14.

Council Tax Referendum Principles, Alternative Notional Amounts, and the impact of Levies

The current proposals for 2013/14 for excluding levies prevent the Council from funding increased waste collection costs through increased waste disposal income. This anomaly only affects a handful of authorities and prevents local service planning from being successfully implemented. Likewise it makes significant cost savings on transport from being used to support the most vulnerable with social care. We would welcome the opportunity to have a fuller conversation with the DCLG on this matter.

We believe that the council tax referendum regulations introduced by this government are resulting in dysfunctional decision making as a result of the use of flawed relevant amounts.

There are a number of issues here:

1. Funding for waste and transport services provided by levying bodies is paid to local authorities. When funding for these services is reduced there is no-pressure on the levying bodies to reduce their costs. Instead the funding reductions result in service reductions in other areas.

   The table below illustrates the potential impact that a £5m reduction in funding for waste disposal could have on adult social care spending if the increase in the relevant amount is limited to 2%:

Expenditure	Year 1	Year 2
Council Budget - Adult Social Care Expenditure	£200m	£197m
Council Budget - Formula Grant	-£100m	-£95m
Council Budget - Net	£100m	£102m
Levying Body - Waste Disposal Expenditure	£30m	£30m
Council Tax Requirement	£130m	£132m
Tax Base	100,000	100,000
Relevant Amount (increase limited @ 2%)	£1,000	£1,020
Band D Tax (resulting increase = 1.54%)	£1,300	£1,320

   Spending on adult social care has had to be reduced by £3m despite funding for this area of spending being maintained. The council tax requirement has increased and expenditure on waste disposal has not been reduced. If spending on adult social care was maintained the council would need to hold a referendum.

   Even if waste spending was cut, the reduction in funding for waste disposal would need to be passed on to council tax payers rather than being used to support Adult Social Care. This position is illustrated in the table below:

Expenditure	Year 1	Year 2
Council Budget - Adult Social Care Expenditure	£200m	£197m
Council Budget - Formula Grant	-£100m	-£95m
Council Budget - Net	£100m	£102m
Levying Body - Waste Disposal Expenditure	£30m	£25m
Council Tax Requirement	£130m	£127m
Tax Base	100,000	100,000
Relevant Amount (increase limited @ 2%)	£1,000	£1,020
Band D Tax (resulting increase = 1.54%)	£1,300	£1,270

The position is different in a Unitary Authority such as Warrington which manages its own waste disposal function. In such an authority the savings achieved in waste could be used to fund additional expenditure on Adult Social Care without breaching the referendum criteria. This is illustrated in the following table:

Expenditure	Year 1	Year 2
Council Budget - Adult Social Care Expenditure	£200m	£202.6m
Council Budget - Formula Grant	-£100m	-£95m
Council Budget - Waste Disposal Expenditure	£30m	£25m
Council Budget - Net	£130m	£132.6m
Council Tax Requirement	£130m	£132.6m
Tax Base	100,000	100,000
Relevant Amount (increase limited @ 2%)	£1,300	£1,326
Band D Tax (resulting increase = 2%)	£1,300	£1,326

We would ask the Secretary of State to review the way in which the referendum criteria is operating and make sensible changes to put Sefton and other authorities subject to waste and transport levies on an even footing with those that provide these services in-house. This could be achieved simply by discounting waste disposal and transport authority levies from the levy adjustment in the relevant amounts calculation or alternatively by basing the criteria solely on the actual increase in Band D.

2. Those councils that accepted the freeze grant in 2013/14 have been penalised by the referendum criteria. No account has been taken of this reduction in funding within the proposed calculation of the Alternative Notional Amount (ANA).

   We would ask the Secretary of State to assist those Council's that accepted the freeze grant in 2012/13, by adjusting the Alternative Notional Amount to take account of a 1% reduction in Council Tax Freeze Grant.

3. The use of relevant amounts of council tax and Alternative Notional Amounts has caused confusion in what should have been a relatively straight forward mechanism for controlling increases in council tax. The original proposals for council tax referendums led us to believe that we could plan for a straightforward increase in our band D council tax. Changes to funding mechanisms such as the localisation of council tax support should not affect financial planning assumptions because the referendum trigger would be based on a simple measure of the Band D increase. This has not proved to be the case for Sefton. The removal of council tax benefit and its replacement with council tax support grant has not only reduced the Council's tax base but has also reduced its relevant amount for 2012/13 from £852.36 (per CTB1 2012/13) to £765.57 (per ANA consultation). The use of a higher amount of Council Tax Support Funding in calculating the ANA has understated the Alternative Notional Amount. This has put the Council's budget in a worse position than could have been anticipated.

4. The way in which the relevant amount is calculated and the impact of this on future budgets has meant that taking the additional transitional funding for council tax support has not been a realistic option.

5. The 2% criteria announced for 2013/14 is well below inflation (RPI = 3.1% in December 2012 / CPI = 2.7% in December 2012). This means that council tax payers are protected at the expense of service users who without a successful referendum vote will see cuts in services.

6. The 2% criteria announced for 2013/14 is lower than the 3.5% used in 2012/13. This has meant that authorities are unable to charge more to those that can afford to pay in order to protect those that cannot.

Business Rates Retention Scheme

Calculation of Estimated National Business Rates Aggregate for 2013-14

Notional Local List Yield: We welcome the inclusion of a forecast 0.35% reduction in rateable value in the calculation of rateable value at 30 September 2013. However, this is far lower than our authority has experienced over the past six months. If we calculate our forecast on the same basis we would see a 2.1% reduction in rateable value at September 2013.

Mandatory Reliefs: The amount of mandatory reliefs appears low when compared with the figures reported in the NNDR3 for 2011/12. Mandatory reliefs totalled £2,115.6m in 2011/12. This was 8.7% of the £24,306.5m of rates payable in the year. If this percentage was applied in 2013/14, the estimated amount of mandatory relief would be £2,288m. If the amount paid in 2011/12 was uplifted by the September RPI for 2011 and 2012 the amount of mandatory reliefs would be £2,292m (=£2,115.6 x 1.056 x 1.026). **We think the deduction for mandatory reliefs needs to be increased to at least £2,288m.**

Small Business Rate Relief: The estimated cost of small business rate relief appears low when compared with the amount reported in any year between 2007/08 and 2010/11. The cost in these years ranged between £145m in 2008/09 and £188m in 2009/10. The net cost of this relief, £162.5m in 2010/11, represented 0.7% of the £23,083m of gross rates payable in the year. If this percentage was applied in 2013/14, the estimated amount of small business rate relief would be £184m. **We think the deduction for small business rate relief needs to be increased to £184m.**

Losses in collection: The estimated £206m of losses in collection is lower than the amount recorded in the NNDR3 in any of the past 4 years: £215.2m in 2008/09, £238.3m in 2009/10, £214.8m in 2010/11 and £260.1m in 2011/12. It represents only 0.863% of net yield (after reliefs). The 2012/13 NNDR1 allowed between 1.0% for a non-metropolitan district and 1.5% for an outer London borough. The forecast represents only 0.78% of gross rate yield compared with an average of 0.923% based on NNDR3 over 5 years or 1.018% over the last 4 years. If the amount had been calculated at 0.923% of gross rate yield it would have been £243m (=£26,297m x 0.923%) and £268m if it was calculated at 1.018% of gross rate yield. If the amount had been calculated at 1.25% of net yield (after reliefs) the half way point on the 2012/13 NNDR1, it would have been £298m (=1.25% x £23.860m). **We think the deduction for losses in collection needs to be increased to at least £268m.**

Appeals adjustment: We welcome the additional adjustment for appeals announced in the Government's policy document. However, we are still concerned that the level of appeals may exceed the amount allowed in the national business rates aggregate. We also note that the 2.65% reduction has been applied to the 'adjusted local list income' after allowing for the calibration adjustment, whilst the calibration adjustment was applied to the 'net local list income'. We think these adjustments should have been applied in a consistent way. The appeals adjustment should have been applied to the 'net local list income' giving an adjustment figure of £624m (=£23,560m x 2.65%). **We think the appeals adjustment needs to be increased to £624m.**

Revised National Business Rates Aggregate

If the required revisions were made, the national business rates aggregate would reduce from £21,797m to £21,459m as summarised in the table below:

	£ million
Estimated Business Rates Aggregate (Per Consultation)	**21,797**
Mandatory Reliefs: Increased from -£2,169m to -£2,288m	-119
Small Business Rate Relief: Increased from -£58m to -£184m	-126
Losses in collection: Increased from -£206m to -£268m	-62
Appeals adjustment: Increased from -£593m to -£624m	-31
Estimated Business Rates Aggregate (Revised)	**21,459**

Proportionate Shares

We welcome the announcement that proportionate shares would be based on two years of data rather than 5 years as suggested in the business rates retention technical consultation in published July 2012. However, we note that this approach fails to take account of relative changes in gross rateable values since 2011/12. Sefton's gross rateable value has changed from £182.171m on 31 March 2011 to £180.255m on 30 September 2012, a reduction of 1.05%. At the same time the total rateable value for England has reduced by only 0.17%. This puts our residents at a disadvantage on the first day of business rates localisation as we have to make budget reductions in 2013/14 equal to the value of the difference between the local and national change in 2012/13.

The amounts shown in table C: Proportionate Share & Business Rates Baseline Calculation – Consultation are incorrect. The figures for the Relevant Amounts for 2010/11 appear to have been repeated against 2011/12. The 'Contribution to the Pool' figure for 2011/12 used in the proportionate shares calculation is £866 higher than the amount shown in our NNDR3 return. The variation is shown below:

Contribution to the Pool	2011/12 £
Proportionate Shares Calculation	65,877,894
NNDR3 Return	65,877,028
Variation	866

This figure needs to be corrected in the final settlement.

Small Business Rates Relief

On 5 December 2012, the Chancellor's Autumn Statement announced an extension of the current small business rate relief scheme in 2013/14. The cost of this extension has been excluded from the calculation of the estimated business rates aggregate as they are to be funded outside of the rate retention scheme. However, the additional costs are required to be reported in line 5 of the NNDR1, which records them as being inside the rate retention scheme. This appears to be inconsistent.

We believe that the 'additional cost' of the extension of the small business rates relief should have been recorded separately after line 36 in the NNDR1 in the same way as transitional relief. This would have avoided any impact on local authority budgets as the additional cost of the relief could have been dealt with entirely within the collection fund.

Early Intervention Funding

In 2012/2013 the Council received an Early Intervention Grant Allocation of £11.808m. The amount included in the Start-Up Funding Assessment for 2013/14 is only £8.348m, a reduction of £3.460m (29.3%). This is higher than the national average reduction.

Unexpected loss of funding

The total amount of Early Intervention funding provided in both 2013/14 and 2014/15 is lower than previously indicated. The table below compares the figures published in the Business Rates Technical Consultation issued in July 2012 against the settlement figures published in December 2012.

Year	Amount of EIG proposed in the Business Rates Retention Technical Consultation (July 2012) £ million	Amount of EIG proposed in the Settlement (December 2012) £ million	Variation £ million
2013/14	1,726.180	1,708.918	17.262
2014/15	1,632.680	1,600.026	32.654

Can you explain the reason for this additional grant reduction?

Inconsistent Funding Transfer

The adjustment to the 2012/13 Early Intervention Grant used in the Early Intervention Funding Calculation is higher than expected and leads to a lower base line grant allocation in 2013/14. This appears to be because the transfer of funding to DSG has been done in a way that is not consistent with the similar transfer of funding to the New Education Services Grant. The table below shows a comparison of the expected baseline adjustment calculated pro-rata to the DSG funding for early education places for 2-year-olds from lower income households in 2013/14.

Anticipated baseline adjustment	**£ million**
Share of £150m top-slice allocated pro-rata to 2012/13 allocation (= £150m x 0.499%)	0.748
Share of 2 year old funding pro-rata to DSG funding for early education places for 2-year-olds from lower income households (= £301m x 0.406%)	1.220
Total	**1.968**
Adjustment in EIG calculation	2.217
Loss of funding as a result of EIG calculation adjustment methodology	**0.249**

Why has this transfer been treated in a different way to the transfer of funding to the Education Services Grant? We believe that transfers should be done on a consistent basis to ensure that all authorities are treated fairly and do not lose funding simply as a result of a change in grant delivery system.

Additional Budget Pressure

The amount of grant transferred from EIG is far in excess of the £0.494m currently spent on provision of early education places for 2-year-olds from lower income households. This is a further budget pressure again simply as a result of a change in the grant delivery system. It undermines the principle of local decision making and increases the level of funding that is delivered through ring-fenced funding. This goes in the face of previous announcements that the Government would reduce the use of ring-fenced grants.

How was the quantum for this transfer calculated, what expenditure data sources were used and how has it end up so much higher than the amount spent by local authorities?

£150 Top-Slice

No announcement has been made about the allocation of the £150m top-sliced from the EIG Funding. The lack of clarity over grant allocations is unhelpful in terms of budget planning. The late announcement of funding allocations can lead to unnecessary cuts in services or the inefficient use of reserves.

I trust you will consider the issues raised above and look forward to receiving your response on these matters.