# Briefing for Members: DCLG Summer Consultations

DCLG has recently launched four local government funding consultations:

- The distribution of settlement funding in 2014/15 and 2015/16 (deadline 2 October)
- How the top-slice of New Homes Bonus funding to be allocated to LEPs should be made (deadline 19 September)
- Using capital receipts to invest in service reform (deadline 24 September)
- A revised prospectus on rates pooling (which is not technically a consultation, but has a deadline of 31 October for new or revised pools)

## Settlement Funding

*Introduction*

The first consultation holds no good news for the rural campaign but will give it extra impetus with MPs from rural constituencies. The paper contains no proposals for formula changes or a timetable for the positive changes we saw in the last settlement to flow through into actual allocations. Indeed rural authorities are not even mentioned and there is no hint that last year's £8.5m sparsity grant will be repeated.

Overall the 50% per head funding gap (63% in terms of £ per property favoured by DCLG Ministers) between rural authorities and their urban counterparts is unchanged or broadened slightly depending on the exact comparison made.

<u>This means that the Parliamentary Constituency Petition is even more important to support the action that MPs will be undertaking through the autumn period.</u>

*Overall Funding*

The consultation makes proposals for achieving the 1% funding reduction for 2014/15 announced in the March 2013 budget. This is little more than a top-slice affecting almost all authorities equally.

The meat of the consultation concerns 2015/16. The Government made much of two figures in its recent Spending Round: a 10% real-terms cut in local government <u>funding</u> and a 2.3% real-terms cut in local government <u>spending</u> (i.e. including council tax ) in that year.

Both these numbers are highly misleading and the impact on local government will be considerably greater. The reasons for this are that:

- The comparison is not like-for-like. The headline figures include new initiatives such as £200m for Troubled Families, £335m for implementing new social care policies and £30m for securing fire service efficiencies

- Some of the money is being held back to ensure that DCLG can operate the rates retention scheme within their allocations from the Treasury

- Local government will be forced to pass £400m of New Homes Bonus money – previously completely unfenced – to LEPs. While this may or may not produce a positive outcome overall, the £400m will not be available to support salaries and other council costs it presently meets

In terms of the ability to fund on-going operations, our calculation is that the funding cut in real-terms is about 15%.

*Distribution*

We are, of course, bitterly disappointed that our campaign to secure a fairer share for rural areas appears to have made no progress despite the strength of the case being generally accepted in Government.

This consultation moves more money around than we might have expected in the middle of a so-called formula freeze. This has been achieved by applying different cuts to different parts of the settlement. For example several special grants that were rolled into the system last year have not been cut at all, including the council tax freeze money in respect of 2011/12 (which every authority accepted).

The corollary of this is that a far greater cut has been applied to the remaining grant, which effectively includes all the money for high needs – both deprivation-related and for sparsity. The overall impact is a significant shift in resources away from high need and/or low taxbase areas to the urban south east. This is by far the most noticeable impact of the proposals and we must do everything possible to ensure that SPARSE's voice is not lost in the coming debate.

The Greater London Authority has received by far the best settlement of any authority over the two years: a small increase rather than cuts which are typically 20%. This is because the Government has artificially linked almost all of its income to business rates, which rise with inflation. We shall not be the only authority group complaining bitterly about this disgraceful decision.

Shire districts did a little better than might have been expected compared to counties, with similar cuts for both despite perceptions that social care needs would receive additional support.

## New Homes Bonus

DCLG has also consulted on two methods for extracting the £400m of NHB to be passed to LEPs. The first is a straight pro-rata top slice from each LA; the second removes the county council share completely and takes the remainder from shire districts pro-rata. SPARSE will take no view on the distributional aspect of this issue.

## Asset Sales

This is a rather vaguer consultation to gauge the level of interest and to generate ideas for how it might work in practice. No funding level has been discussed, though any revenue spend from capital may have implications for the settlement process.

**Draft Response from SPARSE – Main Consultation**

**Question 1: Do you agree with the Government's proposal on how to implement the 1% reduction to the Local Government Expenditure Limit (LG DEL)?**

No. We are disappointed that the extra funding needs of sparsely-populated areas identified in last year's review will continue to fail to reach local authorities.

**Question 2: Do you agree with the proposal for reducing the funding available for capitalisation for 2014-15 by £50m and using this revenue to reduce the amount required to be held back from *Revenue Support Grant* to fund the safety net?**

Yes.

**Question 3: Do you agree with the way the Government proposes to hold back the funding that is necessary for New Homes Bonus and safety net support, and to return any surplus to authorities?**

Yes.

**Question 4: Do you agree with the proposed methodology for calculating control totals for each of the elements within the *Settlement Funding Assessment*?**

No.

As for 2014/15, we believe that the extra funding needs of sparsely-populated areas identified in last year's review should reach local authorities over a reasonable period.

The decision to guarantee the GLA funding increases by linking most of their funding to RPI through business rates is disgraceful. Every authority should be treated on a fair and consistent basis.

**Question 5: Do you agree with the proposed methodology for transferring in the 2013-14 Council Tax Freeze Compensation?**

We would prefer the money to have been spent to address the needs of rural areas identified by the Government in the review last year.

**Question 6: Do you agree with the proposed methodology for adjusting the 2015-16 settlement to take account of the loss of tax revenue due to the Exchequer from the local authorities who are too small to participate in the Carbon Reduction Commitment Energy Efficiency Scheme?**

No. We would need far more information before commenting fully. As a matter of principle any policy reversal ought to reverse the funding that accompanied that policy originally.

## Draft Response from SPARSE – New Homes Bonus Consultation

**Question 1: We would welcome views on the underlying principles of pooling the New Homes Bonus in this way, with specific regard to ensuring that pooled funding remains in the Local Enterprise Area where it originates and that the method of calculating the Bonus remains unchanged?**

We have no particular issue with the mechanism, though removing even more resources from local government on top of two particularly tough years will leave many councils struggling to meet day-to-day bills.

**Question 2: The first mechanism is that an equal percentage of all New Homes Bonus allocations will be pooled to the lead authority of their Local Enterprise Partnership, the precise percentage to be determined, but will be that necessary to make £400m nationally. Do respondents consider this to be an appropriate method?**

It is not appropriate for us to comment.

**Question 3: The second mechanism would act as described above for all areas with a single tier of local government (unitary authorities, metropolitan boroughs, etc). Where areas have two tiers of local government (lower tier district councils and upper tier counties) the alternative distribution mechanism would operate whereby upper tier authorities would surrender all of their New Homes Bonus, with the balance coming from the lower tier. Do respondents consider this to be a preferable method of pooling for two tier areas?**

It is not appropriate for us to comment.

**Question 4: Do respondents consider that the content of the proposed condition placed on the section 31 grant will be sufficient to enforce the local pooling of the New Homes Bonus funds?**

Yes.

**Question 5: The government considers that the existing accountability arrangements for Local Enterprise Partnership should apply to pooled funding as these are considered to provide sufficient safeguards for the protection of spending. Do recipients agree?**

Yes.

**Question 6: Do recipients agree that locally pooled New Homes Bonus in London should pass to the Greater London Authority to be spent under existing arrangements?**

Not applicable.

**Question 7: Do you agree that where an authority is a member of more than one Local Enterprise Partnership, then the proportion to be pooled should be divided equally amongst the Local Enterprise Partnerships?**

Yes.

**Question 8a: The Government proposes that where local authorities can demonstrate that they have committed contractually to use future bonus allocations on local growth priorities, Local Enterprise Partnerships should take this into account when determining their local growth plan and their priorities for using pooled funding. Do respondents agree with this proposal?**

Yes.

**Question 8b: If respondents disagree with question 8a are there alternative approaches for dealing with such commitments?**

N/A

**Question 8c: Are there other circumstances in which a spending commitment should be taken into account by the Local Enterprise Partnership?**

Yes, although we feel that less formal arrangements that involve similar investment should also qualify.

## Draft Response Letter from SPARSE – Main Consultation

Thank you for the opportunity to comment on the Government's proposals.

It will not surprise you that we are bitterly disappointed at the failure to make any progress towards narrowing the rural penalty where urban areas enjoy 50% more funding per head (63% in terms of £ per property favoured by DCLG Ministers) than their rural counterparts. Indeed, the gap has widened slightly on these figures.

We cannot see the logic where a major review last year identifies the additional needs of rural areas but then only a small proportion of the extra funding identified in that review ever reaches its target authorities. Was that simply a sop and the Department never intended to implement the full change? Or has the Government changed its mind without telling anyone?

Though many urban authorities are clearly suffering under the recent cuts, we still contend that the position of rural authorities needs special attention. We say this for several reasons: the extra costs of providing services in sparsely-populated areas were never properly recognised in the past; rural authorities generally had fewer discretionary services and hence could not implement the cuts so easily; many rural areas, despite their residents paying more in council tax than their urban counterpoints, do not benefit from a high council taxbase to offset some of the cuts; and rural areas cannot possibly benefit from house building or business rates growth as much as most urban counterparts.

We find the Government's decision to all-but guarantee the Greater London Authority an increase in funding each year quite staggering. The GLA will receive over £100m more than the national average cut would have given them in 2014/15 and over £200m more in 2015/16. Such partial treatment brings the whole system into disrepute and we implore the Government to treat every authority on a transparently fair basis.

We reiterate our desire – which we regard as fully-justified – to reduce the rural penalty steadily and by ten percentage points by 2020 in line with the current formulae. If the settlements for 2014/15 and 2015/16 cannot be used to begin this process then the ESSSA Grant introduced this year should be increased and extended to the same end.

Our response to the specific questions in the consultation is attached.