

Policy Context

1. The Government is consulting on the provisional Local Government Finance Settlement 2018 to 2019, the third of a four-year settlement offer which commenced in 2016/17 based on figures arising from the Spending Review.
2. The Government announced the detailed figures behind these reductions in its September 2017 technical consultation, which incorporated additional funding announced in the 2017 Spring Budget for the improved Better Care Fund.
3. Following this, the Department for Communities and Local Government (now the Ministry of Housing, Communities & Local Government) issued its statutory consultation on the provisional settlement on 19 December, seeking the views of local government on its proposals for 2018/19 funding. The Council responded to this consultation on 16 January 2018 (attached).

Background

4. The Government's consultation on the Provisional Local Government Finance Settlement 2018 to 2019 sets out the national funding proposals for local authorities for 2018/19 and provides indicative information for 2019/20.
5. The settlement is largely in line with expectations, with the primary differences being additional funding for the improved Better Care Fund and reduced council tax income for Gateshead compared with expectations in 2016/17.

Issues arising within the consultation

6. The main issues discussed within the consultation are summarised below, with the Council's full responses to the consultation questions attached in the Council's full response:
 - The settlement notes that local areas should be accountable for local decision-making and that inflation justifies some flexibility in the Government's pledge to minimise council tax rises, yet the settlement then goes on to assume that all councils will implement the maximum allowable council tax rises. As such, the Government is passing tax burdens from central to local government taxpayers without addressing the fundamental issue of unfair funding and the impact on council tax levels.
 - The Government has again failed to acknowledge and adequately tackle the rapidly escalating funding problems in the health and social care sector. The failure to sufficiently fund both local authorities and the NHS is resulting in major problems that will not be alleviated by allowing local authorities to levy a small additional amount of council tax, and disparities in council tax bases mean that the additional funding achievable will dramatically differ from area to area and creates an unfair burden on taxpayers.
 - RSG is being cut by almost £5bn between 2016/17 and 2019/20 (ignoring negative RSG), cuts that are creating huge systemic problems.
 - The settlement includes some questionable assumptions about future increases in other income streams available to local authorities. Settlement estimates are based upon the highest possible increases in council tax (without triggering referenda) and significant increases in the net number of homes, plus potentially optimistic forecasts around inflation and business rate increases. These

calculations mask the true cuts being made to the funding of local authorities as they will in many cases be unachievable at a local level.

- Public Health cuts are not constructive in the longer term, as proactive preventative action now results in lower future cost pressures; reducing funding is simply creating future problems.
- It is unclear as to the need for the extreme variances evident in the funding reductions for individual councils. The Government is set on continuing with a system that has embedded unfairness and inequity, and this will continue for the foreseeable future unless the Fair Funding Review addresses this. For example, the Council's Core Spending Power cut between 2015/16 and 2019/20 is £4.25m higher than the average cut and areas such as the north east are impacted detrimentally for no obvious reason.
- New Homes Bonus baseline: the Council has long argued against the scheme due to its disproportionate negative impact on the North East and other deprived areas. The scheme itself is a major driver in embedding inequality and unfairness within the RSG methodology given the trade-off between the two systems introduced by the Government.

Consultation

7. Consultation has taken place with SIGOMA.

Alternative Options

8. No alternative options have been considered.

Implications of Recommended Option

9. Resources:

- a) **Financial Implications** – Any financial implications are subject to the outcome of the consultation.
- b) **Human Resources Implications** - None.
- c) **Property Implications** - None.

10. **Risk Management Implication** - None.

11. **Equality and Diversity Implications** - None.

12. **Crime and Disorder Implications** - None.

13. **Health Implications** - None.

14. **Sustainability Implications** - None.

15. **Human Rights Implications** - None.

16. **Area and Ward Implications** - None.

Gateshead Council response to the Department for Communities and Local Government consultation on the Provisional Local Government Finance Settlement for 2018 to 2019

Roger Palmer
Department for Communities and Local Government
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

Date: 16 January 2018

Dear Mr Palmer

Provisional Local Government Finance Settlement 2018/19 December 2017 Consultation

Gateshead Council welcomes the opportunity to respond to the Department's consultation on the provisional Local Government Finance Settlement for 2018/19.

The Council remains deeply concerned about the Government's commitment to a fair and adequate approach to local government funding, with the key issues identified as follows:

- The settlement notes that local areas should be accountable for local decision-making and that inflation justifies some flexibility in the Government's pledge to minimise council tax rises, yet the settlement then goes on to assume that all councils will implement the maximum allowable council tax rises. As such, the Government is expecting this gap to be filled by local authorities increasing local taxes to households and local businesses and it is simply passing tax burdens from central to local government taxpayers without addressing the fundamental issue of unfair funding and the impact on council tax levels. Ability to increase council tax disproportionately benefits councils with high tax bases, who can generate significantly more funding from any given percentage increase.
- In the 2018/19 settlement, the Government has again failed to acknowledge and adequately tackle the rapidly escalating funding problems in the health and social care sector. The failure to sufficiently fund both local authorities and the NHS is resulting in major problems that will not be alleviated by allowing local authorities to levy a small additional amount of council tax, and disparities in council tax bases mean that the additional funding achievable will dramatically differ from area to area and also create an unfair burden on taxpayers. The way the Government has chosen to accelerate the limited increase to council tax levy will also negatively impact on sustainability of budgets in the medium term.
- Despite being subject to the 4-year settlement, the Council would like to re-iterate its objections to the ongoing, severe cuts to RSG that are preventing councils from providing critical services and supporting and growing local areas. A further £1.4bn (or 28%) is being removed from the system in 2018/19, funding that could have been used to offset the impact of demographic pressures across England. RSG is being cut by almost £5bn between 2016/17 and 2019/20 (ignoring negative RSG), cuts that are creating huge systemic problems.
- The settlement includes some questionable assumptions about future increases in other income streams available to local authorities. Settlement estimates are based upon the

highest possible increases in council tax (without triggering referenda) and significant increases in the net number of homes, plus potentially optimistic forecasts around inflation and business rate increases. These calculations mask the true cuts being made to the funding of local authorities as they will in many cases be unachievable at a local level.

- Public Health: it should be stressed that cuts to public health are not constructive in the longer term, as proactive preventative action now results in lower future cost pressures; reducing funding is simply creating future problems.
- At a general level, it is unclear as to the need for the extreme variances evident in the funding reductions for individual councils. The Government is set on continuing with a system that has embedded unfairness and inequity, and this will continue for the foreseeable future unless the Fair Funding Review addresses this. For example, the Council's Core Spending Power cut between 2015/16 and 2019/20 is £4.25m higher than the average cut and areas such as the north east are impacted detrimentally for no obvious reason. The settlement now shows no logic in its approach, with an apparent scattergun to funding increases or decreases. It is unclear why such disparities in funding changes should exist, or what the drivers are behind the changes and the implications for local services. It is clear that housebuilding and commercial growth assumptions are influencing overall funding settlements with an obvious eventual outcome of widening inequality between areas.
- New Homes Bonus baseline – the Council has long argued against the scheme due to its disproportionate negative impact on the North East and other deprived areas. The scheme itself is a major driver in embedding inequality and unfairness within the RSG methodology given the trade-off between the two systems introduced by the Government. The Council is disappointed that the Government has chosen to ignore representations asking for the scheme to be scaled back due to its inherent unfairness and almost exclusive focus on the south-east. The issue highlights the problems of a system that is not based on a wide range of indicators, and this should necessitate that the Government considers very carefully the approach to implementing the new business rates system.
- Significant changes in Government policy at a national level can have a major impact on Council finances: for example, the impact of the minimum wage, the apprenticeship levy, national pay offers, and national insurance changes. Given that councils have a limited and variable ability to raise funds, it is this Council's view that the Government should provide new burdens funding in relation to the changes it has instigated.

The following sections discuss your Department's specific consultation questions:

Question 1: Do you agree with the methodology for allocating Revenue Support Grant in 2018-19?

No, there is no obvious evidence within the consultation to justify the RSG methodology. The Council agrees with the general principle that RSG should focus on individual local authority needs; however, the system continues on an annual basis to remove money from the most deprived areas but with diminishing transparency and apparent logic as time passes.

The Council acknowledges that this consultation forms part of a four-year Settlement and as such no significant changes to methodologies are possible, but the Council's concerns remain that funding reductions continue to fall on the most deprived areas of the country. The Government's Fair Funding Review may go some way to addressing the Council's concerns around fairness and equity, but this is not going to be implemented until 2020/21 at the earliest and as a result, this Council like many others may be forced into making short-term decisions that will impact detrimentally on future sustainability.

Although the Government has committed to the review of negative RSG next year, it must be stressed that the position in 2018/19 is resulting in the most affluent areas (i.e. those with very low levels of grant support) yet again being protected at the expense of those with higher grant

dependency (i.e. poorer areas) and the Government's use of transition grant and damping has been completely inconsistent and lacks credibility.

Question 2: Do you agree with the Government's proposal to fund the New Homes Bonus in 2018-19 with £900 million from Revenue Support Grant and any additional funding being secured from departmental budgets?

No, the Council agrees that housing is a key priority, but it has never agreed with the approach adopted within the New Homes Bonus scheme due to its negative impact on other critical services, and on the North East and other less affluent areas in general. The scheme has been designed to benefit prospering parts of the country and promote house-building in areas of high demand, but this has a significant detrimental impact on deprived areas or those with limited ability to build new homes. The Council urges the Government to ensure that funding is returned to those councils most in need due to social care and other demographic pressures.

The Government should limit the initial impact of policy changes on individual local authorities, and given that NHB is a significant income stream the impact of any changes should be mitigated. However, given that the initial impact of NHB was to top-slice funding from those local authorities least able to afford such cuts, the impact of any transitional arrangements should not be to further punish these same councils in any way through additional cuts or foregone income. The Government should consult on any proposals and the impacts on individual authorities.

The imposition of a 0.4% "across the board" baseline is not deemed fair or appropriate by the Council, as it takes no account of historic activity in an area or an individual local authority's realistic ability to either increase supply or demand. In addition, the change will disproportionately affect local authorities with lower council tax bases, as they generally receive less income per new dwelling due to lower numbers of higher council tax banded properties. The outcome being yet another stealth cut to poorer areas.

Question 3: Do you agree with the Government's proposed approach of paying £65 million in 2018-19 to the upper quartile of local authorities based on the supersparsity indicator?

No. As a borough with many rural areas, Gateshead acknowledges the costs associated with sparsity. However, there does not appear to be any logic to, or evidence for, this very specific adjustment and no such adjustments are being made for other far more important indicators such as social care. The Council has repeatedly asked for an analysis of the costs of delivering all services for all authorities to demonstrate the impact of this proposal, but to date no information has been forthcoming from the Government.

Question 4: Do you agree with the Government's proposal to hold back £35 million to fund the business rates safety net in 2018-19, on the basis of the methodology described in paragraph 2.6.2?

While the Council disagrees with the system as a whole due to its risks and lack of links to the drivers of cost, it agrees that the safety net should be set at a level that protects those councils in need of it. However, it is unclear how the system will cope in the event of a major economic shock. As a general approach, this Council is opposed to removing monies from RSG; instead, funding should be taken from those councils benefitting from the largest increases in business rates income or through the top up / tariff system.

Question 5: What are your views on the council tax referendum principles proposed by the Government for 2018-19?

The Council agrees that decisions on council tax rises should be taken locally; however, the fact that the Government has assumed in the settlement that all councils will increase council tax by the maximum appears to support an attempt to shift the blame for funding reductions and council tax rises from the Government to local authorities. In addition, the Government approach fails to address the critical issue around variation in council tax bases, as any given increase in council tax will have a dramatically different impact on funding depending on the strength of the council tax base.

Question 6: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.5.1 to 3.5.6

Given the complexity of the issue, it is suggested that the Department gives serious consideration to representations from affected authorities by this factor and considers modifying the formula or funding those affected by significant detriment.

Question 7: Do you have any comments on the impact of the 2018-19 local government finance settlement on those who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide supporting evidence.

As the Council has stated previously, the impact of the Settlement on protected groups is not specific and will depend on councils' spending priorities. While the Council will fulfil its responsibilities with regard to the Equality Act, it is concerned that protected groups may not be protected at a national level due to the disproportionate cuts being imposed on areas with high levels of deprivation. The consultation acknowledges that there is some correlation between those authorities that are more grant-dependent and the prevalence of persons who share protected characteristics.

The Settlement cut for Gateshead is far higher than in other, more affluent areas with fewer individuals with protected characteristics. In addition, new funding is largely ring-fenced, and as such the Council has no discretion on using this additional funding to protect vulnerable groups.

The consultation also refers to protections built into the 2013/14 baseline. However, the system has been eroded significantly since 2010/11. For example, the impact of relative needs adjustments has been a significant reduction in funding to the most deprived areas. In addition, the locking-down of the funding system in 2013/14 means that any more recent demographic changes will not be reflected in council funding.

If you have any queries about the contents of this letter, please contact me by phone on 0191 433 3582 or by e-mail at darrencollins@gateshead.gov.uk.

Yours sincerely

Darren Collins
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