

Provisional Local Government Funding Settlement

Policy Context

1. The Government is consulting on the provisional Local Government Finance Settlement 2019 to 2020, the final year 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 proposals in its July 2018 technical consultation.
3. The Ministry of Housing, Communities & Local Government issued its statutory consultation on the provisional settlement on 13 December 2018, seeking the views of local government on its proposals for 2019/20 funding. The Council responded to this consultation on 10 January 2019 (attached).

Background

4. The Government's consultation on the Provisional Local Government Finance Settlement 2019 to 2020 sets out the national funding proposals for local authorities for 2019/20 and provides an overview of the context to the proposals. The settlement is largely in line with expectations.
5. The 2019 Spending Review will confirm overall local government resourcing from 2020/21 and it is anticipated that this will significantly reform the local government finance system. However, prior to these reforms the Government have committed to testing aspects of the new system in 2019/20 and is proposing to implement a further round of business rates retention pilots in 2019/20.

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:
 - This consultation forms the final year of the four-year settlement and the Council continues to be concerned that the settlement is fundamentally unfair due to its failure to acknowledge need appropriately, with the greatest funding reductions continuing to fall on the most deprived areas of the country. The Council feels strongly that this failure should be addressed in the final settlement following the outcome of this consultation process.
 - The settlement outlines that Core Spending Power is forecast to increase, yet the exemplifications assume that all councils will implement the maximum allowable council tax increases. As such, the Government is expecting this gap to be filled by local authorities increasing local taxes to residents, simply passing the burdens from local government without addressing the fundamental issue of unfair funding and the impact on council tax levels. The ability to increase council tax disproportionately benefits councils with higher tax bases, who can generate significantly more funding from any given percentage increase.
 - Cuts to Public Health funding are completely counter-productive in the longer term, as proactive preventative action now results in lower future cost pressures; reducing funding is simply creating future problems.

- 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 Government’s preferred method for dealing with negative RSG fundamentally undermines the principle of fair funding as the allocation benefits the wealthiest areas of the country, on top of receiving transition grant from previous years, a process which was opaque and prompted an investigation by the National Audit Office. Any available funding should be used to address the pressures faced by all authorities, on a needs basis.
- The Government propose that grant funding for concessionary travel is to be cut without reference to the mainly statutory cost of the national concessionary travel scheme. This will exacerbate funding inequalities and further embed unfairness in approach.

Consultation

7. Consultation has taken place with SIGOMA and ANEC.

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.

Local Government Finance Settlement Team
Ministry of Housing, Communities and Local
Government
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

My Ref:
Your Ref:

Date: 10 January 2019

lgfsettlement@communities.gov.uk

The Provisional 2019-20 Local Government Finance Settlement Consultation

Gateshead Council welcomes the opportunity to respond to the consultation on the 2019-20 Provisional Local Government Finance Settlement.

The Council remains deeply concerned about the Government's commitment to a fair and adequate approach to local government funding. The Government interventions around the multi-year settlement appear to show a clear bias against those councils serving deprived populations compounding the shortcomings of the established approach. The key concerns are identified below:

- The Council acknowledges that this consultation forms the final year of the four-year settlement and it continues to be concerned that the settlement is fundamentally unfair due to its failure to acknowledge need appropriately, with the greatest funding reductions continuing to fall on the most deprived areas of the country. The Council feels strongly that this failure should be addressed in the final settlement following the outcome of this consultation process.
- The settlement outlines that Core Spending Power is forecast to increase, yet the exemplifications assume that all councils will implement the maximum allowable council tax increases. As such, the Government is expecting this gap to be filled by local authorities increasing local taxes to residents, simply passing the burdens from local government without addressing the fundamental issue of unfair funding and the impact on council tax levels. The ability to increase council tax disproportionately benefits councils with higher tax bases, who can generate significantly more funding from any given percentage increase.
- Cuts to Public Health funding are completely counter-productive in the longer term, as proactive preventative action now results in lower future cost pressures; reducing funding is simply creating future problems.

- 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 Government's preferred method for dealing with negative RSG fundamentally undermines the principle of fair funding as the allocation benefits the wealthiest areas of the country, on top of receiving transition grant from previous years, a process which was opaque and prompted an investigation by the National Audit Office. Any available funding should be used to address the pressures faced by all authorities, on a needs basis.
- The Council remains concerned at the treatment of grant funding for concessionary travel. This grant is proposed to be cut without reference to the mainly statutory cost of the national concessionary travel scheme. This will exacerbate funding inequalities and further embed unfairness in approach.

The Council is supportive of the SIGOMA and ANEC responses to the consultation.

Question 1: Do you agree with the methodology for allocating Revenue Support Grant in 2019/20?

The Council acknowledges that this consultation is the final year of the four-year settlement offer but remains concerned that funding reductions continue to fall on the most deprived areas of the country. This Council like many others is being forced into making short-term decisions that will impact detrimentally on future sustainability. Councils have received no indication of future funding beyond next year which is an abdication by Government of their responsibility to enable effective management of the resourcing of vital services.

The Government's method for dealing with negative RSG fundamentally undermines the principle of fair funding. As part of the four-year settlement, 97% of authorities signed up to the offer. The authorities affected by negative RSG are in a position where they are collecting more than they need to provide their services and receiving funding above their determined allocation. The decision by the Government runs counter to the principle of fairness and undermines the concept of equalisation, essentially renegeing on the four-year settlement and undermines the Government's own methodology for the distribution of funding. Allocating funding to the benefit of more affluent authorities who have seen lower percentage reductions in their funding, and who have lower levels of deprivation and need lacks credibility and brings the whole principle of fair funding into disrepute.

Question 2: Do you agree with the Government's proposed approach to allocating £410 million un-ringfenced funding for adults and children's social care according to existing Adults Social Care Relative Needs Formula?

This funding, although welcome, is on all measures a relatively small amount, in the context of adults and children's spending overall, and the demand pressures on these areas. It is also in the context of significant reductions in funding across other services. The fundamental issue of local term sustainability still needs to be addressed. The Council considers that the ability to raise local funding via the precept should be taken into account in the final allocations.

Question 3: Do you agree with the Government's proposal to fund the New Homes Bonus in 2019/20 with the planned £900 million from Revenue Support Grant, with any additional funding being secured from departmental budgets?

The Council reiterates its concerns raised in previous consultations that the proposals works to the disadvantage of less buoyant housing markets and as such generally boosts the incomes of the most affluent areas with the highest housing demand and property values.

Question 4: Do you agree with the Government's proposed approach to paying £81 million Rural Services Delivery Grant in 2019/20 to the upper quartile of local authorities based on the super-sparsity indicator?

The Council does not support this approach as it is not evidence based. This is an issue in which representations have been made to the joint LGA / MHCLG Technical Working Group on needs and distribution (21 September 2018) which outlined that sparsity cannot be included in formula without equal consideration of density. Again, the outcome is to disadvantage councils servicing deprived populations, as this funding could be better distributed elsewhere.

As a borough with a mix of rural and urban areas, Gateshead acknowledges that there are additional costs associated with sparsity for certain services. However, there does not appear to be any evidence for this specific adjustment, particularly when no such adjustments are being made for more significant indicators, such as social care. In fact, the Department's own research showed that on the whole rurality was more likely to lead to lower costs than higher ones in the majority of circumstances. The study found that 31% of local authority service spending negatively correlated to expenditure and whereas only 15% of service spending positively correlated to expenditure.

Question 5: The Government intends to distribute £180m of the levy account surplus. Do you agree with the proposals to make this distribution on the basis of each authority's 2013/14 Settlement Funding Assessment?

The Council supports the return of this funding but remains opposed to top-slicing of RSG.

Question 6: What are your views on the council tax referendum principles proposed by the Government for 2019/20?

The Council reiterates its view that decisions on council tax should be taken at the local level without the need for a referendum. 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 responsibility for funding reductions and council tax rises from the Government to local authorities. Using council tax increases to resolve funding issues will further entrench imbalances between needs and funding, unless matched by equalisation measures. In addition, the Government have yet again chosen to ignore completely the critical issue of variation in council tax bases. There is a total failure to address this fundamental inequality.

Question 7: What are your views on the Government's approach to tariffs and top-ups in 2019/20?

This issue affects those authorities participating in business rates pilots. However, the consultation states that the approach is designed to ensure that no authorities are adversely affected by these pilots. The Institute for Fiscal Studies has estimated that pilots will gain £870m as a result of retaining above the current 50%. This financial benefit represents a cost to the Government, to which this revenue would otherwise have flowed. This revenue could have been used to increase grant funding for councils on the basis of need and as such there is therefore an opportunity cost of pilots to the detriment of the sector overall.

Question 8: Do you have any comments on the impact of the 2019/20 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 repeatedly, 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 remains concerned that protected groups may be impacted adversely in relation to others due to the disproportionate cuts imposed on areas with high levels of deprivation.