Gateshead Council

REPORT TO CABINET
24 January 2017

TITLE OF REPORT: **Provisional Local Government Funding Settlement 2017/18 and Funding Gap**

REPORT OF: **Darren Collins, Strategic Director, Corporate Resources**

Purpose of the Report

1. To request Cabinet to note the position on the provisional Local Government Finance settlement and the impact of this on the Council funding gap for 2017/18.

2. To seek Cabinet's retrospective endorsement of Gateshead Council's response to the settlement consultation attached at appendix 2.

Background

3. Receipt of the provisional finance settlement has enabled updates to budget forecast models to be made for 2017/18. Based on this information, this report reviews the funding gap for the Council in respect of 2017/18 to provide a financial context for forthcoming budget decisions.

4. The review of the funding position for 2017/18 has been undertaken against the background of significant reductions and changes in relation to grant funding and the additional cost of unfunded service pressures. These factors would jeopardise the Council's sustainable financial position without significant budget savings being identified and delivered in 2017/18. This report sets out the latest position taking account of figures released from Department for Communities and Local Government (DCLG) and other government departments and calculates the impact on the original MTFS funding gap estimate of £22.146m for 2017/18.

5. The Council's public consultation on budget proposals covering 2017/18 ran from 8 November 2016 to 6 January 2017 the outcome will be subject of a further report in February.

6. The Spending Review announced that for the rest of the current Parliament, local authorities responsible for adult social care would be given additional flexibility on their current council tax referendum threshold for use specifically on adult social care at 2% per year up to 2019/20. In the 2017 settlement the Government have announced they intend to increase flexibility to Councils allowing them the option to increase council tax by 3% for 2017/18 and 2018/19 but not exceeding 6% over the three year period.

7. The final settlement will be laid before the House of Commons for approval in February 2017.

Proposal

8. If outstanding funding announcements are confirmed in line with projections the impact of the settlement on Gateshead Council would be a funding gap of £20.402m in 2017/18. This represents a decrease when compared to the original estimate of £1.743m.

9. The Council's grant funding continues to fall significantly, with Revenue Support Grant expected to be significantly reduced year on year in the move to local authorities retaining 100% of rates collected. In addition it is still unclear what other specific grants will disappear as a result of the new funding reforms. There remain significant challenges ahead for the Council as savings sufficient to compensate for any additional cost and demand pressures will need to be identified at the same time as responding to reductions in funding.

Recommendations

10. Cabinet is requested to:

    i) Note the contents of this report including the review of the Council's funding gap and note the implications for the Council's budget context for 2017/18;

    ii) Endorse the response to the Government consultation on the provisional Local Government Funding Settlement that is attached as appendix 2 which has been submitted within the prescribed deadline.

    For the following reasons:-

    i) To contribute to the good financial management practice of the Council.
    ii) To ensure a sustainable budget for the medium to long term.

CONTACT: Darren Collins Ext. 3582

APPENDIX 1

Policy Context

1. The Medium Term Financial Strategy (MTFS) provides the financial planning framework for supporting the allocation of resources to deliver Vision 2030 and the Council Plan. It also ensures a sustainable Gateshead through the best use of resources to deliver value for money services and long term financial sustainability.

Background

2. The Council's current MTFS was approved by Council on 14 July 2016. The MTFS is a key part of the Council's Policy, Service Planning and Performance Management framework, which aims to ensure that all revenue resources are directed towards corporate priorities and the delivery of Vision 2030 and the Council Plan. It is based on a financial forecast over a rolling five-year timeframe to 2021/22 and reviewed annually to ensure resources are aligned to priorities in the refreshed Council Plan. The Strategy describes the financial direction of the Council and outlines the financial pressures over this five year period.

3. Medium term financial planning is taking place against the background of significant funding cuts for local government alongside government plans for major local government finance reforms. In addition, the Council, in common with most local authorities, continues to be at risk from unfunded financial pressures, including workforce management, waste management, and demand for social care and welfare reform as well as implementation of the national living wage. This environment will challenge the ability of the Council to respond to the needs of Gateshead Residents and the wider community.

4. On 15 December 2016, the Government published the provisional local government settlement for 2017/18. In his statement to Parliament Communities Secretary the Rt Hon Sajid Javid MP announced the following;

   - New Homes Bonus reforms will include a national baseline of 0.4% of the council tax base 2017 for housing growth, below which bonus will not be paid. From 2018 bonus may be withheld when authorities are not considered to be planning effectively such as where homes are built following an appeal. The number of years payable will also reduce from 2017 under the new scheme.
   - £240m of money originally set aside for the New Homes Bonus will now be made available for social care via a "dedicated" Adult Social Care Support Grant in 2017/18 only. To be distributed proportionally to the adult social care relative needs formula.
   - Referendum principles will give Councils the flexibility to raise the social care precept by 3% a year for the next 2 years to raise more money for social care but cannot exceed 6% in total over the three year period. Councils will be required to publish their spending plans with sign off by the section 151 officer.
   - Work on Health and Social Care integration is to continue and the Government intend to publish a new Integration and Better Care Fund Policy Framework to improve outcomes.
   - The Government allocations regarding business rate top up have been adjusted as far as possible to reflect impacts of the 2017 business rate revaluation.

5. The Government invited consultation by 13 January 2017 and the Council's response is attached at appendix 2.

Provisional Local Government Finance Settlement 2017/18

6. Receipt of the provisional finance settlement allows updates to be made to budget forecast models for 2017/18. Table 1 highlights the impact of the settlement compared to the MTFS assumptions (with outstanding funding shown as to be confirmed (TBC))

Table 1 – 2017/18 Revised Funding Gap Following Provisional Settlement

Provisional Local Government Settlement Position	MTFS Assumptions £m	2017/18 Provisional Settlement £m	Variance £m	
Base Budget	**210.009**	**210.009**	**(0.000)**	TBC
Funding Stream:				
Settlement Funding Assessment - Revenue Support Grant	(27.783)	(27.783)	0.000	
Settlement Funding Assessment -Retained Business Rates	(44.218)	(40.666)	3.552	TBC
Settlement Funding Assessment -Top Up Grant	(10.147)	(13.936)	(3.789)	
Council Tax Requirement	(77.236)	(77.236)	0.000	TBC
Other Grants				
Better Care Fund (former NHS Support)/Care Act	(5.284)	(5.993)	(0.709)	
New Improved BCF S31 Grant	(0.759)	(0.759)	0.000	
New "Dedicated" Adult Social Care Support Grant	0	(1.138)	(1.138)	
Education Services Grant	(0.983)	(1.029)	(0.046)	
Business Rates S31 Grant	(1.500)	(1.500)	0.000	TBC
New Homes Bonus plus top slice return	(3.000)	(2.613)	0.387	
Public Health (Ring Fenced Grant)	(16.952)	(16.952)	0.000	
Total Funding	**(187.863)**	**(189.607)**	**1.743**	
Funding Gap	**22.146**	**20.402**	**1.744**	

6.1 *Settlement Funding Assessment*

- Revenue Support Grant (RSG) confirmed reduction from 2016/17 of 25% (£9.475m) to £27.783m in line with MTFS expectations. By 2019 this will fall to just £15.012m.

- Retained Business Rates – The Government figures include adjustments to compensate for the 2017 rate revaluation. The loss in rates is compensated by an adjustment to top up grant. The impact of this was unknown at the time the MTFS was set. The MTFS figure is based on the NNDR1 return to DCLG completed January 2016.The actual level of funding available through retained rates will not be known until the NNDR 1 return for 2017/18 is submitted on 31 January 2017;

  Likewise the Section 31 NNDR Grant which is funding to compensate for Government policy on business rate relief is made up of several elements that will not be finalised until the NNDR 1 return is submitted.

- Top Up Grant – This grant compensates authorities whose retained rates are less than their assessed baseline needs. The national revaluation of business rates has resulted in revisions to the amounts received via top up grant that were predicted in the MTFS from £10.1m to £13.9m. This is not additional money but an adjustment to reflect the expected reduction in retained rates arising from the national revaluation in rateable values.

6.2 *Council Tax Requirement*

- The MTFS projections do not include a percentage increase in council tax. The council tax requirement has been assumed to be at the base level of 2016/17 (£77.236m) pending decisions by Cabinet and Council in January/ February. Any increase in council tax to fund Gateshead services of up to the referendum limit of 2% (to the value of £1.5m) as well as an additional social care precept with a 3% limit (up to the value of £2.3m) would assist in closing the funding gap for 2017/18.

- The Government figures in the settlement assume that Gateshead will have £82.399m in council tax income in 2017/18 but this has not been reflected in the variance analysis as it is notional. Government figures have built in an element of growth, as well as a 2% council uplift and 2% adult social care (ASC) precept in 2017/18.

- The ASC precept is ring-fenced for adult social care services. Chief Finance Officers of local authorities will be required to notify the Secretary of State of the amount intended to be raised through the additional social care precept and what impact it has on plans for social care budgets in each year of operation.

- An increase in the council tax base will also assist in closing the funding gap for 2017/18. The calculation of the base takes account of the number of exemptions, discounts and any new or demolished properties. There is a separate report on the agenda today covering this issue.

6.3 *Other Grants*

- The main Better Care Fund monies (£5.379m) have been confirmed by Newcastle Gateshead CCG. This includes a 1.79% increase from 2016. In addition they have confirmed that Care Act Funding will continue into 2017 (£0.614m). Overall funding passed on from CCG is £5.993m which is £0.709m more than MTFS projections.

- The new “dedicated” Adult Social Care support grant has been included within revised figures and was not foreseen within MTFS assumptions. This is one off grant in 2017/18 funded from savings due to reforms in the new homes bonus scheme and therefore this is not new money for local government but a redistribution of funding already promised to councils.

- The DfE published their approach to Education Services Grant (ESG) in November setting out an approach from 2017/18 to deliver the £600m reductions announced in the spending review. Funding for the retained duties element of ESG (£15 per pupil) will be transferred into DSG from 2017/18. The general funding rate element of ESG will be paid at a transitional rate between April 2017 and August 2017 and from September will no longer be paid. Instead LAs will receive a separate grant covering statutory school improvement functions. Final confirmation has been received of a 44% reduction from 2016 grant from £1.8m to £1.0m. This is a slight variation from the MTFS assumption of a 46% cut.

- The Government have revised down expected New Homes Bonus allocations due to the outcome of the consultation on scheme reforms. The impact in 2017/18 is a £0.387m reduction from MTFS expectations. The overall 2017 NHB allocation (£2.613m) is made up of a year 7 allocation (£2.480m) and a small amount of returned central funding. Furthermore from 2018 bonus may be withheld when authorities are not considered to be planning effectively such as where homes are built following an appeal. The reforms mean it will likely be harder to achieve bonus in the future.

- Public Health grant has been confirmed in line with expectations, this being a 2.5% cut from last year to £16.952m.

7. The Council was disappointed that the settlement did not address the funding issues that adult social care is currently facing in either the short term or the long term. This is made clear in the response to the settlement attached as appendix 2. Following the finance settlement, the Local Government Association (LGA) called for an urgent and fundamental review of social care and health before next year's spring Budget. The LGA, in its submission to the Autumn Statement, identified a £5.8 billion funding gap facing local government up to 2020, with adult social care needing an immediate £1.3 billion to prop up the system for now, and a further £1.3 billion by 2020.

8. The national system of funding social care from local council tax is flawed. This is essentially a national tax applied locally. There is no correlation between where money is raised and where needs exist. The system favours prosperous areas of the country as they are able to raise more money from a higher number of higher band properties.

9. The ability to raise some funds earlier than previously allowed may assist some councils in the short term but the amount of extra council tax income does not come close to meeting the increasing demand for services which care for elderly and vulnerable people. The amounts raised are insufficient to even cover inflationary and National Living Wage costs for care providers.

10. The key message is that overall funding continues to fall significantly, with RSG expected to reduce year on year in the move to local authorities retaining 100% of rates collected. It is still uncertain what other specific grants will disappear as a result of the new funding reforms but recent announcements suggest public health grant will be removed with responsibilities delivered via rates funding.

11. It is important that in any system redesign existing responsibilities are correctly assessed and funded and any new responsibilities transferred under the new system closely align with economic growth. This will ensure that the Council does not take on financial risks of responsibilities that do not link to 100% rate retention. This will form part of the consultations on the new system and the Council will play an active role in pressing Government to ensure the needs assessment under the fair funding review is as fair as can be.

Options for Closing the Gap

12. Potential options to assist in closing the gap include: -

- Cuts to 2017/18 base budget requirement
- Up to a 4.99% increase in council tax including a social care precept
- A review of capital financing costs into revenue including a review of debt
- Potential projected surplus from council tax collection fund
- Increased council tax base
- Business rates growth reflected in NNDR 1 return in late January 2017
- Use of reserves
- Saving proposals arising from the budget options

Schools and Children's Services Funding Settlement 2017/18

13. Schools funding is provided via ring-fenced resources (Dedicated Schools Grant and the Pupil Premium). Most Children's Services Funding is included within the SFA.

14. Provisional figures for Dedicated Schools Grant (DSG) for 2017/18 were published on 20 December 2016. . The DSG allocation was £138.5m which is an additional £4.4million. The increased funding is due to increased pupil numbers, increased early years funding for the increase to 30 hours for eligible children and an increased funding rate, and for additional high needs responsibilities in relation to post 16 responsibilities transferred from the DfE. Pupil premium per pupil amounts for 2017 to 2018 will be protected at the current rates; and the minimum funding guarantee for schools will remain at minus 1.5 per cent.

15. For Gateshead the impacts are summarised below;

- Total schools block funding has increased by £1.49m to £107.7m from 2016 mainly due to an increase in pupil numbers (£1.107m) and the inclusion of the Education Services Grant retained duties element from September 2017 (£0.383m).

- Early Years Block funding has increased by £2.58m due to an increase in 3 & 4 year funding in connection with the implementation of the Early Years National Funding Formula and the increase to 30 hours free entitlement for eligible children. The allocations for Early Years Pupil Premium and 2 year old funding is provisional and allocations will be updated based on January 2017 & 2018 census data. Although pupil Premium rates remain the same, actual allocations have not yet been made as deprivation and all post LAC allocations are based on the January census. LAC pupil premium is also not yet known as this is based on a March 2017 return.

- High Needs block funding has been confirmed at £21.78m, which is a £0.739m increase from 2016/17.

- Education Services Grant (ESG) is confirmed for 2017/18 at £0.383m in the Schools Block of the DSG and a transitional grant of £ 0.511m for the period April to August 2017. Also included is a new School Improvement Grant confirmed at £0.136m for 2017/18, which formed part of the ESG general grant in 2016/17. Therefore the total equivalent ESG funding for 2017/18 is £1.029m, which is a reduction of £0.802m from £1.831m received for 2016/17.

- The Government will introduce the first ever national funding formula for early years DSG funding in 2017/18 and for the schools, and the high needs block of the DSG from 2018/19. There will be a transitional phase to help smooth the implementation of the new schools formula. There are a number of current government consultations, with more expected later in the year on high level detail, with an expected implementation date for schools and high needs funding changes from 2018/19.

Core Spending Power Measure

16. The Government's measure of spending power is referred to as Core Spending. Their draft figures are presented below in table 2 for information, with final figures due to be published in February 2017 following consultation. As outlined previously, the government's spending power figures includes assumptions around council tax and new homes bonus funding which are notional.

Table 2 – Government Core Spending Power 2017

2016-17 £m		2017-18 £m
(37.258)	Revenue Support Grant	(27.783)
(9.951)	Top-Up	(13.936)
(43.559)	NNDR Retained Rates	(40.666)
(90.768)	Settlement Funding Assessment	***(82.386)***
(75.751)	Council Tax Requirement	(79.260)
(1.485)	additional revenue from 2% social care precept	(3.139)
0.00	Improved Better Care Fund	(0.759)
(3.231)	New Homes Bonus and returned funding	(2.613)
0.00	The 2017-18 Adult Social Care Support Grant	(1.138)
0.00	Rural Services Delivery Grant	0.00
0.00	Transition Grant	0.00
(171.235)	**Total Estimated Spending Power**	***(169.295)***
	Year on Year Change %	*-1.1%*
	Year on Year Change £	-1.940

Future Years Funding

17. The Council accepted the Governments offer of a multi-year settlement to 2019/20 to aid financial planning until the end of Parliament. Funding for 2017/18 marks the second year under the arrangement. Those authorities who did not accept the funding offer have only been given allocations within the settlement for 2017/18 and will be subject to an ongoing annual settlement process.

18. Core Spending Power is a Government measure that includes certain core elements of funding. An analysis of the Governments core spending power for future years shows that RSG and the Improved Better Care Fund figures are the same as the 2016 settlement but other areas have now been revised. The retained rates have been reduced to reflect changes arising through the 2017 rates revaluation this is offset by an increase in the top up grant over the period. The Government's council tax projections for Gateshead have been revised to reflect assumptions of new estimates of growth as well as general uplifts totalling 6.68%. The New Homes Bonus projected allocations to 2019 have been reduced down in line with the outcome of the consultation. The reduction in bonus for 2017 to 2019 compared to the multi-year settlement and MTFS is projected by Government to be £0.919m. This is offset partly by the new ASC support grant which appears in the tables for 2017/18 only at £1.13m. Actual receipt of bonus will be dependent on performance throughout the years.

19. It is important to note that the Governments future projected funding for Gateshead in relation to both retained business rates and council tax income include estimates of assumed growth. The figures for the ASC precept in core spending power up to 2019 assume a 2% rise per annum, as does the distribution of the Improved Better Care grant which takes into account funding raised through the precept.
Their figures have been summarised in annex 2 for information;

Annex 2 – Future Years Provisional Settlement, Government Figures

2015-16	2016-17		2017-18	2018-19	2019-20
£m	£m		£m	£m	£m
(47.767)	(37.258)	Revenue Support Grant	(27.783)	(21.423)	(15.012)
(9.869)	(9.951)	Top-Up	(13.936)	(14.385)	(14.896)
(44.772)	(43.559)	NNDR Retained Rates	(40.666)	(41.975)	(43.468)
(102.193)	***(90.768)***	Settlement Funding Assessment	***(82.386)***	***(77.783)***	***(73.376)***
(73.455)	(75.751)	Council Tax Requirement excluding parish precepts	(79.260)	(82.932)	(86.774)
0.00	(1.485)	additional revenue from 2% referendum principle for social care	(3.139)	(4.975)	(7.009)
0.00	0.00	Improved Better Care Fund	(0.759)	(4.807)	(8.317)
(2.503)	(3.231)	New Homes Bonus and returned funding	(2.613)	(1.896)	(1.819)
0.00	0.00	The 2017-18 Adult Social Care Support Grant	(1.138)	0.00	0.00
0.00	0.00	Rural Services Delivery Grant	0.00	0.00	0.00
0.00	0.00	Transition Grant	0.00	0.00	0.00
(178.152)	***(171.235)***	**Total Estimated Spending Power**	***(169.295)***	***(172.392)***	***(177.294)***
		CSP Change over the period 2015 to 2019			*-0.5%*

20. The key message is that the Council continues to face challenging funding pressures as overall funding continues to fall significantly at the same time as rising demand for services. RSG and other significant Government grants will reduce to nothing under reforms to move local authorities to 100% business rates retention. It is still uncertain what other additional responsibilities will be funded from the new reforms. The reliance on local funding moves pressure and risk to fund all services onto local businesses and residents as well as a Council's ability to effectively raise traded and investment income.

Next Steps

21. Work is continuing on the base budget for 2017/18 to finalise spending pressures and capital financing costs. It should also be noted that the settlement figures are provisional and some funding is still to be confirmed, particularly in relation to funding for government initiatives for business rates, these are for illustrative purposes at this stage.

22. The estimated retained business rates and Section 31 grants will be confirmed once the NNDR1 form is completed and submitted to DCLG on 31 January 2017.

23. Further modelling of future funding is required based on the notional figures provided by government in the settlement as well as consideration of emerging cost pressures. This will inform a full review of the MTFS in summer 2017.

24. The Government have confirmed the referendum principles for the Council in 2017/18 will remain as in previous years, but incorporate the potential of an increased social care precept, with any proposed increase of 5% or more being subject to approval in a local referendum. It is estimated that a referendum would cost approximately £250,000 unless it was to be combined with another election to become a shared cost, however, no elections are scheduled for 2017. Further consideration will need to be given to the level of any council tax increase for the borough, both the Gateshead council element of up to 2% and the additional element for a social care precept of an additional 3% to inform the budget report in February 2017. A full revenue budget report will be presented to cabinet for agreement on 21 February 2017

Alternative Options

There are no alternative options.

Implications of Recommended Option

25. Resources

a. **Financial Implications -** the financial implications are contained within the body and appendices of the report.

b. **Human Resource Implications –** the MTFS recognises the need to support Council employees as much as possible through changes arising from the consequences of the funding position set out in this report.

c. **Property Implications -** Nil

26 **Risk Management Implication** – the risk implications are consistent with those outlined in the MTFS and will be further considered in the 2017 budget setting report.

27 **Equality and Diversity Implications –** an equality impact framework has been developed to assess budget proposals

28 **Crime and Disorder Implications –** Nil

29 **Health Implications -** Nil

33 **Sustainability Implications –** the MTFS provides a framework for ensuring a sustainable financial position over the medium term. To enable a sustainable position it is recognised that significant budget savings will be required over the MTFS period.

31 **Human Rights Implications –** Nil

32 **Area and Ward Implications –** all areas of the Borough are covered by the principles set out in the MTFS strategy

APPENDIX 2

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

Date: 13 January 2017

Dear Mr Coleman

Local Government Finance Settlement 2017/18
December 2016 Consultation

Gateshead Council welcomes the opportunity to respond to the Department's consultation on the provisional Local Government Finance Settlement for 2017/18 and hopes that the final settlement addresses the Council's concerns.

The Council remains deeply concerned about the Government's direction of travel and commitment to adequate local government funding, with the primary concerns set out as follows:

- The settlement states that "there will be no reduction in funding for councils to deliver their core services for the rest of this Parliament", yet the 2017/18 settlement sees a further £1.969bn being removed from the Settlement Funding Assessment (£4.017bn between 2016/17 and 2019/20). The Government is expecting this gap to be filled by local authorities increasing local taxes to households and local businesses, but simply passing tax burdens from central to local government taxpayers will not resolve funding shortfalls and issues.
- The Government has yet again failed to acknowledge the rapidly escalating funding problems in the health and social care sector. The failure to fund adequately both local authorities and the NHS is resulting in major problems that will not be alleviated by allowing local authorities to levy an additional 1% council tax, and disparities in council tax bases mean that the additional funding achievable will dramatically differ from area to area. 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.
- The 2017/18 settlement also includes questionable assumptions about future increases in other income streams available to local authorities. The 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.
- The 2017/18 settlement consultation yet again presents a position where it appears that local authorities are to receive significant additional funding but in truth this is not the case. This recycling of existing resources and then presenting this as new funding is at best misleading. For example, the consultation includes statements such as "[the Settlement] will give local government additional business rates receipts of around £12.5bn to spend on local services" – the implication here is that there is £12.5bn of new money; the reality is that the RSG redistribution process is simply being abolished. The consultation then goes on to state that this additional funding will come with "new responsibilities". The Settlement does not include any additional funding other than the Improved Better Care Fund (which is primarily for existing pressures). Please could the Department clarify the meaning of "new responsibilities" and confirm where is the funding is, either within or outside the settlement.
- 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 Council welcomes the policy shift back towards a needs-based system. 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.

- Transition funding: the Settlement system has been amended to acknowledge the unfair and inequitable nature of the cuts to different local authorities. However, this welcome approach has been fundamentally undermined by the allocation of transition grant. Its stated aim is that it is "being provided to authorities to ease the change from a system based on central government grant to one in which local sources determine a council's revenue". Gateshead Council has suffered service reductions of 41.2% since 2009/10 (£103.8m), yet it will not receive any transition grant funding. Surrey has suffered service reductions of 0.6% (£5.1m) over the same period, yet it is to receive £24.1m in transition funding.
- At a general level, it is unclear as to the need for the extreme variances evident in the funding reductions for individual councils. For example, Forest Heath has a stated reduction in Core Spending Power of 25.4% between 2015/16 and 2019/20, and at the other end of the scale the GLA receives an increase of 7.1%. 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 affecting overall funding settlements with an obvious eventual outcome of widening inequality between areas.
- 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, will the Government provide new burdens funding in relation to the changes it has instigated?
- In addition, the lack of clarity around implementation of a new business rates system is also a major concern. Linked to this, conflicting announcements around localisation of business rates and Enterprise Zones and delays on funding announcements (such as LFG3) is massively impacting on the ability of Local Authorities to undertake effective financial planning.
- Education Services Grant: it is concerning that ESG is to be phased out from 2017/18 at the same time as local authorities are suffering from huge cuts in general funding, and as such the Council requests that the Government clarify the role of local authorities, their relationship with schools and its views on future statutory responsibilities on all school types.

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

Question 1: Do you agree with the methodology of Revenue Support Grant in 2017-18?

No, as there is no obvious information within the consultation as to the RSG methodology. The Council agrees with the general principle that RSG should focus on individual local authority needs; however, the system continues to remove money from the most deprived areas.

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, with some of the most affluent parts of England still receiving protection against the significant England-wide funding reductions. The Council and the wider North East region have received no such protection while suffering some of the highest cuts in the country. The Council's objections to the Transition Grant scheme (which bears no apparent relationship to reduction in Core Spending Power) are set out in question 6, and it believes that the issue should be addressed as a priority.

Question 2: Do you think the Government should consider transitional measures to limit the impact of reforms to the New Homes Bonus?

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 cannot be to further punish these same councils in any way through additional cuts or foregone income. The Government must consult on any proposals and the impacts on individual authorities.

While the Council agrees that housing is a key priority, 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. As such, it welcomes any measures to reduce its impact. 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 and those that have suffered from the greatest funding cuts.

Question 3: Do you agree with the Government's proposal to fund the New Homes Bonus in 2017-18 with £1.16 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.5.8?

Since its inception, New Homes Bonus has increased at the expense of needs-based Revenue Support Grant, and the Council is not supportive of any mechanism that transfers funding away from areas of need to areas of high housing demand. Funding allocations should be based on fully assessed needs and service demands, and not simply based on housing growth.

However, it should be noted that the imposition of a 0.4% "across the board" baseline is not appropriate, 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.

Question 4: Do you agree with the proposal to provide £240 million in 2017-18 from additional savings resulting from New Homes Bonus reforms to authorities with adult social care responsibilities allocated using the Relative Needs Formula?

Yes, any moves to restore funding based on the relative needs formula are welcomed, although it should be made clear what underspent funds were already earmarked for repatriation to local authorities; any funds returned should be done so in the same manner that they were top-sliced. It is clear however that this transfer of funding will not resolve the huge and increasing funding issues within adult social care provision and further more comprehensive action is required from Government.

Question 5: Do you agree with the Government's proposal to hold back £25 million to fund the business rates safety net in 2017-18, on the basis of the methodology described in paragraph 2.8.2?

No, the mechanism is likely to further remove funds from the most deprived authorities as in previous years; funding should not be top-sliced from ever-diminishing RSG. It is also unclear how effective such a small fund will be, given the inherent risks of the new system.

Question 6: Do you agree with the methodology for allocating Transition Grant payments in 2017-18?

No, the Council fundamentally disagrees with the methodology. It appears to have no logical basis and largely rewards those Councils who have historically been least affected by funding reductions between 2009/10 and 2016/17. The lack of consistency in respect of the treatment of Councils is shocking even within the political context.

Any transitional grant funding should be used to equalise funding reductions, rather than to selectively reward certain local authorities while ignoring the needs of others. Analysis by the Institute for Fiscal Studies indicates that Gateshead's grant cuts 2009/10 to 2016/17 represent the 7th highest in the country at 41.2%, yet the Council receives no transition funding to compensate for the huge cuts imposed on it; the same analysis indicates that Surrey, whose funding between 2009/10 and 2016/17 reduced by 0.6%, received £11.9m in transition funding in 2016/17 and £12.2m in 2017/18, 8% of the total £150m available for each year, followed by Hampshire at £9.4m and £9.3m for 2016/17 and 2017/18 respectively, compared with an historic funding cut of just 1.3%. It is unclear why the least affected (and generally the most affluent) councils in the country have received the vast majority of transition funding while suffering the lowest level of funding reductions. Only 4 of the 20 councils with the highest reduction in core spending power in 2017/18 received any transition grant in 2017/18 (totalling £0.5m), yet 12 of the 20 least affected councils (all with an increase in CSP) received transition grant totalling £28.7m

Question 7: Do you agree with the Government's proposed approach in paragraph 2.10.1of paying £65 million in 2017-18 to the upper quartile of local authorities based on the super-sparsity 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 Government has made a conscious decision to move away from the old indicator-based system, so this adjustment is unnecessary. We would welcome an analysis of the costs of delivering all services for all authorities to demonstrate the impact of this proposal.

Question 8: Do you have any comments on the impact of the 2017-18 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.

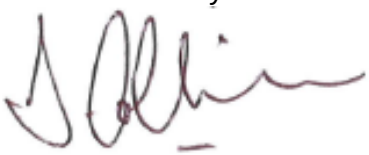
As the Council has stated previously, the impact of the Settlement on protected groups is not specific and will depend on councils' spending priorities. While the Council will aim to fulfil its responsibilities with regard to the Equality Act, it is concerned that protected groups may not be protected 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.

Your 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 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



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