South East Strategic Leaders and
South East England Councils

Response to the Government's technical consultation on the 2019/20 Local Government Finance Settlement
September, 2018

Context and issues

1. Members of the South East Strategic Leaders (SESL) and South East England Councils (SEEC) strongly support Ministers' commitment to eliminate negative Revenue Support Grant (RSG) in 2019/20. Figures show that 75% of authorities in the South East would face negative RSG in 2019/20 so it is important that a solution is found to honour the Government's promise to avoid wholesale damage to essential local services.

2. Members also welcome the wider review of local government finance as many feel the current system is broken. A new system must be carefully designed in conjunction with local authorities to maximise accountability at all levels by:-

- increasing the transparency of central funding decisions;
- avoiding unfairness in funding between different tiers and areas of the country;
- making clear how central funding decisions affect the amounts that local authorities raise from their Council Tax and business rates payers; and
- addressing whether it is possible to achieve a fairer system while guaranteeing no adverse effects to any council.

3. It is important to resolve financial uncertainties quickly and to confirm financial settlements for 2019/20 and 2020/21 as soon as possible because:-

- the start of the 2019/20 financial year is only 6 months away, so clarity on funding is needed urgently to both eliminate negative RSG and resolve questions about future New Homes Bonus (NHB) thresholds. In the absence of financial certainty, local authorities may have to plan and implement precautionary cuts to services to prepare for their worst case funding scenarios. Cuts made in these circumstances may be harsher than actually needed, but authorities must make prudent financial plans so cannot assume income if it is not confirmed; and
- there are concerns and uncertainty around the outcomes of the wider review of local government funding scheduled to take effect in just 18 months for 2020/21. Significant planning will be needed to manage major changes in funding but there is currently no certainty that the funding regime and local authorities will be ready in time to plan for 2020/21.

4. There is disappointment about the proposed changes to the NHB. Increasing the threshold before NHB is paid is most unwelcome as all new homes create additional pressure on local services and infrastructure provided by all tiers of councils; these pressures need to be funded.

5. Making decisions on future NHB after housing data is published in November, 2018, is very late and makes it very difficult for local authorities to make effective financial plans.

6. Authorities would be reluctant to support the idea of replacing NHB from 2021 onwards without further details of new options or proposals.

Q1. Do you agree that the Government should confirm the final year of the 4 year offer as set out in 2016-17?

7. Funding in 2019/20 should certainly be no lower than what was presented in the 4 year offer. However, it is important to note that authorities accepted the offer in order to have some certainty over minimum funding levels, not because they thought the levels of funding were fair.

8. The 4 year offer did not reflect the significant additional spending demands which local authorities faced over the period (such as rising costs due to inflation, National Living Wage, pay awards, and rising demand for local authority services due to growing population, ageing population, and greater complexity of need). Furthermore, to get to flat cash (or slightly better than flat cash) could only be achieved with annual Council Tax increases to offset reductions in central government funding through the RSG. This meant asking local Tax payers to pay more for a diminishing standard of service.

9. The consultation paper notes that the Government will need to take into account relevant events and exceptional circumstances. These events and circumstances should include the many warnings now being given about unsustainable funding levels for all local authorities.

10. The pressures faced by authorities across the wider South East result from a combination of several factors. Social care pressures and costs continue to grow. Authorities in the wider South East have the highest adult social care pressures due to an above average proportion of older residents. Children’s social care pressures are also growing at an unprecedented rate.

11. Counterintuitively, these councils receive the lowest levels of Government funding. In 2019/20, Hampshire County Council, for example, will not receive even a single pound of Revenue Support Grant. In striking contrast, Knowsley will receive £319 for every household. This variation is due to the use of a highly questionable funding formula, such as using unemployment levels to distribute some adult social care funding.

12. These problems have been exacerbated by the changes to the settlement methodology introduced in 2016/17, which targeted the highest cuts on the worst funded authority areas.

13. SESL, SEEC and their member authorities recognise the fiscal realities that there had to be reductions in public spending to meet the Government's deficit reduction targets; this is inescapable. However, the settlement should have come with a relaxation of some of the statutory requirements on local authorities to allow scope for spending reduction choices. We now see a number of authorities saying that they are forced to pare back services to the statutory minimum leaving them with no local choice.

14. If the 2019/20 settlement is not improved (or at least additional spending flexibilities allowed) we could see some authorities fail.

15. We welcome the Government’s acknowledgement that the funding formula used in the 4 year offer was far from satisfactory. Whilst work on the Fair Funding Review is progressing, it is not expected to be implemented until 2020/21. The Government should take action now to mitigate the severe pressures facing authorities. As a start, it would be helpful to introduce a minimum positive level of RSG per person below which funding is guaranteed to not fall.

16. 2019/20 is the final year of the 4 year offer, with no information yet known about funding levels for future years. This is extremely concerning as it hinders all authorities in making plans for the very near future. We urge the Government to provide details on funding levels for future years as soon as possible. It would also be useful to introduce rolling multi-year settlements.

Q2. Do you agree with the Council Tax referendum principles proposed by the Government for 2019-20?

17. We disagree with having Council Tax referendum principles as councillors are already highly accountable to the local electorate for the decisions they take, including over Council Tax levels.

18. Imposing a Council Tax referendum breaks the local accountability link between a council and its Tax payers. Councils should be allowed to set Tax increases and be accountable for these at the local ballot box with locally elected members who will make decisions following local consultation and democratic elections. We believe it would be possible to remove the referendum limit, or set a higher limit, for 2019/20 which would allow local members significantly more choice over local spending levels without compromising the Government's deficit reduction strategy. As well as a higher/no referendum limit we would also like local authorities to be given more discretion over Council Tax discounts and exemptions.

19. If Ministers insist on use of existing Council Tax referendum principles, the same rules should apply equally to all taxing and precepting bodies. Authorities in the wider South East should have the same options as Mayors (who can raise supplementary taxes) or town and parish councils (who have no restrictions on precept increases).

20. Ministers' current Council Tax referendum principles will not enable local authorities to raise enough to bridge the social care funding gap or meet funding shortfalls in other service areas. Whilst SESL and SEEC have asked the Government to look at options for a national solution to fund social care, there remains a need to find a sustainable way of funding the delivery of other essential local services.

21. On the matter of deciding Council Tax levels, a referendum may not be the most effective way of obtaining public views on local council spending priorities. Such decisions require a complex balancing of needs, which can never satisfactorily be covered by a simple yes/no referendum. It is not simple, nor cheap, to hold a referendum, especially in two tier areas. Such a referendum would be a waste of public money, especially at a time when councils have to consider significant cuts in services to set balanced budgets. Local views can be better sought through an effective consultation campaign.

22. Council Tax levels are already higher in much of the wider South East due to long-standing inconsistencies in the previous grant regime and the current business rates retention mechanism. A history of low central grant allocations and high tariffs for authorities across the wider South East has left Council Tax payers funding a higher percentage of local services than in other areas of the country. South East Council Tax payers fund some 70% of councils' core spending power. In contrast, London's residents fund just 45% of their councils' core spending power.

23. These inconsistencies have been recognised and led to a fundamental Fair Funding review. Until this review has concluded we would like to see more local discretion over Council Tax to avoid the need to reduce or remove services which authorities

are then able to reinstate once the review has led to a better distribution of funding for the whole local government sector.

24. Many South East politicians support the principle of tariffs to help support less buoyant areas. However, extensive use of tariffs and uneven central funding allocations undermine local accountability and reduce council control over funding and income.

25. At district level, an All Party Parliamentary Group on District Council Finances has urged the Government to recognise District Councils' role in reducing the demand for social care by allowing Districts discretion to raise a Council Tax 'prevention precept' of up to 2%. As housing and planning authorities, these councils are responsible for a range of services critical to health and which reduce the demand for acute and social care, including leisure and recreation, home adaptations, tackling homelessness, offering debt advice and delivering social prescriptions.

26. In addition, District Councils with the very lowest Band D Council Taxes would welcome increased flexibility beyond the £5 per property permitted for councils with charges in the lowest quartile. Nationally, there are 88 districts where £5 per band D property per year is just 3.09% and this very small increase above the standard 3% allowance does little to help very low Tax yielding authorities increase their Council Tax base to provide sustainable levels of funding. It seems to unfairly reward authorities with higher Council Tax yields and does not help bridge the gap between demands, costs and authorities' ability to raise income through Council Tax.

Q3. Do you agree with the Government's preferred approach that Negative RSG is eliminated in full via forgone business rates receipts in 2019-20?

27. Negative RSG is a major concern for authorities across the wider South East. 75% of authorities in the South East (56 out of 74) expect to be affected by Negative RSG in 2019/20, whilst others will receive very little. SESL and SEEC, therefore, support the proposal to eliminate Negative RSG and honour commitments made in previous years about not changing tariffs until 2020. Guaranteeing that RSG will not fall below zero, as the consultation proposes, would be the cheapest way of doing this.

28. Changes to the RSG mechanism were introduced in 2016 with no prior consultation or notification. These changes led to the negative RSG for some authorities. That the changes could lead to a local authority effectively having to return some of its business rates retention seemed totally incompatible with the principles of business rate retention. As far as the affected authorities are concerned, it is right that the £152.9m which they would otherwise lose is returned to them.

29. It would be helpful if the Government explained the impacts of its preferred approach. At the time business rates retention was introduced assurances were given that the Government's central share would be used to fund the new RSG and other grants to support local authority services. Can the Government confirm that removing negative RSG will not impact upon any other funding for local government?

30. It will, however, be deeply unsatisfactory that some councils will receive no RSG whilst others will receive much more. There needs to be a minimum level of positive RSG per person, with all councils receiving at least something. This would begin to help redress the gulf between poorly funded areas and much more generously funded metropolitan areas.

31. For many authorities in the wider South East problems caused by negative RSG demonstrate the current local government funding system is broken. The fact that the Government has considered multiple and complex options that do not resolve Negative RSG demonstrates that the current system is flawed and needs greater transparency.

32. Lower levels of central funding have forced authorities in the wider South East to increase Council Tax to fund services, but Negative RSG penalises councils for doing this by building those increases into future grant decisions.

33. The 'baseline need to spend' is the minimum level of funding a council needs to deliver services as assessed by the Government's own formula. It is not appropriate to reduce a council's income below its 'baseline need to spend' without undertaking a full review of spending needs, which is what the Fair Funding Review will address. We understand that, due to Brexit, it has not been possible to bring forward the Fair Funding Review and, therefore, welcome the proposal to eliminate Negative RSG via forgone business rates receipts.

34. SESL and SEEC members support the preferred proposal as way to resolve concerns in the short-term without major disruption to the system while longer term significant changes are under discussion. More substantial changes in the short-term will only further increase uncertainty if the funding allocation methodology is unpicked so close to further planned changes.

35. SESL and SEEC members want to see long-term resolution to Negative RSG and unfairness in the wider local government funding system. However, there is concern that a new system may not be ready in time to plan for 2020/21.

Q4. If you disagree with the Government's preferred approach to Negative RSG please express your preference for an alternative option. If you believe there is an alternative mechanism for dealing with Negative RSG not explored in the consultation document please provide further detail.

36. We strongly support having no Negative RSG. The Government's proposed approach is the minimum that should be done, but we would like to see it go further.

37. We believe there is merit in reconsidering how the Council Tax adjustment is calculated. This could be based on a common notional charge rather than each authority's local band D charge.

38. Inconsistencies in the previous funding arrangements were a significant factor why Council Tax charges are significantly higher in some authorities than others. This meant some authorities ended up with much higher grants per head of population (which were crystallised into RSG and business rates retention baseline) than other authorities, and these differences could not be adequately explained by differences in spending needs. Those authorities with the low RSG (and lower business rates baseline as this was also determined by the previous flawed grant regimes) had historically made up the difference with higher Council Tax increases. These authorities are now effectively doubly penalised by the recalculation of RSG from 2016/17 when these higher Tax yields were included in the recalculation of RSG.

Q5. Do you have any comments on the impact of the proposals for the 2019-20 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

39. The MHCLG's spending power statistics show that the heaviest grant cuts are being made to the councils which already have to manage with the some of the lowest levels of spending power per dwelling. It is unjustifiable why councils serving protected groups in some parts of the country should be expected to manage with much lower spending power than others.

40. One of the protected characteristics identified by the Equality Act 2010 is age. This characteristic is a major driver of the cost of council services. However, the areas with the highest adult social care pressures are typically those which have been given the lowest spending power.