LONDON COUNCILS

Consultation response

Consultation on payments in connection with local retention of non-domestic rates and Revenue Support Grant for 2013-14: and related matters

Response by London Councils

This response set out the views of London Councils on the provisional Local Government Finance Settlement for 2013-14. London Councils represents all 32 London boroughs, the City of London, the Mayors Office for Policy and Crime, and the London Fire and Emergency Planning Authority.

Introduction

1. London Councils welcomes the opportunity to comment on the provisional local government finance settlement for 2013-14.

2. Local government currently faces an extremely challenging Spending Review settlement with cuts to the sector far exceeding those applied to almost every other part of the public sector. While London's formula funding cuts (within the start-up funding assessment) were broadly in line with other regions in 2013-14, London has been hit harder in 2014-15 and over the two years London boroughs have larger reductions in 'spending power'[1] than the England average (-6.0% on average in London compared to -5.5% nationally).

3. Furthermore, London authorities bear their share of these cuts on an already diminished baseline having faced extremely tough settlements in past Spending Review rounds with the majority of boroughs on the funding floor.

4. The recent data from the Census 2011 confirms previous analysis by London Councils and our members - London's population has been consistently undercounted over the last decade. As a consequence, some boroughs will have received less in formula grant, and other grants, than they should have.

5. Given this historic underfunding of London local authorities, London Councils is disappointed the Government has ignored our concerns about some of the proposed changes to the distribution of local authority funding as part of the

[1] London Councils believes that the Government's continued use of its 'spending power' calculation masks the full extent of decline in government funding for local government services, lacks transparency and is confusing to tax payers. We urge the government to move to a more open and transparent method of expressing local government's significant contribution to the deficit recovery programme.

baseline calculations. Many of the proposed changes, particularly those to reflect sparsity, lack strong supporting evidence and heavily penalise London adding to the historic pressures already noted above. These distributional changes will be locked into the retention scheme until at least the first reset and so will continue to penalise London's authorities into the foreseeable future.

Detailed response

Timing of the settlement

6. London Councils, like the rest of the local government sector, was disappointed that more information could not be released before the late settlement date of 19th December. While we recognise that the delay was due to the lateness of the Autumn Statement, it is disappointing that more time and resource was not given by DCLG to ensure councils had earlier indications of their funding allocations for 2013-14, particularly with such fundamental changes occurring to the local government finance system. The lateness of the settlement has put enormous pressure on planning, accounting and budgeting processes for the 2013-14 financial year for all London Boroughs. Furthermore, the requirement to return provisional NNDR forecasts by 7 January was particularly difficult for many councils, especially as many wished to engage with members before making their returns.

7. The late settlement was further compounded by some of the data released on that date being incorrect or incomplete. A number of files were not added until the New Year, and several were put on the website only to be replaced by amended versions. The confusion over accurate figures and the late publication of key details has reduced the time available within the overall consultation timeframe for respondents to assess and analyse the detail of the settlement. Given the fundamental nature of the reforms to the local government finance system, London Councils is very concerned about the reduced time in which we are able to respond on behalf of our members.

Extent of the cuts

8. The settlement confirmed the provisional local government spending control totals for 2013/14 and 2014/15. Since the Spending Review 2010 (SR10), there have been a number of incremental cuts to the local government control total – over £2 billion directly affecting local government in 2013/14. Even without these reductions, local government was already being asked to deliver a disproportionately higher level of savings than other sections of the public sector: -28% in real terms over the four year period compared to -8% on average for central government departments.

9. Local government has also been asked to deliver cuts on behalf of DWP (council tax benefit expenditure - circa £420 million, social fund – circa £96 million), the Ministry of Justice (children on remand – circa £19 million) and DfE (early intervention grant – circa £343 million).

10. Because of a number of changes since SR2010 it is very difficult to compare on a like-for-like basis, however analysis undertaken by London Councils officers shows the cuts to be in the region of -34%.

11. It is unreasonable and unsustainable for local government to continue to be expected to shoulder a disproportionate share of the deficit reduction programme in the future without recognising the potential for serious impact to front line services.

Spending power

12. London Councils is very disappointed at the way the Government has continued to disguise the extent of the cuts to local government through the use of the term 'spending power'. Spending power is, in our view, a calculation designed by government mask the full extent of cuts to formula grant. The settlement shows the change in spending power in 2013-14 at the England level is -1.7%. However, this masks cuts in formula funding of -4.6%; in rolled-in grants of -2.3%; and start-up funding of -3.9%.

13. The use of the spending power calculation is potentially misleading as it does not represent guaranteed funding. Finance officers must produce prudent and robust budgets, therefore budgeting for funding that is not guaranteed is very difficult. Under the new rates retention system, councils are not guaranteed 100% of their start-up funding, but only 92.5%. Factoring in only what councils are guaranteed would make the widely reported cut in spending power of -1.7% across England closer to -3.3%. In London, where many boroughs will fail to achieve their business rates targets because of the effect of appeals (see section on appeals below), this would make a -1.2% cut in spending power look more like -2.8%, with one borough likely to see a fall in spending power of -4.4% in 2013-14 and another almost -11% over the period 2012/13 to 2014/15.

14. The definition of spending power includes an estimate of council tax requirement. This estimate uses the 2012-13 tax base, meaning any authority whose tax base falls will see an additional cut in their spending power. Just as using the start-up funding assessment as a guaranteed amount of funding within spending power is misleading, so is using an estimate for council tax based on the previous year, which is not guaranteed income. This further suggests the term spending power is misleading. The Secretary of State's focus on headline spending power only serves to hide the true extent of the cuts to local government funding and to confuse non-finance specialists, particularly tax payers.

15. Definitional problems notwithstanding, London boroughs see a larger percentage cut in spending power over the two years 2013/14 and 2014/15 than the England average (-6.0% compared to -5.5%) amounting to £500 million. This is largely down to cuts in council tax support and formula funding which have a stronger effect on London than elsewhere. We feel it is unfair that London is facing another above average cut, particularly in light of the diminished baseline referred to above.

Formula funding

16. We are profoundly disappointed to note that the Government has decided to press ahead with its proposed changes to the sparsity measures in the formula funding model. These were proposed on the basis of extremely limited quantitative evidence and appear to have been accepted with no real opportunity to test their validity. This is essential when close to £150 million in grant before damping was transferred from urban to rural areas using the Government's own calculations. The changes cause major volatility in funding levels, with London boroughs losing around £80 million in formula funding before damping (even taking into account 2013-14 control totals).

17. We are also disappointed with the way the Government has chosen to restore the relative resource amount. The reduction of this amount since 2010-11 followed by the change to the resource equalisation proportion in the current settlement means that

funding has effectively been transferred out of the needs block into the central allocation over recent years. We believe that distributing increasing proportions of funding purely on a per head basis is far too crude an approach for local government; a much fairer approach would have been to restore the relative resource amount by raising the relative needs amount correspondingly.

18. While we are pleased that the government has updated population data used in formula funding to more accurately reflect the true population of London, this is long overdue and does not make up for the substantial underfunding in previous settlements[2].

19. The settlement makes use of population projections based on the 2011 Census, but only takes into account migrants if they are resident in an authority's area for longer than 12 months. Much of London's population is very transient and highly mobile, with large numbers of visitors and migrants – the Census reveals that there were about 70,000 short-term migrants resident in London when it was conducted, an undercount greater than the population of Corby. Given that the 2011 Census includes figures for short-term migrants, we believe that these should have been included in the population projections. London's boroughs currently receive no government funding for these service users, placing additional strain on already tight budgets.

20. The combination of all of these changes has led to profound volatility in the levels of funding before damping. This volatility has been even greater in London than that experienced in the 2011/12 settlement. This can be seen by looking at the difference between an authority's undamped grant and its floor for damping purposes.

21. In 2011/12, the average divergence between the two was 10% of the floor. In the current settlement, this has grown to 13%. Boroughs vary from having undamped grant 17% above their floor to a staggering 69% below their floor. Only four boroughs have seen their undamped formula grant change by less than £1 million. This makes some boroughs very heavily dependent on floor funding - some have seen their dependence on floor damping grow by as much as £29 million. Others lose considerably from the damping mechanism – some have had their formula funding increase scaled back by as much as £9 million.

22. London Councils welcomes the Government's decision not to move to a damping mechanism based on tiers, as was proposed. This could have resulted in major volatility in cash funding which could have caused unnecessary and extreme on-going budget pressures in many authorities. Nonetheless, there remains considerable concern about the volatility in undamped funding and the consequent sensitivity of London authorities' funding to the details of the damping mechanism and future ministerial decisions.

Appeals and safety net

23. London Councils welcomes the Government's decision to make a downward adjustment to the EBRA to compensate for the effect of outstanding appeals; however we are concerned that the size of this downward adjustment is not big enough. The 2.65% (£593 million) adjustment ignores the fact that outstanding appeals are more

[2] Analysis by London Councils officers suggests in 2012-13 alone this could have been in the region of £230m.

likely to take place, and more importantly, are more likely to be higher in value in London and other major urban areas.

24. Valuation Office Agency (VOA) data shows that at April 2012, 24% of all hereditaments pursuing an appeal were in London, despite only 17% of all hereditaments in England being located in London. As these 17% of hereditaments represent 28% of the total rateable value of the local list in England, the value of the appeals in London is likely to represent much more than 24% of the England total. Because the Government has used an England average to adjust the EBRA downwards, the adjustment is not enough to accurately reflect the size of appeals London boroughs are likely to face. In other words, London borough baselines are likely to be artificially high, thereby leaving them more vulnerable to funding shortfalls.

25. London Councils recognises that the VOA has considerable difficulty accurately forecasting the size and timing of business rates appeals, particularly with the current revaluation period being extended to 7 years. This is compounded by a lack of robust published data from the VOA. It is unlikely that the downward adjustment will be sufficient to cover the appeals currently outstanding for London. London Councils asks that the Government monitors the adequacy of this sum and strongly urge it to address any shortfall under the New Burdens procedure.

26. London Councils would suggest that in the event that this adjustment proves insufficient, it is unclear whether the safety net will be able to manage the additional pressure caused by these appeals. Despite the lower 7.5% safety net threshold, it is still felt that some local authorities are unlikely to ever qualify for a safety net payment. For example, Lewisham would have to lose 42% (£6.2 million) of its local business rates before becoming eligible for any protection. The volatility caused by appeals, in our view, exposes authorities to an unacceptable level of risk in an already tough funding environment.

Council tax support

27. London Councils is very disappointed with the lack of transparency around the funding for council tax support (CTS) in 2014-15 and beyond. In the absence of further detail from CLG, councils are struggling to confirm the amount of funding they will receive in 2014-15 for their local schemes. Instead, funding for council tax support will be lost within the wider formula funding allocations and in future will be subject to the broader cuts to local government funding. It could be argued that, based upon the forecast trajectory of local government funding, the initial 10 per cent reduction in council tax support will increase significantly over time.

28. Indeed, based on this argument, London boroughs face a further cut to CTS funding of -10.6%, which, added to the -10% cut in 2013-14, would give a cut over the 2 year period of -19.5% (higher than any other region).

29. A cut of this magnitude is completely unacceptable given that London, as a region, spends more on council tax support than any other and the most recent two year's caseload data from DWP show that, whilst for England there has been an average reduction of -3% in caseloads, London has been the only region to see growth (1%) in these numbers.

30. London Councils hears the government's assertion that CTS funding is not being reduced further, but if it is assumed that funding for CTS is maintained at 2013-14 levels (or even increased slightly, as 2014-15 KT3 suggests[3]), this results in even greater cuts to the remainder of formula funding in 2014-15. Our analysis shows that London's formula funding would be cut by -12.2% in 2014-15, on top of the -3.1% cut in 2013-14.

31. Under this assumption, the cost of a local council tax support scheme will, over time, account for a growing proportion of an authority's formula funding allocation with a consequential impact on the funding available for other services. This is yet another way local government is being cut further and faster than the rest of the public sector. The fact that the Government has not given greater transparency to the level of cuts to council tax support and formula funding is extremely disappointing.

RSG in 2014-15

32. The principle of business rates retention, that growth in the local share should be kept within the sector appears to have been disregarded by the Government in the way it has forecast a 3.1% increase (driven by RPI assumptions) in the local share and cut RSG in 2014-15 by an equivalent amount in cash terms.

33. London Councils believes that by making this adjustment the Government has gone against the principle of business rates retention which was devised to incentivise and reward growth. We ask that 2014-15 local share figures be used to calculate RSG for the rest of the reset period.

LACSEG

34. London Councils welcomes the reduced transfer for education central services. However, there is a risk of underfunding because of DfE's decision to only give £15 per pupil for retained responsibilities that authorities must provide for pupils in their area. This could place pressure on council tax and/or other service areas. In addition, there is no Area Cost Adjustment on this funding which will place increased pressure on London's authorities.

35. The policy to protect academies from significant year-on-year reductions in funding, and the higher per pupil amount they will receive in comparison with local authorities, reinforces an uneven playing field between different types of schools. This goes against DfE's stated objective in their consultations on LACSEG that: 'there should be no financial advantage or disadvantage for a school converting to academy status.'

36. Although the national per pupil rate for the new grant simplifies the funding of these services, it disadvantages authorities that have had a large level of conversions to academies (of which there are many in London), or that have low expenditure on central services. This effectively penalises authorities that have made efficiencies in administration and back offices services – something the Government is keen to promote. London Councils asks that the Government provides added protection for authorities who suffer large losses – as DfE has provided for academies who suffer similar losses.

[3] Key table 3 for 2014-15 actually shows a slight increase of 0.3% in the national quantum from £3,295m in 2013-14 to £3,306m in 2014-15.

Council Tax Referenda

37. London Councils notes the confirmation of a 2% council tax referendum limit for 2013-14, and the 1% council tax freeze grant for 2013-14 and 2014-15. However, London Councils feels this gives councils limited room for manoeuvre, especially against the backdrop of increased funding cuts. We urge the Government to remove the referendum threshold.

38. London Councils is concerned about the funding cliff edge for local authorities as one-off council tax freeze grants are withdrawn. Analysis suggests that this could amount to a reduction of £834 million in funding nationally (over £100 million in London). We ask that the Government confirm the continuation of this funding beyond 2014-15.

Lack of information

39. Despite the Government having additional time, due to the late settlement date, key elements of next year's funding envelope remain unclear. For example, funding allocations for public health responsibilities were only clarified on 10 January, and the central element of early intervention funding (amounting to £150 million nationally) has yet to be announced at the time of writing. In addition there is no detail about the basis for calculating the distribution of funding for disadvantaged 2 year olds that is being removed from EIG, making it impossible to establish a baseline to compare against in order to understand what has happened in this area. Uncertainty around funding allocations makes long-term financial planning much more difficult and risks local authorities not making the best use of all available resources.

40. The settlement also failed to confirm how the difference between the local government control total and the business rates aggregate will be funded in 2013-14. It is unclear as to whether this is funded from central list income. In London Councils' response to the July business rates retention consultation we asked the Government to provide further clarity on the distribution of the income from central list properties including how and when this funding will be distributed to local authorities. We reiterate that any future review of how the central list is administered should be carried out in consultation with local government and must include a commitment that central list business rates will continue to form part of the local government finance system and be redistributed to local authorities in a transparent manner.

41. The settlement provides no indication of how the revaluation adjustment will actually be carried out in 2017. London Councils is very concerned that that the Government's aim to ensure that retained income does not change as a consequence of revaluation could also work to neutralise RPI growth and physical growth in a revaluation year. We would urge the Government to provide details as to how the revaluation adjustment will be carried out as soon as possible.

42. Finally, we are disappointed that an adjustment to the EBRA has not been made to take account of the detrimental effect of conversions to academies on business rates yields.

43. As raised in London Councils' response to the July business rates retention consultation, academies, as charitable trusts, are eligible to receive charitable relief of 80% on school property which is wholly or mainly used for educational purposes. As such, each academy conversion will reduce the business rate yield collectable by the local billing authority.

44. The rate of growth of academy conversions in London is considerable. Growth analysis by London Councils, suggests that in London, all secondary schools could be academies by November 2014, and that all primary schools could be academies by April 2025. The impact of these conversions on business rate yield for London local authorities could therefore be significant. We call for the Government to address the detrimental impact on local funding levels by adjusting the funding available to local authorities such that no individual authority loses funding due to the conversion of local authority schools to academies.

London Councils
January 2013