Borough of Pendle

STRATEGIC DIRECTOR
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Date: 13th January 2017
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Charles Coleman
DCLG
Local Government Finance
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Sent via e-mail

Dear Mr Coleman,

Provisional Local Government Finance Settlement 2017/18
Response to Consultation

I am writing in response to your consultation on the Local Government Finance Settlement for 2017/18. Our responses to the specific consultation questions are provided at the end of this letter. In the meantime, we would like to make the following comments and suggestions.

- *4 year settlement*

  The Council responded positively to the Government's offer of a four year funding settlement and submitted its efficiency plan within the required timescale set as part of the 2016/17 settlement. From a review of the settlement data it is hard to distinguish any benefit from having done so when looking at the funding allocations in 2017/18 for those few councils who did not take up the offer. Equally, whilst the New Homes Bonus (NHB) funding did not form part of the offer, the benefits of signing up to the offer have been entirely negated by the significant changes made to the NHB regime, which I comment on further below.

- *Revenue Support Grant*

  Whilst the reductions in Revenue Support Grant were outlined as part of the four year funding offer in the 2016/17 settlement it should be acknowledged that Pendle will continue to lose grant at a substantial rate over the period as shown below:

  Receipt / Allocations of Revenue Support Grant

	£m	Change in grant from previous year	
		£m	%
2016/17	3.012	-0.892	-22.8
2017/18	2.210	-0.802	-26.6
2018/19	1.707	-0.503	-22.8
2019/20	1.145	-0.562	-32.9

In cash terms the loss of RSG from 2015/16 to 2019/20 amounts to £2.76m, equivalent to a cumulative reduction of 71% over the period. This combined with the changes in New Homes Bonus poses a severe threat to the sustainability of services for local people.

- *Change in the Funding Regime*

  We acknowledge the Government's intention to make local government self-financing from locally generated resources (Business Rates, Council Tax and New Homes Bonus) by the end of this Parliament. However, we have previously commented that the move away from a funding regime based on the relative needs of Councils puts authorities such as Pendle, which has cost pressures arising from areas of high deprivation, at a significant disadvantage in comparison to other more affluent areas.

  Despite our best efforts, it is unlikely that Pendle Council can generate sufficient resources locally over the next four years to counter the significant reduction (>70%) in Revenue Support Grant. This is because some of the economic and social issues in Pendle – a failing housing market, lack of inward investment due to poor connectivity, low skills levels and levels of worklessness – are deep seated and, as demonstrated in previous years with programmes such as Housing Market Renewal, Neighbourhood Renewal, require significant grant funding.

  Given the efficiencies that the Council has already made, it is our view that without additional support from Government there is no doubt that Pendle will have to make major cuts in frontline service provision to sustain a balanced budget between now and 2019/20. The extent of these reductions is likely to result in additional costs elsewhere in the public sector over time. This is because the reductions in services such as housing, public health, leisure will, over time, have implications for community health and well-being leading to pressures in the health and social care sectors.

  As in previous years we urge the Government to consider whether, for those Councils that have long-standing economic and social issues that constrain their ability to be self-financing, there should be a needs-assessed funding allocation to ensure that a basic level of service provision can continue to be provided in areas of high deprivation.

- *New Homes Bonus*

  Whilst the Government signalled changes to the New Homes Bonus (NHB) funding in December 2015 as part of the 2016/17 settlement it was only last month that the Government's response to the consultation was published. This has not been helpful to medium-term financial planning resulting in significant uncertainty on a key source of revenue income.

  When details were released as part of the provisional 2017/18 settlement the changes included the introduction of a national baseline of 0.4% below which no NHB will be paid. Whilst over 80% of respondents to the consultation disagreed with the introduction of a baseline, the Government has decided to implement a baseline and in doing so has set the starting baseline at a much higher level than that on which it consulted (0.4% as opposed to 0.25%).

Applying a national baseline at this level will, over the medium-term, practically reduce Pendle's future shares of NHB to nil. We estimate that the changes will result in Pendle receiving £3m less in NHB by 2020/21 under the new methodology than it could have received under the former scheme.

The adoption of a national baseline is detrimental to those Local Planning Authority's (LPAs) that have historically performed well, but are now running out of space or faced with hard to deliver brownfield regeneration sites as their land supply runs out. It also seemingly ties local government income through the NHB to the performance of the wider economy and not the performance of the LPA. It therefore reduces the clear and simple incentive effect of the current reward mechanism, and may eventually discourage housing growth as a result.

The concept of 'deadweight' is misplaced. Planning permission is granted for housing for a number of reasons, the most important being meeting the objectively assessed needs of the area. The incentive of New Homes Bonus is a contributing factor in helping to mitigate the impacts of new housing on local infrastructure, but it will never be the only reason for a housing development to be granted planning permission.

The bonus should be paid in relation to numbers of houses that are built or empty homes that are reduced. It is an incentive to reward housing growth and therefore all housing growth should count.

The Council acknowledges the pressures facing those authorities that have responsibility for adult social care services. However, the cuts to NHB as made by Government to fund the Adult Social Care Grant of £241m will arguably have little impact on social care given how the reduction has been funded. Not only have some upper-tier councils been affected by reductions in their share of NHB (which in some cases exceeds the additional social care funding they will receive) but all district councils will see their share of NHB cut, with the resultant impact having a proportionately greater effect on this class of authority.

We maintain our concerns as expressed previously regarding the regional distribution impacts of NHB. In addition because the funding for NHB is top-sliced from the funding available for Revenue Support Grant (RSG), Pendle will continue to suffer a significant loss of resources when RSG and NHB are combined. It remains our view that NHB should be funded from funding other than that which is distributed via the RSG.

- *Council Tax*

The Council has a good track record on council tax and has increased its Band D charge only once since 2008/9 – this was last year, when it became evident that the spending power projections issued by DCLG as part of the 2016/17 settlement assumed that councils would increase council tax by the maximum permitted.

The additional scope provided to upper-tier authorities, including Lancashire County Council, to increase their social care precept will have knock-on implications for the costs of council tax support, a proportion of which will fall on Pendle and have to be contained within the limits on council tax increases set for district councils.

> Given the Government's stated intention to move to a self-financing model of local government it seems inconsistent to retain the referendum principles and limit council tax increases, in the case of District Councils to £5 or to below 2%.
>
> Councils should have the flexibility to increase Council Tax, taking account of local circumstances, without the need for a referendum. If self-funding is the Government's intended model there should also be greater flexibility for Councils to vary council tax discounts and more control granted on matters such as planning fees for example.

Our responses to the specific questions set out in the consultation paper "Confirming the offer to Councils" follow below and we trust that you will take these and the comments made above into consideration prior to confirming the final settlement for 2017/18.

Yours sincerely,

T Greaves

Dean Langton	Cllr Mohammed Iqbal	Cllr Tony Greaves
Strategic Director	**Leader of the Council**	**Executive Member for Finance**

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

Despite accepting the four-year funding offer we continue to have concerns regarding the extent to which relative needs are assessed and taken in to account when distributing central resources for local government. Hence, we would argue that the current methodology remains sub-optimal. However, we acknowledge that the Government has commenced a Fair Funding Review of authorities funding needs. We await further developments in connection with this and in advance of this we anticipate little change being made to the methodology of RSG.

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

It follows from our consultation responses above on New Homes Bonus that the Council urges the Government to consider transitional measures to limit the impact of reforms to the NHB. The Government should reverse the reduction of £241m made to the NHB funding pot in 2017/18 and address the shortfall in social care funding by other means (e.g. council tax or other central resources) and not by top slicing RSG. The decision to implement a national baseline should be reconsidered. If a baseline must be introduced it should better reflect local circumstances and the differing abilities of councils to provide new homes, notably those in areas of high demand and strong housing growth compared with those, like Pendle, where there is evidence of low demand / low viability.

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?

We are not in favour of this given the re-distributional effects of top-slicing RSG and allocating it via New Homes Bonus. We feel this leads to more resources going to those Councils that already have greater spending power/resource capacity whereas the allocation of RSG does at least in some way have regard to the relative needs of councils.

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?

No – for the reasons outlined above. The pressures on adult social care are acknowledged but the scale of the issue requires a more comprehensive and national solution rather than what is achieved by diverting £240m from NHB.

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?

The need for a safety net mechanism is acknowledged. In part this stems from the volatility and uncertainty inherent in the current system and the persistent unfairness in meeting the costs of appeals including those which pre-date the inception of the current rates retention scheme. The fact that Westminster City Council is the largest beneficiary of the safety net only serves to emphasise this. As with NHB we do not support the top-slicing of RSG to fund this mechanism.

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

This Council does not agree with the methodology for allocating transition grant payments in 2017-18. This grant, totalling £150m only 'emerged' at the final settlement stage for the current year with the main beneficiaries being councils in the Home Counties.

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?

As with transition grant this grant for rural services delivery seems to address a specific factor impacting on needs. In this case it is sparsity and whilst we recognise the additional costs that stem from this it is but only one factor amongst a number that drive funding needs. Another would be deprivation. In the absence of specific recognition for these other factors we hope and expect these issues will be addressed by the Fair Funding Review.

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.

We have no observations to make in this respect and rely on the Government to comply with the same requirements as are applicable to individual councils when assessing the equality impact of policy decisions.