Borough of Pendle

CHIEF EXECUTIVE
Town Hall, Market Street, Nelson, Lancashire BB9 7LG

Date: 2nd January 2019
Our Ref:
Ask for: Dean Langton
Direct Line: (01282) 661603
E-Mail: dean.langton@pendle.gov.uk

Local Government Finance Settlement Team
MHCLG
2nd Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Sent via e-mail

Dear Sir,

Provisional Local Government Finance Settlement 2019/20
Response to Consultation

I am writing in response to your consultation on the Local Government Finance Settlement for 2019/20. 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.

- *Multi-Year Settlements*

  You will be aware that 2019/20 will be the final year of the 4-year settlement agreed by the Government in 2016/17. Whilst we considered that we had no choice but to sign up to that settlement, despite it reflecting significant reductions in the Council's funding, it did provide a period of certainty in funding allocations (although changes to both New Homes Bonus and, latterly, the Government's response to Negative Revenue Support Grant undermined the approach) which was, for the purposes of financial planning, welcome.

  In contrast, the lack of any approach to rolling multi-year settlements since then has created a potential 'cliff edge' for 2020/21 with considerable uncertainty about future funding levels. This uncertainty cannot be underestimated – there is to be a Comprehensive Spending Review which will determine the quantum of funding for local government, the Fair Funding Review will review the relative needs and resources of local authorities and the proposed changes to the Business Rates Retention will, potentially, change the amount of business rates retained (and with that, will see the end of Revenue Support Grant and, possibly, additional responsibilities transferred to local government).

  Each of these changes alone is potentially significant but taken together, and with limited useful information on which to model future funding scenarios, the ability of local authorities like Pendle to forecast funding levels with any accuracy from 2020/21 is incredibly difficult, if not impossible.

We accept that the timing of the Comprehensive Spending Review cannot be changed. Equally, the Fair Funding Review is necessary to bring up to date the relative needs and resources of local councils (given that it was last considered in 2013/14). ***To that end, we would urge the Government to consider deferring the implementation of the changes in Business Rates Retention until at least 2021/22 allowing the impact of any changes in funding from the Fair Funding Review to be bedded in.***

If that is not possible, and in the absence of any firm information on funding levels post 2019/20, we urge the Government to consider transitional arrangements which would serve to 'dampen' the impact of any funding reductions on local authorities.

- *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 in parts of our urban areas combined with some degree of sparsity across the rest of the Borough, 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 removal of 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 to deliver the necessary step change.

To that end, 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, the needs-based assessment of funding allocations should adequately reflect these matters to ensure that a basic level of service provision. As we shall comment on in the response to the consultation on the relative needs and resources it is our view that, given Pendle has a number of areas of high deprivation, this is an issue which needs to be properly factored into any formulaic approach to future funding allocations.

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 from 2020/21 potentially involving a significant number of compulsory redundancies. 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 and leisure, for example, will over time, have implications for community health and well-being leading to pressures in the health and social care sectors which are already suffering due to increasing demand against backdrop of funding restraint.

In the absence of additional funding support and in the context of the significant role that District Councils play in the prevention of demand for services that ultimately lead to higher cost interventions across various public services, we urge the Government to consider giving District Councils like Pendle the ability to raise a 'prevention precept'. The Kings Fund report on District Council Preventative Services identifies that every £1 invested in these services can save the wider Public Sector up to £70 hence the appeal of this proposition, particularly given the strain in areas such as the Health Service.

- *New Homes Bonus*

We are relieved that the Government has not changed the national baseline (0.4%). That said, our view remains that there should be no baseline.

The effect of applying the national baseline, over the medium-term, will practically reduce Pendle's future shares of NHB to nil. In response to the changes made as part of the 2017/18 Settlement we estimate that the changes will result in Pendle receiving substantially less in NHB by 2022/23 under the current methodology than it would 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.

Fundamentally, 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.**

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*

We endorse the Government's intention to defer any extension of the Referendum Principles to local Town and Parish Councils for a period of 3 years.

We also acknowledge the scope for District Councils to increase council tax by less than 3% rather than 2% as in the current year noting this is in recognition of inflationary pressures in the wider economy. However, 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.

We maintain our view that 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 for example. In particular, we can see no reason why there continues to be a Single Persons Discount at all or, at the very least, why Council's do not currently have the freedom to vary the level of discount according to local circumstances.

Our responses to the specific questions set out in the consultation paper follow below and we trust that you will take these and the comments made above into consideration prior to confirming the final settlement for 2019/20.

Yours sincerely,

Dean Langton
Chief Executive

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

Despite accepting the four-year funding offer we reiterate our concerns regarding the extent to which relative needs and resources 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, not least because it is based on out of date data.

We acknowledge that the Government is committed to the Fair Funding Review and that work on this has already started. Indeed, we will be responding to the consultation on this matter in due course. However, the present method of allocating Revenue Support Grant is based on outdated information associated with both the relative needs and resources of local authorities which, in our view, is depriving our local area of the resources required to sustain local services.

As we indicate elsewhere in this response, we are particularly aggrieved at the Government's response to those Councils that, as a consequence of the formulaic approach to the allocation of Revenue Support Grant, will 'suffer' negative RSG in 2019/20 (and indeed in the current year). In our view, it is contrary to both the calculation methodology and the acceptance of the 4-year settlement that the Government has chosen to find £152.9m to compensate these Councils, most of which have:-

- not suffered the extent of reduction in Revenue Support Grant as Pendle;
- by virtue of their taxable capacity, have been largely protected from funding reductions;
- received more New Homes Bonus than Pendle given they have functional housing markets.

Fundamentally, it is unfair.

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

We acknowledge that the Government has chosen to find additional funding for Adult Social Care. However, we note that this funding has been allocated completely to upper-tier Councils and ignores the vital role that District Councils such as Pendle play in providing services that both contribute to the reduction in long-term care needs for adults and the need for acute health services.

Services such as affordable and or extra-care housing, provision of home adaptations, leisure centres, parks and social prescribing are amongst those that are provided by District Councils like Pendle and which are a vital part of the population health and preventative approach to healthcare that, with the right investment, would take pressure of health and social care services.

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

Whilst we are relieved that the Government has chosen not to make any change to the baseline of 0.4%, we are still of the view that the Baseline per se does nothing to encourage housing growth; it is simply further mechanism to skew the distribution of resources unfairly.

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. In our view, this compounds the unfair allocation of funding.

The Government implemented reforms to the New Homes Bonus regime for the current year as it felt that although the Bonus was successful in encouraging authorities to welcome housing growth, it did not reward those authorities who were the most open to growth. For some authorities it is not a question of being 'open to growth' but rather a reflection of the viability of the local housing market and wider local economy that inhibits the opportunities for housing growth which results in Council's like Pendle being penalised under the Bonus regime.

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

As we have said previously, the 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 factor would be deprivation which, in the consultation on Review of Local Authorities' Relative Needs and Resources, the Government acknowledges as 'an important driver for some specific services'.

To that end, we are unclear why the Government has chosen to make available increasing amounts of additional funding (the grant was £65 million in 2018/19) for this factor but chooses to ignore other factors that impact on the costs of many other local authorities. We would strongly urge the Government to reconsider whether additional funding should be made available for Council areas recognised as being within the upper quartile of deprived areas according to the Index of Multiple Deprivation.

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

We agree with the Government's intention to distribute the £180 million of the levy account surplus.

However, it is our view that the funding should be used to dampen the reduction in Core Spending Power (CSP) between 2018/19 and 2019/20 for those affected Councils. According to the Government's detailed analysis of CSP, the average change in CSP from 2018/19 to 2019/20 is +3.8%. This masks the range of changes. Runnymede Council will have the highest CSP increase of +8.4% whereas Gloucester City Council will have the highest CSP reduction of 4.4%. Pendle ranks 31st highest reduction for 2019/20 with a change of -2.0%.

So, it is our view that the £180 million should be applied to those Councils are are suffering a reduction in their CSP from 2018/19 to 2019/20 to bring them more in line with the Government's headline +3.8% increase in CSP. There are 69 Councils with a reduction in CSP; only £23.7 would be required for these Councils to have no change in CSP.

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

We endorse the Government's intention to defer any extension of the Referendum Principles to local Town and Parish Councils for a period of 3 years.

We also acknowledge the scope for District Councils to increase council tax by less than 3% rather than 2% as in the current year noting this is in recognition of inflationary pressures in the wider economy. However, 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.

We maintain our view that 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 for example. In particular, we can see no reason why there continues to be a Single Persons Discount at all or, at the very least, why Council's do not currently have the freedom to vary the level of discount according to local circumstances.

We also support the District Council Network's proposal that District Councils are given the powers (such as charging Council Tax to Developers on unbuilt homes after a set period) to encourage the delivery of sites with planning consent within a reasonable time frame.

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

For the reasons we have set out in Q1 above, we fundamentally disagree with the Government's intention to eliminate Negative RSG in full via the provision of additional funding.

We agree with the adjustments to business rates in areas piloting 75% business rates retention and in particular those that make the scheme fiscally neutral for 2019/20.

Question 8: Do you have any comments on the impact of the 2019-20 local government finance settlement on those who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide supporting evidence.

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.