ASSOCIATION OF
NORTH EAST COUNCILS

Guildhall, Quayside, Newcastle upon Tyne NE1 3AF
Tel: 0191 261 7388
Website: www.northeastcouncils.gov.uk
Chief Executive: Melanie Laws

15 January 2014

Mr Andrew Lock
Department for Communities and Local Government
Zone 5/D2
Eland House
Bressenden Place
London
SW1E 5DU

Dear Andrew

Response to DCLG's Consultation on the Provisional Local Government Finance Settlement 2014/15

As you may be aware from our conversation with Brandon Lewis MP on 14 January, ANEC member authorities are keen to draw to Government's attention key issues for North East councils arising from the Provisional Local Government Finance Settlement for 2014/15.

As discussed, there are a number of areas included in DCLG's consultation document that we welcome including the overall reduction of the top-slice for the New Homes Bonus by £100 million and the decision not to top-slice and allocate the New Homes Bonus Grant in 2015/16 to Local Enterprise Partnerships. The return of the £28 million of hold-back for the Capitalisation Directive is also positively received, as is the announcement that the cost of Business Rates changes will be funded by extra money.

There are, however, a number of aspects of the Government's proposals that remain key issues for ANEC which form the basis of our response underpinned by illustrative examples and exemplifications highlighted in the attached document (Annex A):

- The principle of fairness and the inequitable re-distributional impacts of the funding proposals.
- The move from a needs based approach to an incentive based funding system.
- Higher than average reductions in spending power in the North East and the impacts of these for the wider economy and the ability for this area of the country to create the conditions for businesses to thrive.
- Withdrawal of Council Tax Resource Equalisation, which previously the Government agreed to build into the funding proposals, without which the unfairness in the current system will be compounded year on year.
- The amount of money being held-back or top-sliced from councils' core grant through Government holdbacks to fund, for example, the New Homes Bonus scheme.

- The implications of a further 7.2% cut in spending power over the next two years and the implications of this for local services at a time of increasing cost pressures and concerns about the longer term financial sustainability of councils – compounding reductions over the last 3 years.

ANEC's responses to specific questions raised in the DCLG consultation paper are appended to our submission in Annex B.

Fairness

ANEC member authorities have consistently raised with Government the issue of ensuring fairness and equity in funding decisions. This continues to be a key issue for us. Generally speaking, among other things, the response from Government has been that North East councils receive more money than councils elsewhere and have to take their fair share of the cuts. We accept that the Government has set a course of action to deal with the deficit and that we have to take our fair share of the pain. We feel that we have taken more than our share for a range of reasons and want to work with Government and partners on managing and mitigating what is a complex and demanding environment where money is increasingly short, needs and demands are increasing and the requirement for local government to place emphasis on building the conditions for growth is greater than ever.

In terms of cost pressures, for illustrative purposes and by way of context, we highlight the growing numbers of Looked After Children on page 7 of Annex A. We face a similar scenario in the North East in relation to adult social care cost pressures. People receiving care services are living longer but have more complex needs, which exacerbate these pressures. For example:

- In the North East, the history of deprivation, unemployment and long-term conditions has led to higher numbers of people accessing social care than in other regions. In terms of services provided per 100,000 of the population the North East is well above the national average – it is 29% above the national average for home care, 41% above for day care and 100% above for short-term residential care (RAP data for 2012/13).
- 17.1% of the North East's population is 65+ years compared with 16.1% for England.
- The population aged 65-79 is predicted to increase by 35% (from 321,000 to 432,000) by 2029.
- The population aged 80+ is predicted to rise over the same period by 82%, from 107,100 to 194,000.

Given these higher, more complex levels of need, we are concerned that as the proposals currently stand, in 2014/15 there will be a -11.2% cash cut to councils and by 2015/16 a -25.1% cut in general funding for services, including areas such as children's and adult social care where authorities have statutory responsibilities. It is difficult to see how these levels of cash cuts can be made without having a detrimental impact on services that are aimed at helping some of the most vulnerable people in communities. Evidence over the last 3 years of budget reductions has highlighted the difficulties facing North East councils in continuing to meet their statutory responsibilities in vital public services, whilst at the same time managing higher needs and increasing cost pressures.

We are concerned that the principles of equalisation and fairness to provide the same level of service to all areas of the country have been eroded and that successive funding settlements will result in a worsening situation in future years taking into account what we consider to be flaws inherent in the current funding system and an erosion of a needs based approach. The disproportionate cuts are creating significant re-distribution of funding across the country which we would ask the Government to undertake an independent review of in order to avoid a series of what can only be unintended consequences that will constrain our ability to maximise the potential of this area of the country, for the benefit of the regional and national economy.

Spending Power

In order to achieve growth, councils need to be in a position to continue the good work on creating the conditions for businesses to thrive. Without sufficient resources, this becomes much more difficult. We are deeply concerned, therefore, that 11 out of 12 councils in the North East will have higher than the English average reductions in spending power for 2014/15. The cumulative impact of such spending power reductions is a loss of over £109 million which equates to a reduction per dwelling of £91.93 for the North East. The English average reduction in spending power is 3.1%, equating to £71.58 per dwelling.

Contrasted with the North East, the provisional settlement represents a gain for more affluent authorities elsewhere in the country. As illustrative examples, Middlesbrough has a reduction of 5.3% equating to a reduction of £141.54 per dwelling in 2014/15. Epsom and Ewell has a 3% increase in its spending power which equates to an increase of £9.39 per dwelling. South Tyneside and Sunderland both see a reduction of 4.7% and Newcastle will have a reduction of 4.6% in 14/15. Uttlesford in Essex will see a 4.9% increase in its spending power, equating to a £15.07 increase per dwelling. Looking to 2015/16, Darlington's spending power falls below Wokingham's with a widening gap in future years (see graph on page 13 of Annex A). This is astonishing given the different socio-economic circumstances of these places.

The above average cuts in funding and spending power in 2014/15 and 2015/16 in cash and percentage terms – which are in addition to the reductions of the last 2 years – are also a major concern. The percentage spending power change over the next two years is illustrated in the heat-map (page 5, Annex A) which demonstrates the disproportionate changes across different areas of the country. People in the North East will see the spending power on services cut by 5% more than the England average. The cut in pound per dwelling will be almost 4.5 times the cut in the South East and the percentage cut is almost 4 times than that in the South East of England. In monetary terms, the cuts in the North East range from -£245 per dwelling to -£68- per dwelling, which amounts to a North East average of -£467 against an England average of -£300 and a South East average of -£105.

The critical point we wish to highlight is that these spending power differentials are clear and do not reflect the very different spending needs of councils in areas of the country with higher more complex levels of need and deprivation. The Government moving to a funding system which is essentially based the wealth of an area poses some significant challenges for us. Moving away from a needs-based to an incentive-based funding system raises some serious concerns for North East councils in the short, medium and long term and throws into sharp focus the importance of having in place monitoring and evaluation procedures. At the outset of the new funding system, the Government recommended that there should be a reset of support based on need. ANEC member authorities are keen to understand what will happen in the 2020 reset as this is fundamental to planning local government finance in terms of meeting local need and understanding how the impact of a 2020 reset will have on local councils' ability to utilise business rate growth to stimulate economic growth.

Councils have also made the observation that the spending power cut publicised in the provisional local government finance settlement is understated as it includes health monies which masks some of the losses and accounts for the green areas highlighted in the spending power heat-map. If health monies were excluded from the Government's spending power figures, the level of re-distribution across the country would be exacerbated. On this basis, we would recommend that health monies be outside spending power as they are not for councils to spend as other un-ring-fenced funding is.

We would also like to highlight the floors within spending power comparisons in terms of the other income streams not included which underpin service provision and vary significantly between areas. The level of self-funding for adult care, which is lower in the North East than the South East, illustrates this point. Our concern is that if these other income streams were included, it would demonstrate a greater detrimental impact on the spending power of the North East compared with other areas.

We are keen to explore with DCLG how we can work together on options and actions that would help rebalance the negative impacts of a system as it is now playing out. We are not alone in our concerns. Businesses, too, are highlighting the challenges in the provisional Local Government Finance Settlement, focusing on four key areas:

- The reduction of spending power in the economy as a whole through the impact on jobs and wages.
- The effect on local authorities as customers of North East businesses, both reducing their level of custom and pushing them in some cases towards more short-term approaches to procurement.
- The flexibility to tailor policies to the needs of the region, with local government facing greater reductions than many parts of central Government.
- The impact of services most directly affecting businesses, such as planning which has been targeted for a disproportionate share of cuts.

(Source: North East Chamber of Commerce position statement, 20 December 2013).

We have some proposals which we hope you will be able to consider and act upon that will help address some of the issues highlighted above. These are set out below.

Resource Equalisation

We would ask the Government to consider separately identifying, restoring and protecting Council Tax Resource Equalisation to its 2010/11 and 2013/14 level. As Ministers will recall, a Council Tax Resource Equalisation adjustment has been included as a core principle in Formula Grant since Council Tax was introduced in 1993 with councils with very high taxbases receiving a large negative grant adjustment and councils with low tax-bases (as is the case in the North East), received proportionately lower negative grant adjustments. By 2010/11 the level of the Resource Amount adjustment was -£6.55 bn. The grant approach adopted by this Government in 2011/12 and 2012/13 cut this adjustment significantly, which is one of the causes of disproportionate cuts in less affluent areas of the country in these years.

This was raised by ANEC and other local authority groupings as an issue in 2012 and the Secretary of State agreed to correct the position and restored the Council Tax Resource (equalisation) Amount to its 2010/11 cash level in the base funding level for 2013/14. The adjustment has now been embedded into upper and lower tier elements within the Settlement Funding Level and is no longer separately visible. We are concerned that it will now once again be cut and eroded each year. As these blocks receive no protection they are being cut by a higher average amount of around 11% in 2014/15 and by up to 25% over the next two years.

This represents a significant erosion of a core funding principle of resource equalisation which will be cut further each year under the new funding system. Since this issue is perhaps the single biggest cause of the disproportionate cuts in funding and spending power between poorer and wealthier areas of the country, we would ask the Government to restore and protect Council Tax Resource Equalisation. We would suggest that it would be relatively simple to separate this adjustment out of the amounts allocated for the tiers and to give it cash protection similar to that given to Council Tax Freeze Grant.

ANEC would be pleased to work with officials to undertake modelling to assess the potential impact of this change in resource equalisation in more detail to help inform the consultation.

Hold-backs and Top-slices

As Ministers will be aware, the issue of hold-backs and top-slices on local government funding was the subject of a Parliamentary Debate on 3 December, which elicited a range of views on this important issue. ANEC member authorities are firstly asking DCLG to reduce the level of hold-backs and top-slices because they are holding back funding previously approved by Parliament to fund core statutory services. Secondly, we are asking for hold-backs and top-slices where they are made, to be distributed between councils in a more equitable way than is currently proposed. The detail is set out below.

New Homes Bonus

We very much welcome the fact that Government has listened to and responded to local government's request to reduce the New Homes Bonus top-slice by £100 million from £800 million to £700 million in 2014/15.

The area of focus, which we would ask the Government to address, however, is the distributional impact of the way that the New Homes Bonus is being top-sliced from funding previously approved by Parliament to fund statutory services.

We would ask Ministers as part of the current consultation to consider enabling councils to receive some of the cash grant returned early in 2014/15 if all of the money held-back is not paid out as New Homes Bonus. In estimated spending power for 2014/15, DCLG has, we understand, assumed NHB grant payments of £916 million and a refund of £38 million, giving a potential net top-slice of £668 million in 2014/15.

As Ministers will already be aware, ANEC has previously recommended alternative options for funding the top-slice, including the allocation of the grant top-slice between councils on the basis of their stock of dwellings as opposed to making a simple percentage cut in grant. We continue to hold the view that a more equitable allocation of the grant top-slice would reduce the re-distributional impact of the scheme and would mitigate the excessive adverse impacts on the most deprived areas of the country. A review into the New Homes Bonus is something we are continuing to ask you to consider.

Business Rate Safety Net

The proposal to continue with the top-slice for the Business Rate Safety Net of £120 million for 2014/15 and 2015/16 is something we would ask Ministers to re-consider – a move that would help all councils across the country. In the context of our earlier comments regarding our desire to work closely with business to secure economic growth and employment, we have concerns that the Business Rate Safety Net holdback to councils in 14/15 – equating to £120 million – would be damaging to local services. Based on our assessments, it could potentially result in the loss of over 4,000 jobs directly and with taking £120 million of further resources out of local economics, many more indirect job losses.

Our analysis, which we would be happy to share with the Government, also demonstrates that the grant holdback is implemented by a percentage reduction in grant, which has a much greater adverse impact on grant dependent authorities, including the most deprived areas in the country and those with the highest percentage of non-white populations. A national impact assessment is, we believe, critical.

Financial Sustainability of Councils

The National Audit Office (NAO) has recently acknowledged that 'local authorities now bear the financial risk of providing support, potentially contributing further to the overall pressures on their financial sustainability. The impact of this will vary widely depending on local authorities' financial situation and local factors, and the impact of other funding and welfare changes'. It has stated that 'the Department must satisfy itself that local authorities can manage the cumulative impact of funding changes, so that it can make informed decisions about future funding' (NAO Council Tax Support Report 13 December). The removal of the Local Welfare Provision Grant from 2015 is just one important example of funding and welfare changes that will exacerbate the pressure on local authorities in providing support to people and communities that are most in need.

Commenting on DCLG's funding announcement, CIPFA's Chief Executive has commented that 'it demonstrates yet again how desperately we need to take the see-saw of party politics out of the allocation of funding and instead base it upon objectivity, transparency and predictability. When

Government Ministers compare such different councils as affluent Windsor and metropolitan Newcastle in an attempt to justify the 'fairness' of the settlement it only serves to highlight how out of touch this process has become'.

ANEC would be pleased to provide DCLG, NAO and others with information and further detail with a view to helping Government achieve its stated aim of a funding settlement that is fair to North and South, urban and rural and to 'limit as far as possible the impact of reductions in spending on the most vulnerable in society and on those regions heavily dependent on the public sector'. The evidence, illustrations and examples we have gathered and relevant analysis undertaken to date is included within the attached Annex and we would be happy to discuss this further.

We hope that Government will find this body of work of value in considering options for future funding arrangements, which we would suggest, could form part of an Independent Review and comprehensive Equalities Assessment that addresses re-distributional impacts that currently produce anomalies across geographic areas that may not be intended and which will create significant challenges in future funding settlements and therefore for the long term sustainability of many councils across the country.

We welcome the current consultation, our engagement with Ministers and Civil Servants to date, and look forward to contributing to the dialogue as we move forward.

Yours sincerely

Paul Watson.

Cllr Paul Watson
Chair

Enc

Annex A

Response to DCLG's Consultation on the Provisional Local Government Finance Settlement 2014/15: Key Issues for North East Councils

Some Good News

- Topslice for New Homes Bonus reduced by £100m to £700m.
- New Homes Bonus Grant in 2015/16 no longer to be topsliced and allocated to LEPs.
- £28m of holdback for Capitalisation Directive to be returned.
- Cost of Business Rate changes to be funded by extra money.

Key Issues

- The principle of fairness and the inequitable re-distributional impacts of the funding proposals.
- Government's move from a needs based approach to an incentive based funding system.
- Higher than average reductions in spending power in the North East and the impacts of these for the wider economy and the ability for this area of the country to create the conditions for businesses to thrive.
- Cut in Council Tax Resource Equalisation, which previously the Government agreed to build into the funding proposals, without which, the unfairness in the current system will be compounded year on year.

Key Issues

- The amount of money being held-back or top-sliced from councils' core grant through Government holdbacks to fund, for example, the Business Rate Safety Net and the New Homes Bonus scheme.

- The implications of a further 7.2% cut in spending power over the next two years and the implications of this for local services at a time of increasing cost pressures and concerns about the longer term financial sustainability of councils – compounding reductions over the last 3 years.

- Disproportionate cuts accelerate the challenge of funding statutory services and financial crisis facing councils. The North East with much higher cuts and lower reserves is particularly vulnerable.

- Constraint / Uncertainty of raising income from Council Tax.

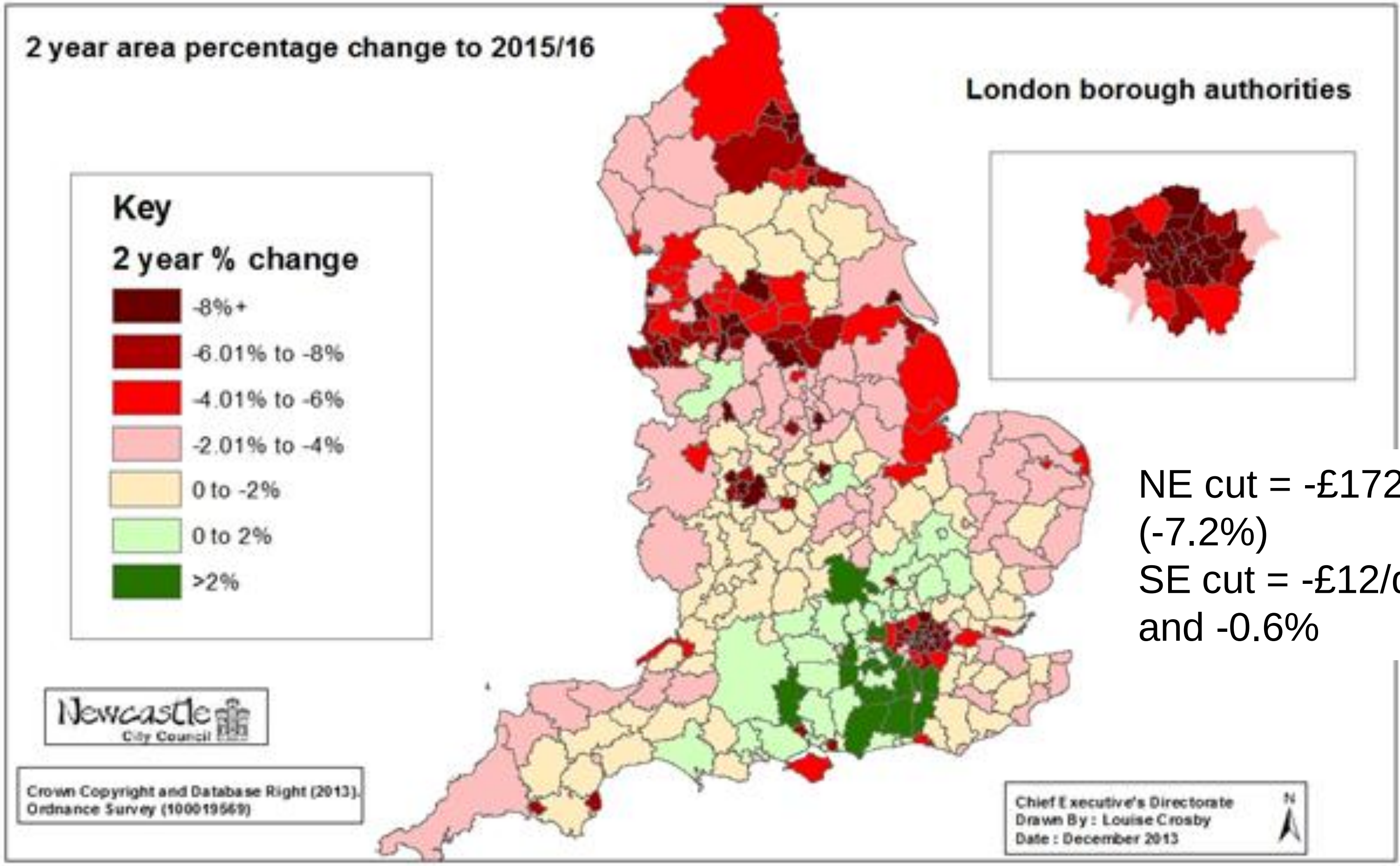
Fairness

- ANEC member authorities have consistently raised with Government the issue of fairness and equity in funding decisions. This continues to be an key issue for us.

- We accept that the Government has set a course of action to deal with the deficit and that we have to take our fair share of the pain.

- But we feel that we have taken a disproportionate share of the cuts.

% Spending Power Change over the next two years

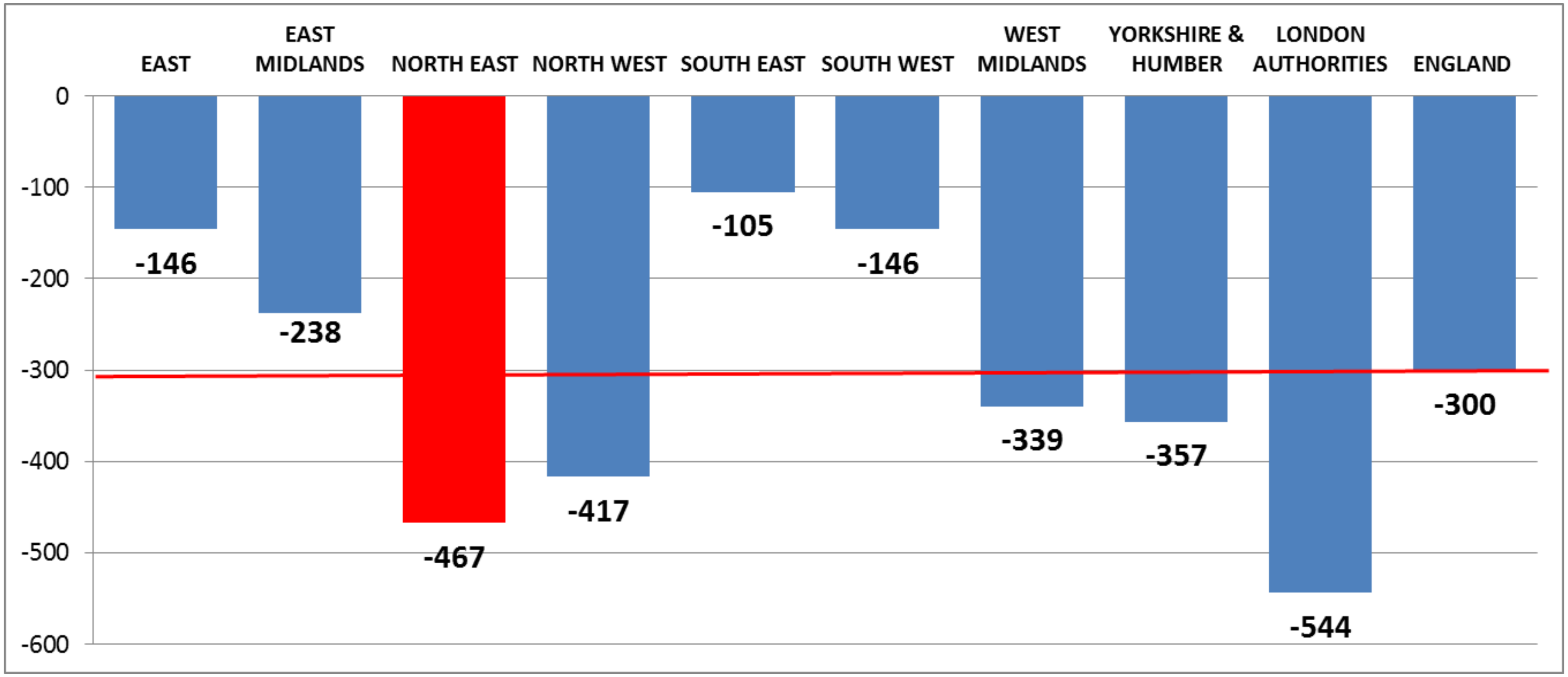


NE cut = -£172/dwelling (-7.2%)
SE cut = -£12/dwelling and -0.6%

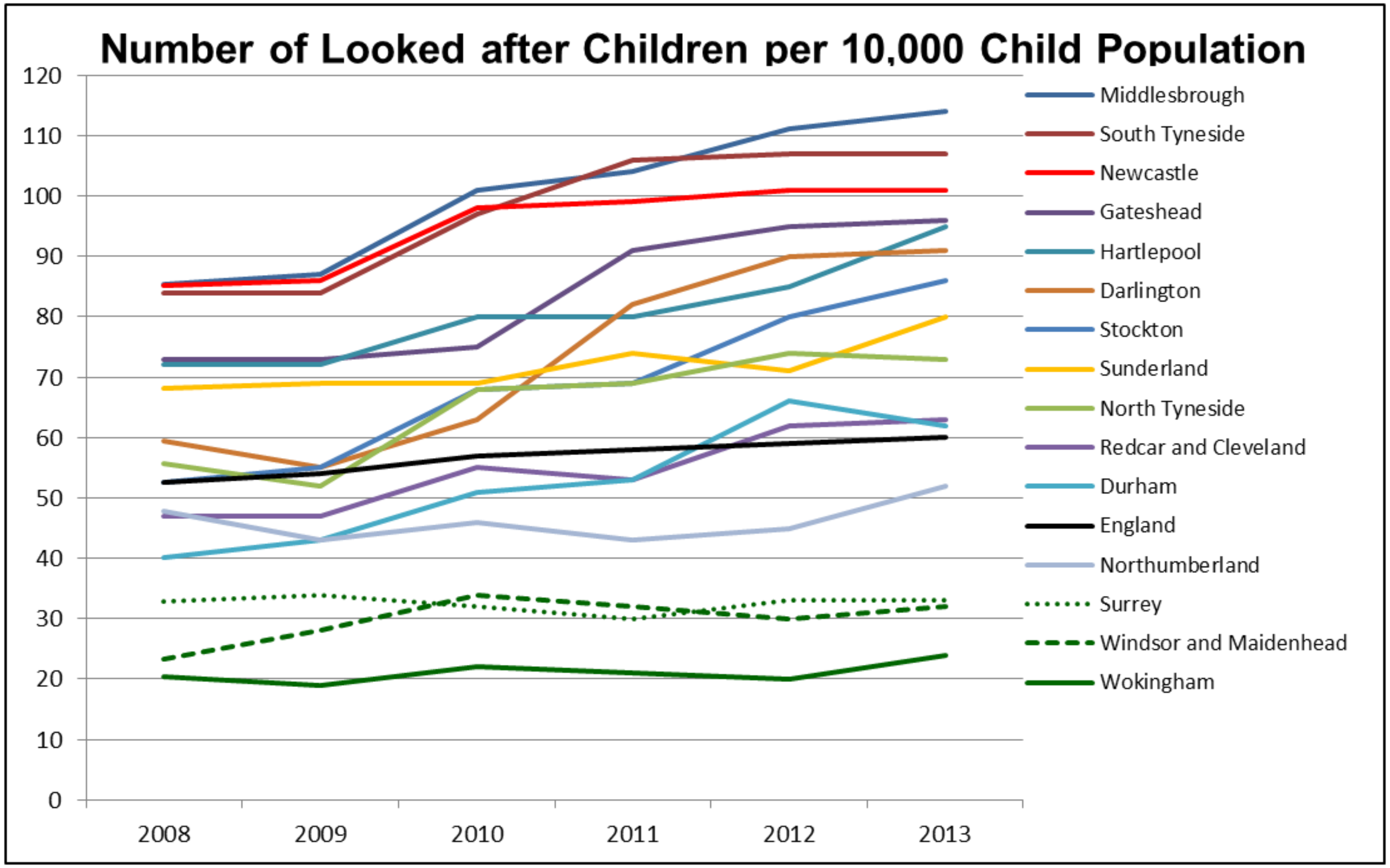
Demonstrates the disproportionate change in spending power over the next two years, with increases in South and cuts in London and the North.

Spending Power Cut /dwelling 2010/11 to 2015/16

The following chart shows the regional cuts in Spending Power per dwelling from 2010/11 to 2015/16. The biggest cuts are in London, North East and the North West. With the lowest cuts in the South East, South West and East



Higher Needs and Increasing Cost Pressures - Looked After Children per 10,000 pop



Example of Spending Pressure Differences

There are considerable spending pressures in different councils around, which have been accepted and recognised in funding allocations by successive Governments for decades.

	Darlington	Newcastle	Wokingham
Looked after Children per 10,000	91	101	24
Children Social Care Budget £/Dwelling	376	445	164
Adult Social Care Budget £/Dwelling	647	772	718
Statutory Concessionary Travel Costs £/Dwelling	65	85	14
Approved Capital Financing Debt1 Charges £/Dwelling	95	140	97
Homelessnes/ Supported Housing Costs £/Dwelling	84	145	48

One pressure which has been recognised is the very different cost of providing for Children's Social Care, where grant funding will have been cut by almost a half by 2015/16. Numbers and cost pressures in Darlington and Newcastle are much higher than in Wokingham.

Statutory Concessionary Travel and Housing Support Costs also vary significantly. As a City Newcastle has higher supported borrowing costs from past capital infrastructure projects.

Higher and More Complex Needs Adult Social Care

People receiving care services are living longer but have more complex needs, which exacerbate these pressures. For example:

- In the North East, the history of deprivation, unemployment and long-term conditions has led to higher numbers of people accessing social care than in other regions. In terms of services provided per 100,000 of the population the North East is well above the national average – it is 29% above the national average for home care, 41% above for day care and 100% above for short-term residential care (RAP data for 2012/13).
- 17.1% of the North East's population is 65+ years compared with 16.1% for England.
- The population aged 65-79 is predicted to increase by 35% (from 321,000 to 432,000) by 2029.
- The population aged 80+ is predicted to rise over the same period by 82%, from 107,100 to 194,000.

Given these higher, more complex levels of need, we are concerned that as the proposals currently stand:

- In 2014/15 there will be a -11.2% cash cut to councils and by 2015/16 a -25.1% cut in general funding for services, including areas such as children's and adult social care where authorities have statutory responsibilities.
- It is difficult to see how these levels of cash cuts can be made without having a detrimental impact on services that are aimed at helping some of the most vulnerable people in communities.
- We are concerned that the principles of equalisation and fairness to provide the same level of service to all areas of the country have been eroded and that successive funding settlements will result in a worsening situation in future years taking into account what we consider to be flaws inherent in the current funding system.
- The disproportionate cuts are creating significant re-distribution of funding across the country.

Spending Power

- In order to achieve growth, councils need to be in a position to continue the good work on creating the conditions for businesses to thrive. Without sufficient resources, this becomes much more difficult.
- We are deeply concerned therefore that 11 out of 12 councils in the North East will have higher than the English average reductions in spending power for 2014/15.
- The cumulative impact of such spending power reductions is a loss of over £109 million which equates to a reduction per dwelling of £91.93 for the North East.
- The English average reduction in spending power is 3.1%, equating to £71.58 per dwelling.

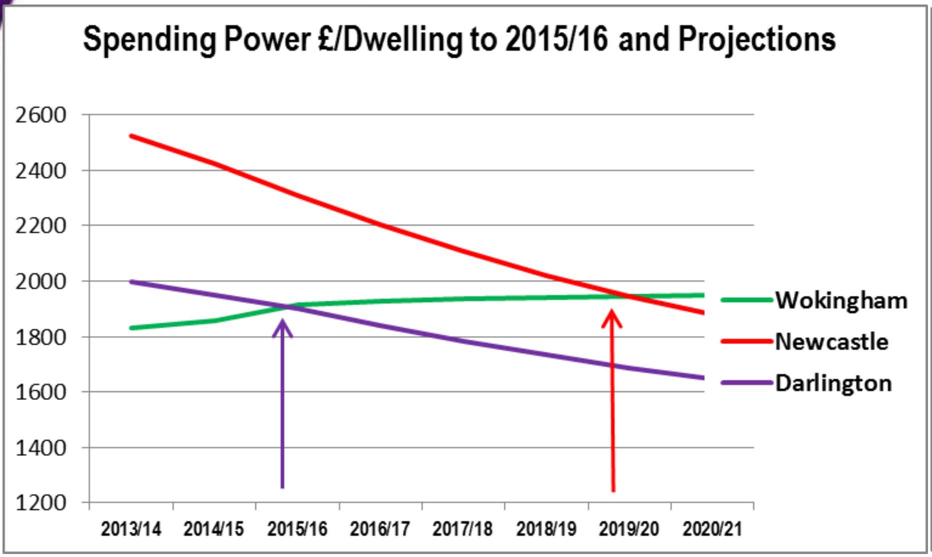
Change in Spending Power 2010/11 to 2015/16

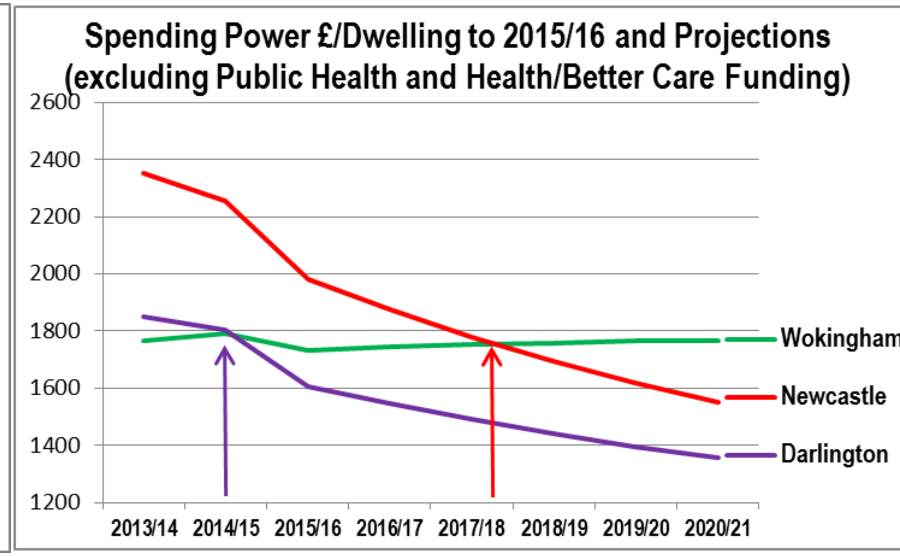
People in the North East will see the spending power on services cut by 5% more than the England average. The cut in £/dwelling will be almost 4.5 times the cut in the South East and the % cut is almost 4 times that in the South East

CHANGE IN SPENDING POWER 2010/11 TO 2015/16

	£m	%	£Dwelling
Darlington UA	-11.9	-12.3%	-£245
Durham UA	-91.2	-17.3%	-£385
Gateshead	-47.7	-20.1%	-£516
Hartlepool UA	-28.9	-24.5%	-£680
Middlesbrough UA	-41.2	-24.0%	-£676
Newcastle-upon-Tyne	-75.6	-22.1%	-£606
North Tyneside	-32.2	-15.5%	-£339
Northumberland UA	-45.8	-13.8%	-£310
Redcar & Cleveland UA	-31.8	-20.5%	-£509
South Tyneside	-46.5	-24.2%	-£664
Stockton-on-Tees UA	-31.0	-17.2%	-£369
Sunderland	-72.1	-22.4%	-£576
NORTH EAST	-556.0	-19.3%	-£467
ENGLAND	-7,002.9	-14%	-£300
Wokingham	1.3	1%	£20
Windsor and Maidenhead	-1.1	-1%	-£18
SOUTH EAST	-393.2	-5%	-£105

Spending Power Changes to 2015/16 and Future Projections





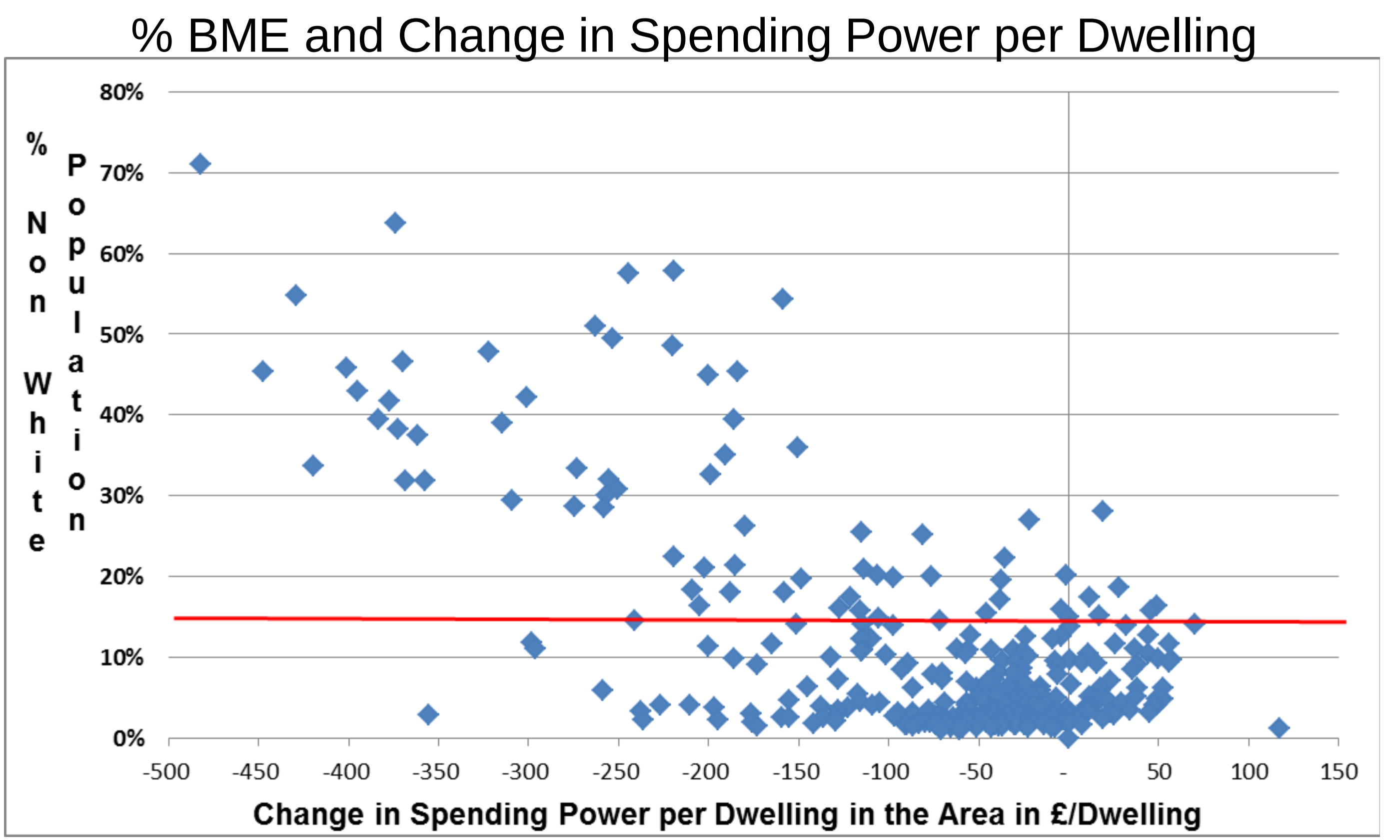
The chart on the left shows spending power changes to 2015/16 with projections to 2020/21, assuming a continuing 10% cut in funding, and the current funding system and approach.

The chart on the right shows spending power changes but excludes the ring-fenced Public Health Grant and the assumed increase in funding from Health/Better Care Funding from 2015/16.

Spending power for Darlington will be similar to Wokingham's in 2014/15 (excluding health funding) and will fall every year, despite higher service pressures. Spending power for Newcastle will broadly match Wokingham's in 2017/18 and fall from 2018/19, despite higher service pressures.

The cut in spending power for poorer areas is accelerated due to the operation of the new funding system, with increases in spending power for the wealthiest areas like Wokingham.

Changes in Spending Power are disproportionate and discriminate against people in areas of the greatest poverty and deprivation, including areas with large BME populations



Government does not recognise this in its equalities impact assessment, which we ask you to address.

Business in the North East is also highlighting the challenges in the Provisional Local Government Finance Settlement, focusing on four key areas:

- The reduction of spending power in the economy as a whole through the impact on jobs and wages.
- The effect on local authorities as customers of North East businesses, both reducing their level of custom and pushing them in some cases towards more short-term approaches to procurement.
- The flexibility to tailor policies to the needs of the region, with local government facing greater reductions than many parts of central Government.
- The impact of services most directly affecting businesses, such as planning which has been targeted for a disproportionate share of cuts.

Council Tax Resource Equalisation

- A council tax resource equalisation adjustment has been included in Formula Grant since Council Tax was introduced.
- Resource Amount was a negative adjustment in the formula grant calculation. This has previously caused distribution problems in terms of resulting in disproportionate cuts.
- It was cut in 2011/12 and 2012/13, but restored in total cash terms to -£6,323m (excluding police authorities) in the 2013/14 Revenue Support Grant base after lobbying.
- However, its inclusion in the general funding block which is being cut by 25% in the next two years (-£1.58bn), is the single main cause of higher cuts falling on areas with low taxbases including areas with high student exemptions.
- Indicative modelling has illustrated the impact, DCLG have been asked to exemplify the impact of this for each council.

Council Tax Resource Equalisation

The indicative additional cut that this causes in 2014/15 and 2015/16 appears to be very significant, as demonstrated in the table below. DCLG figures would help confirm the level of the impact of this change. The extra cut would grow each year.

Local Authority	Indicative Change	
	2014/15	2015/16
	£m	£m
Darlington	-0.3	-0.8
Durham	-3.9	-9.5
Gateshead	-2.1	-4.9
Hartlepool	-1.1	-2.5
Middlesbrough	-1.8	-4.3
Newcastle upon Tyne	-3.6	-8.4
North Tyneside	-1.0	-2.5
Northumberland	-0.1	-0.4
Redcar and Cleveland	-0.8	-1.9
South Tyneside	-1.6	-3.9
Stockton-on-Tees	-0.8	-1.8
Sunderland	-2.7	-6.6

Council Tax Resource Equalisation

- Council Tax Resource Equalisation could be separately identified and protected on a separate line in a similar way to Council Tax Freeze Grant. A simple illustration is given below – DCLG would need to allocate the amount accurately between tiers.
- The effect is to reduce the % cut in the needs assessment from -25.1% to -19.4% over the two years.

SETTLEMENT FUNDING ASSESSMENT							
	Adjusted 2013-14	Provisional 2014-15	Illustrative 2015-16	Change in 2014/15		Two Year Change	
	£m	£m	£m	£m	%	£m	%
Upper-Tier Funding	20,634.4	18,974.5	16,651.6	-1,659.8	-8.0%	-3,982.8	-19.3%
Lower-tier Funding	5,488.7	4,840.0	4,239.0	-648.7	-11.8%	-1,249.7	-22.8%
Isles of Scilly	2.7	2.6	2.7	0.0	-0.3%	0.0	1.3%
Fire & Rescue Funding	1,606.4	1,523.3	1,457.5	-83.1	-5.2%	-148.9	-9.3%
	27,732.1	25,340.5	22,350.8	-2,391.6	-8.6%	**-5,381.3**	**-19.4%**
COUNCIL TAX RESOURCE AMOUNT	-6,322.6	-6,322.6	-6,322.6	0.0	0.0%	**0.0**	**0.0%**
Separately Identified Items	4,846.9	4,764.6	4,622.6	-82.3	-1.7%	-224.3	-4.6%
Settlement Funding Assessment	26,256.4	23,782.5	20,650.8	-2,473.9	-9.4%	**-5,605.6**	**-21.3%**

- This should reduce the disproportionate cuts in funding.

Holdbacks and Topslices
Business Rate Safety Net Holdback

- £120m holdback from previously approved core funding to mainly deal with the fallout of appeals from the old system due to a loop hole utilised by a few councils.
- DCLG has already received Business Rates for the period of backdated appeals the holdback should be returned to councils, all councils would benefit from this decision.

	Share of £120m Holdback	
Area Cost (Inc Fire Authority	**£m**	**£/Dwelling**
Darlington UA	-0.243	-4.98
Durham UA	-1.341	-5.66
Gateshead	-0.617	-6.67
Hartlepool UA	-0.303	-7.13
Middlesbrough UA	-0.486	-7.97
Newcastle upon Tyne	-0.948	-7.59
North Tyneside	-0.515	-5.43
Northumberland UA	-0.694	-4.70
Redcar and Cleveland UA	-0.386	-6.19
South Tyneside	-0.519	-7.41
Stockton on Tees UA	-0.431	-5.14
Sunderland	-0.903	-7.21
Surrey	-1.373	-2.87
Hampshire	-1.599	-2.81
Wokingham	-0.155	-2.44
Windsor & Maidenhead	-0.141	-2.27
England	-120.000	-5.15

- People in the North East will have £7.4m (£6.20 per dwelling) unnecessarily held back as their share of the £120m holdback due to the way holdbacks are taken from the Core Statutory Funding.
- A household in Middlesbrough will have to pay £7.97 compared with a household in Windsor & Maidenhead who will only have to pay £2.27.

New Homes Bonus Review

- Limit scale of the New Homes Bonus to the £1billion considered in the original consultation paper, given the impact on social care and other key services its impact needs to be scaled back.
- Reduce the level paid for 2014/15 Bonuses either to a cash sum per new house or by way of a % of a national budget allocation and cap the allocation e.g. to an extra £150m in 2014/15.
- Funding should be provided by way of a reduction in the central share of Formula Grant in the 2013/14 settlement so the cost is evenly distributed on a £/person basis around the country to avoid extremely unfair and significant redistributional effects.
- Fairer split between county and district level funding needs to be introduced to minimise the adverse impact on social care budgets.

Holdbacks and Topslices
New Homes Bonus Topslice

- 11 of the 12 North East Councils are net losers, because they pay more than the average topslice of £30.03 to fund New Homes Bonus.
- Hartlepool loses -£11/dwelling (£0.5m), despite being more successful in securing New Homes Bonus than Richmond - which gains +£12/dwelling (£1m) by paying a low topslice.

	Topslice £m	NHB Grant £m	Net £m	Topslice £/dwelling	NHB Grant £/dwelling	Net £/dwelling
Darlington	-1.444	1.271	-0.173	**-29.60**	26.06	-3.54
Durham	-8.083	6.783	-1.300	**-34.14**	28.65	-5.49
Gateshead	-3.710	1.393	-2.318	**-40.11**	15.06	-25.06
Hartlepool	-1.808	1.333	-0.475	**-42.59**	31.40	-11.19
Middlesbrough	-2.901	1.545	-1.356	**-47.57**	25.34	-22.23
Newcastle upon Tyne	-5.728	3.629	-2.099	**-45.88**	29.07	-16.81
North Tyneside	-3.069	1.940	-1.129	**-32.33**	20.44	-11.89
Northumberland	-4.396	3.692	-0.703	**-29.77**	25.01	-4.76
Redcar and Cleveland	-2.273	1.379	-0.893	**-36.39**	22.09	-14.30
South Tyneside	-3.134	1.048	-2.087	**-44.71**	14.95	-29.77
Stockton-on-Tees	-2.500	3.080	0.580	**-29.83**	36.75	6.92
Sunderland	-5.441	2.226	-3.215	**-43.43**	17.77	-25.67
Windsor and Maidenhead	-0.821	2.152	1.331	**-13.26**	34.77	21.51
Richmond upon Thames	-1.457	2.440	0.983	**-17.63**	29.53	11.90
Wokingham	-0.890	2.730	1.840	**-14.05**	43.09	29.04
Hampshire	-9.498	19.664	10.166	**-16.68**	34.53	17.85
Surrey	-8.603	19.483	10.880	**-17.96**	40.66	22.71
England	-700.000	916.194	216.194	**-30.03**	39.30	

Financial sustainability of councils

The National Audit Office (NAO) has recently acknowledged that 'local authorities now bear the financial risk of providing support, potentially contributing further to the overall pressures on their financial sustainability. The impact of this will vary widely depending on local authorities' financial situation and local factors, and the impact of other funding and welfare changes'. It has stated that 'the Department must satisfy itself that local authorities can manage the cumulative impact of funding changes, so that it can make informed decisions about future funding' (*NAO Council Tax Support Report 13 December*).

North East councils face much higher funding cuts and have lower reserves, making the region more vulnerable to the impact of disproportionate cuts.

Commenting on DCLG's funding announcement, CIPFA's Chief Executive has commented that 'it demonstrates yet again how desperately we need to take the see-saw of party politics out of the allocation of funding and instead base it upon objectivity, transparency and predictability. When Government Ministers compare such different councils as affluent Windsor and metropolitan Newcastle in an attempt to justify the 'fairness' of the settlement it only serves to highlight how out of touch this process has become'.

Actions Needed

- Reduce the level of hold-backs and top-slices.
- Where hold-backs and top-slices are made, to be distributed between councils in a more equitable way.
- Make no holdback for Business Rate Safety Net – helping all councils.
- New approach to topslicing New Homes Bonus, with a more equitable way of funding the scheme. Review the scheme to minimise impact of the topslice in future years.
- Separately identify, restore and protect Council Tax Resource Amount to its 2010/11 and 2013/14 level.

Actions Needed

- To separate this adjustment out of the amounts allocated for the tiers and to give it cash protection similar to that of the Council Tax Freeze Grant.
- Councils to have greater local flexibility and choice about Council Tax levels.
- Independent Review and comprehensive Equalities Assessment that address re-distributional impacts.
- Greater transparency about the funding system that highlights the scale of the cuts and financial challenges facing councils.

Helping Government to Achieve a Fair Funding Settlement

ANEC would be pleased to provide DCLG with information and further detail with a view to helping Government achieve its stated aim of a funding settlement that is fair to North and South, urban and rural and to ‘limit as far as possible the impact of reductions in spending on the most vulnerable in society and on those regions heavily dependent on the public sector’.

<u>Response to DCLG's Consultation Questions on the Provisional Local Government Finance Settlement 2014/15</u>

Q1 Do you agree with the Governments proposal to remove the capitalisation holdback and reallocate the funding?

We agree with the proposal to remove the capitalisation holdback. We do not agree with the reallocation of the funding and would wish the money returned in full to councils.

Q2 Do you agree with the Government's proposal to reduce the New Homes Bonus holdback from £800m to £700m?

While we welcome this reduction, our response clearly highlights the need to completely change the way the holdback is top sliced from grant to make it more equitable and to review the level of the holdback in future years to minimise its impact on statutory services.

Q3 Do you agree with the Government's proposal to increase and roll in funding for rural authorities?

We recognise the importance of adequately funding differences in spending pressures and needs across all councils in the country including councils in rural areas. This is linked to the strong case that our response makes about the importance of the principle of allocating funding to reflect evidence based differences in need to provide statutory services.

Q4 Do you have any comments on the impact of the 2014-15 settlement on protected groups, as set out in the draft Equalities Statement?

Our response highlights our fundamental concern about the disproportionate distribution of cuts, which disadvantages the poorest most deprived areas of the country which face higher needs. This issue is not adequately identified, assessed or mitigated, despite the fact that there appears to be a statistically significant correlation between the level of cuts in both 2014/15 and 2015/16 and areas in the country with high levels of Black and Minority Ethnic populations. This indicates that a more detailed and thorough independent assessment of the impact of the disproportionate funding cuts needs to be undertaken.