

## **CITY COUNCIL - 26 JANUARY 2015**

### **REPORT OF THE DEPUTY LEADER AND PORTFOLIO HOLDER FOR RESOURCES AND NEIGHBOURHOOD REGENERATION**

#### **FAIR FUNDING FOR NOTTINGHAM**

#### **1 SUMMARY**

- 1.1 Nottingham City Council has seen a further 5.5% reduction in spending power (national average 1.8%) as a consequence of the draft financial settlement for 2015/16. Work undertaken by CIPFA / Pixel has demonstrated that the reduction in spending power for Nottingham City Council is 10.0% (national 6.2%) when funding that is not directly controlled by the local authority is excluded.
- 1.2 Nottingham City Council has seen an estimated 50% reduction in real terms of Government Grant since 2010/11.
- 1.3 The calculation of the settlement for 2015/16 has not been updated to reflect changes in demand for services

#### **2 RECOMMENDATIONS**

- 2.1 It is recommended that Council continues to lobby the government to make the way it allocates funding to Councils fairer by:
- restoring the needs criteria to the grant settlement
  - abolishing the new homes bonus and restoring the 'top slice' to the revenue support grant
  - repealing the changes to the Council Tax support system
  - urgently re-evaluating business rates

#### **3 REASONS FOR RECOMMENDATIONS (INCLUDING OUTCOMES OF CONSULTATION)**

- 3.1 Since 2010 the government has reduced funding to local authorities as part of the plan to reduce the budget deficit. The government has changed the nature of funding for local authorities which has meant that authorities like Nottingham have had significant funding reductions that have not been felt universally across England.

#### **4 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS**

- 4.1 None.

#### **5 BACKGROUND**

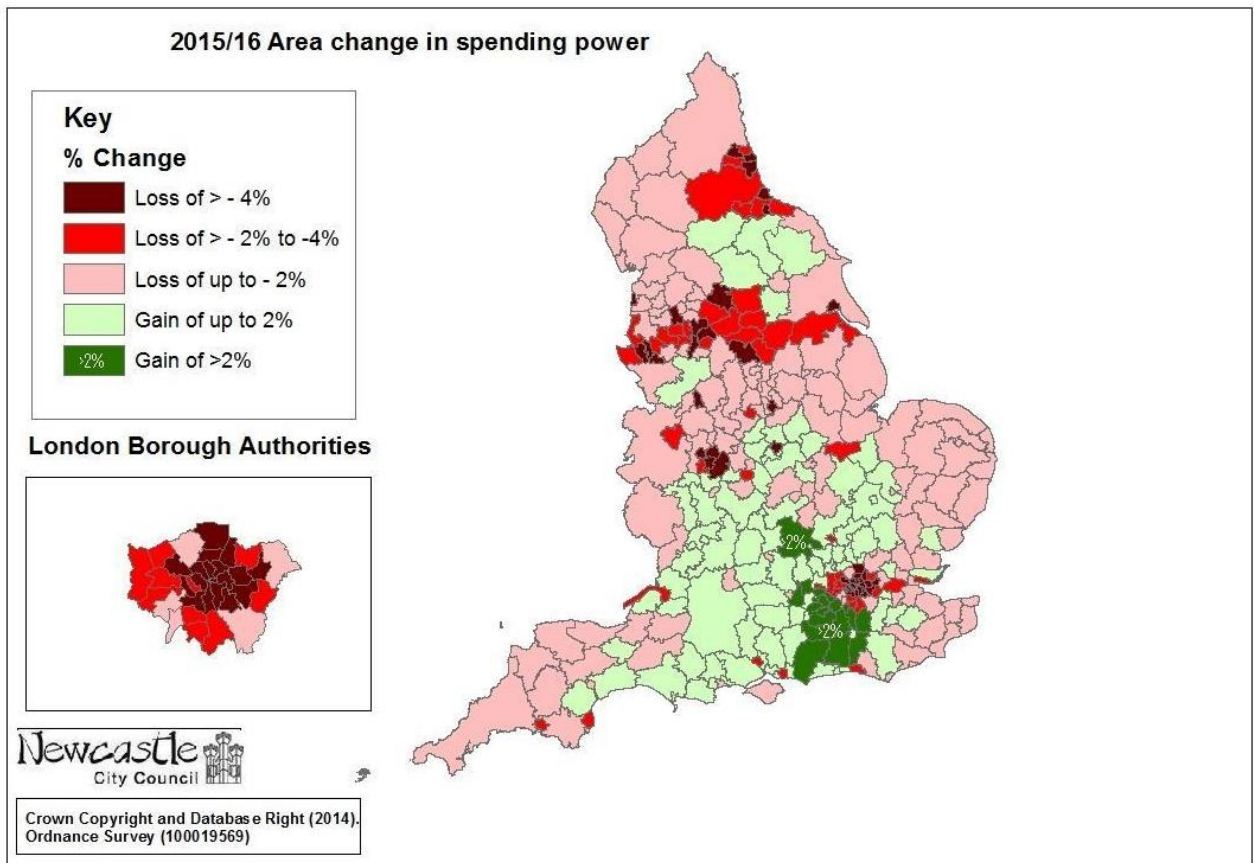
- 5.1 The draft financial settlement for Local Government was published on 18 December 2014 detailing the Government Grant funding for 2015/16. The headline announced at the time for Nottingham City Council was a reduction in spending power of 5.5%. The settlement included a 30.7% reduction in Revenue Support Grant (RSG). The closing date for responses to the draft settlement was 15 January 2015. The tables below show where the draft settlement impacted

Authority	Reduction in spending power 2015/16 (£ / dwelling)
1. Hackney	-199.50
2. Knowsley	-175.83
3. Southwark	-160.62
4. Newham	-157.90
5. Birmingham	-156.77
6. Liverpool	-149.91
7. Tower Hamlets	-148.69
8. Middlesbrough	-145.47
9. Haringey	-142.23
10. Lewisham	-139.44
<b>14. Nottingham</b>	<b>-133.74</b>

Authority	Increase in spending power 2015/16 (£ / dwelling)
Surrey	56.42
Wokingham	49.57
Isles of Scilly	42.58
West Sussex	40.87
Buckinghamshire	39.17
Windsor & Maidenhead	38.29
Richmond upon Thames	36.81
Rutland	36.28
Hampshire	34.97
Central Bedfordshire	34.74

- 5.2 The settlement continues the trend for a substantial reduction in Local Government Funding in support of the Government's policy to tackle the fiscal deficit. There has been an overall 37% estimated real terms reduction in government funding to local government during 2010/11 – 2015/16. Nottingham City Council has had an estimated 50% reduction over this period, illustrating the issues that authorities like Nottingham have with the fairness of the current mechanisms to allocate funding to local authorities.
- 5.3 The National Audit office issued a paper on 19 November 2014 (Financial sustainability of local authorities 2014) that concluded authorities which largely depend on government grants have been affected most by grant funding reductions. Furthermore, local authorities with the highest levels of deprivation have seen the greatest reductions in spending power.
- 5.4 This is an issue that is reflected in the latest draft settlement. The following heat map prepared by Newcastle City Council, a methodology that has been widely used for a number of years, show the scale of reduction in spending power across England as a consequence of the 2015/16 draft settlement.

5.5



- 5.6 CIPFA/Pixel has undertaken work following the announcement of the settlement to demonstrate flaws in the announced spending power figures. This shows that spending power for local authorities will fall by 6.2% in 2015/16 compared to 2014/15; this figure is more than three times greater than that presented by the Government of 1.8%.
- 5.7 The difference between the figure presented by the Government and the actual spending power figure is due to the Government's inclusion in spending power figures of grants that are ring-fenced for specific purposes or are already part of pooled budgets with the National Health Service (NHS). Much of this ring-fenced funding is outside councils' control. CIPFA/Pixel has only included resources that are not ring-fenced, such as locally-raised council tax and settlement funding.
- 5.8 CIPFA Chief executive Rob Whiteman has said of the draft settlement for 2015/16 'The figures presented by the government also appear to hide the true impact of cuts upon some local authorities. Once you peer behind the opaque measurement of funding used today, you see that the disparity of impact across the country and between different types of authority is significant and needs to be considered carefully by policymakers.'
- 5.9 The figures also show that while council spending power per head remains higher in more-deprived parts of the country, the gap continues to narrow as funding cuts are falling most heavily upon areas of the greatest need.

- 5.10 The following tables shown where the biggest increases and reductions in adjusted spending power are for 2015/16

Biggest increases in spending power		
	Authority	Change in Spending Power: 2014/15 to 2015/16: CIPFA/Pixel Definition
1	Tewkesbury	3.2%
2	Uttlesford	3.1%
3	Horsham	2.9%
4	East Devon	2.7%
5	Cambridge	2.3%
6	Aylesbury Vale	2.3%
7	South Cambridgeshire	2.1%
8	Reigate and Banstead	1.8%
9	East Hampshire	1.7%
10	Wealden	1.5%

Biggest reductions in spending power		
	Authority	Change in Spending Power: 2014/15 to 2015/16: CIPFA/Pixel Definition
1	Knowsley	-10.9%
2	Kingston upon Hull	-10.8%
3	Liverpool	-10.7%
4	Manchester	-10.5%
5	Middlesbrough	-10.4%
6	Hackney	-10.3%
7	Birmingham	-10.3%
8	Westminster	-10.1%
<b>9</b>	<b>Nottingham</b>	<b>-10.0%</b>
10	Barking and Dagenham	-10.0%

- 5.11 The key issues with regard to fairness in the distribution of funding are as follows

- 5.11.1 Business Rates retention – The introduction of the business rates retention scheme allowing local authorities to keep up to 50% of additional revenue they raise locally was designed to give additional financial freedoms and be an incentive for local business growth. Analysis by DCLG itself suggests that the more grant-dependent authorities would still see a marked decline in their income, even if they enjoyed a relatively high business rates base and strong growth in revenue. This is because of the relatively lesser share in the income of grant-dependent authorities made up by other sources, such as business rates.
- 5.11.2 Calculation of Revenue Support Grant (RSG) - No longer reflects need - From 1 April 2013 DCLG stopped revising its distribution of annual grant funding for updated assessments of need. This decision means that authorities with demand / demographic pressures do not get these reflected in grant calculations and therefore increases the financial pressures they face.
- 5.11.3 'Locked-in' shortfall in funding - At the point when the calculation was 'fixed' there was a

mechanism to restrict the level of reduction in grant that any authority would face, funded from authorities like Nottingham that were above this “floor”. The mechanism broke the link with a needs based assessment of funding and this resulted in a grant reduction of £2.5m for Nottingham City Council in 2013/14 and all subsequent calculations of grant for Nottingham City Council have been on this lower base.

- 5.11.4 Rural funding element - The Government is consulting on a proposal to increase the rural funding element of the RSG calculation. The amount of this is not significant but in the context of all the issues that are felt to be unfair within the existing methodology, it is frustrating that the only element to be reviewed leads to an increase in rural funding, a further, albeit minor reduction in funding available to support services to areas with high demand / deprivation.
- 5.11.5 Students - Nottingham has a high number of student households (circa 11% of Band D equivalents) which are exempt from Council Tax. The past treatment had an impact on our funding position by compensating for student numbers through the old Government Grant mechanism. At the point this calculation was ‘fixed’ the student-related resource equalisation funding ‘locked-in’ for Nottingham City Council represented a shortfall of c£4m in 2013/14. This implied funding shortfall will deteriorate over future years if the number of students continues to grow.
- 5.11.6 Council Tax – Authorities with a relatively high council tax base are protected to some degree from the significant reductions in RSG as grant is a lower proportion of their overall funding. The RSG calculation pre-2013/14 contained a redistribution mechanism that has not been updated and because of the falling levels of RSG the amount redistributed to those authorities with a relatively low council tax base is consequently less.
- 5.11.7 New Homes Bonus – The bonus is funded through reallocation of revenue support grant and does not increase overall funding for local authorities. In practice this means that those authorities which do not see a sufficient level of housing growth will see a greater reduction in funding than if the bonus did not exist, potentially rewarding authorities for growth that would happen anyway and taking away funding from authorities that may well need to support schemes to make growth happen.
- 5.11.8 Council Tax Support – The financial impact of the introduction of this policy change linked to an announced 10% reduction in funding hit the most deprived areas the hardest. The loss in grant for 2015/16 is estimated at £9m based on our working assumptions for the amount of grant assumed to be contained within the latest settlement.
- 5.11.9 Welfare Provision Funding – The proposal to include the funding for local welfare provision within the settlement has a greater impact on poorer communities than more affluent areas. The City Council received £3.6m over the last 2 years to provide support to some of the most vulnerable citizens. This proposal would require the City Council to make further cuts in General Fund services to continue to deliver this provision.
- 5.12 Demand for services - Nottingham City Council is facing these cuts at the same time as the demand for services is increasing. The following table illustrates that demand for high cost services in looked after children and adult social care is increasing in Nottingham at the same time as Government Grant is being reduced, creating further budget pressures to be managed.

- 5.13 The financial settlement no longer tries to adjust funding to reflect need, such that authorities that have increasing demand for services do not get additional funding. For example Knowsley and Nottingham have increasing demand for these services whilst having some of the largest reductions in spending power. On the other hand, Surrey, West Sussex and Windsor & Maidenhead have static or reducing demand for these services as their spending power is increased.

<b>Movement in spending power compared to movement in demand for core services</b>			
<b>Authority</b>	<b>Increase in spending power 2015/16 (£ / dwell)</b>	<b>Increase in Looked After Children (No of children)</b>	<b>Increase in Adult Social Care - Residents age 65 and over – No. of weeks supported in residential and nursing care</b>
Hackney	-199.50	<b>10</b>	-12.92%
Knowsley	-175.83	<b>20</b>	<b>2.34%</b>
Southwark	-160.62	-10	-5.82%
Newham	-157.90	-5	-1.42%
Birmingham	-156.77	-90	-2.34%
<b>Nottingham</b>	<b>-133.74</b>	<b>20</b>	<b>7.10%</b>
Surrey	56.42	-35	<b>0.06%</b>
Wokingham	49.57	-10	<b>6.50%</b>
Isles of Scilly	42.58	0	-
West Sussex	40.87	-65	<b>0.10%</b>
Buckinghamshire	39.17	<b>45</b>	<b>2.62%</b>
Windsor & Maidenhead	38.29	0	-2.89%

## **6 FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY)**

- 6.1 The financial implications of the draft settlement are included in the development of the 2015/16 budget and the proposals that have been released for consultation reflect the need to make £27.125m savings in 2015/16 to deliver a balanced budget.

## **7 RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS, CRIME AND DISORDER ACT IMPLICATIONS)**

- 7.1 None.

## **8 EQUALITY IMPACT ASSESSMENT (EIA)**

- 8.1 Not applicable.

## **9 LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION**

- 9.1 None

## **10 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

- 10.1 Financial sustainability of local authorities 2014 (National Audit Office published November 2014)

- 10.2 The impact of funding reductions on local authorities (National Audit Office published November 2014)
- 10.3 Newcastle City Council – Heat Maps 2015/16
- 10.4 Children looked after in England, including adoption (Department for Education statistics – updated 10 December 2014)
- 10.5 Health and Social Care Information Service - Personal Social Services: Expenditure and Unit Costs, England - 2013-14, Provisional release
- 10.6 Draft Local Government Finance Settlement (DCLG published December 2014)
- 10.7 Analysis of the Draft Local Government Financial settlement (CIPFA/Pixel published December 2014)

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