

Leicestershire County Council**Response to the Provisional Local Government Finance Settlement 2015-16**

The County Council is the lowest funded County Council in England and has always been treated as “low need” in the various forms of calculations used to allocate Local Government Finance Settlements. A few facts set out below demonstrate this:

- Inner London Authorities receive three times more Government funding per head (£600) than Leicestershire local authorities (£200).
- If Leicestershire County Council received the same overall funding per head as the average County Council it would be £54m better off.
- If Leicestershire County Council received the same overall funding per head as, for example, East Sussex County Council it would be £113m better off.

Whilst acknowledging that somebody has to be “bottom of the league” the Council has always contended that the disparities in relative funding levels have been too wide and the County Council in any event should not be bottom.

The County Council has made efficiency savings and service reductions of £85m since 2010, to offset cuts in funding and increased spending pressures. Faced with even greater cuts to funding over at least the next four years, and forecast spending pressures especially on social care budgets, the Council is looking to save a further £120m. This will involve major reductions to services.

The impact of funding reductions is particularly acute on low funded authorities. The current system recognises (and compensates) authorities that have relatively larger reductions in, spending power but takes no account of each authority's ‘absolute’ spending power. For example there would be compensation for a high funded authority with a large cut but not for a low funded authority with a medium cut in funding. This is a major fault that needs to be rectified. It will mean that the residents of Leicestershire will be impacted by service reductions to a greater extent than will residents in other areas.

The County Council has a positive agenda for change. In addition to fairer funding and a more sensible damping/floors system (that takes account of relative funding levels/spending power) there are other solutions such as: fair distribution of New Home Bonus, fairer distribution of business rates and full localisation, legislation to allow unitary government (and further devolution of funding for other services) and local control over Council Tax. A Briefing Note is attached setting out the case for reform of the funding system for Leicestershire (Annex 1).

The current system of Local Government finance is broken. It is not sustainable in the medium term as it needs a radical overhaul. A new system needs to be introduced that takes account of ‘need’ and in particular the demands on children's and adults social care, highways and waste budgets.

The County Council is disappointed with the way the announcement of the provisional local government finance settlement was disseminated this year. No official announcement about the date of the settlement was made until the morning of the announcement itself and

authorities had expected the announcement to be made earlier in the week. The Department should be more open and transparent about when the announcement will be made, giving advance notice, so local authorities are able to plan more effectively at a busy time of year. If local government behaved like this we would be rightly criticised.

It is essential that for the 2016-17 settlement there is a significantly longer consultation period and that indicative allocations are published earlier in the autumn. Currently local authorities have no information whatsoever on funding levels past 2015-16.

Question 1: Do you agree with the Government's proposal that local welfare provision funding of £129.6m should be identified within the settlement by creating a new element distributed in line with local welfare provision funding in 2014-15?

The County Council does not agree with this approach and is strongly opposed to the complete cut in funding for local welfare provision from 2015-16.

As the Council responded to both the Technical Consultation and the Local Welfare Provision in 2015/16 Consultation, "At a time when local government is facing severe cuts in funding it appears to be totally inappropriate to dismiss this issue and to say that it can be addressed by 'allow(ing) local authorities to decide the appropriate proportion of their general fund to spend in providing such services', given that these services provide crisis support for the most vulnerable residents. The suggestion that 'it might be possible to create a notional line in the settlement for local welfare funding as an indication on how councils are likely to spend some of their budget' simply adds insult to injury and is ludicrous."

The County Council opposed the proposal which has been implemented in the provisional settlement, as it gives a misleading impression that funding has been specifically provided to maintain this responsibility. The decision to present the funding separately contradicts the Government's decision not to identify council tax support funding as a separate line in the settlement funding assessment from 2014-15.

The County Council requests that the Department adds £129.6m to Revenue Support Grant, in order to fund councils to be able to support vulnerable people in genuine need, thereby doing so in a transparent way.

If the Government decides not to add this additional funding, it should not be identified within the settlement; the line should be removed from the settlement funding assessment and the Government should make it clear this funding has not been continued. It is not acceptable to expect local authorities to fund local welfare provision themselves at a time when the Revenue Support Grant element of upper-tier funding is being cut by over 33% between 2014-15 and 2015-16.

Question 2: Do you agree with the Government's proposal that the funding for the Improvement and Development Agency for Local Government for services to local government should be £23.4 million in 2015-16?

The County Council understands that this funding has always been provided from within the Revenue Support Grant. However, the 10% reduction for the top-slice compared to 2014/15 is a smaller reduction than that faced by local authorities either in the Revenue Support Grant (25.6%) or the overall settlement funding assessment (12.7%).

Question 3: Do you agree with the Government's proposal to reduce the New Homes Bonus holdback from £1bn to £950m?

The County Council agrees with this proposal. The County Council also welcomes the early indication of the amount of excess holdback which is likely to be returned to authorities.

The County Council has consistently opposed the New Homes Bonus Grant on the grounds that the top-slice is disproportionately weighted against County Councils when compared to the distribution of the NHB grant. This is borne out in the Evaluation of the New Homes Bonus published in December 2014. We estimate that the top-slice will cost the County Council approximately £10m by 2016-17, when NHB reaches its first six-year cycle, but the potential NHB received by the County Council is only around £3.5m.

Question 4: Do you agree with the Government's proposal to increase the rural funding element from £11.5m, as previously proposed, to £15.5m?

The Council commented last year, "Formula funding has generally favoured urban authorities rather than rural authorities and this proposal is a relatively small step in the right direction to start to redress that imbalance" – An additional £4m in funding on an already miserly £11.5m is derisory and will not make any difference. It is only targeted at the most sparsely populated authorities and so will not be received by the County Council. A much more fundamental rebalancing of funding between urban and rural areas is required to address the current underfunding of rural areas.

Question 5: Do you agree with the Government's proposal to reduce the fire funding element of Revenue Support Grant for each fire and rescue authority, by an amount equal to 0.24% of the total pensionable pay for that authority?

The County Council has no comment on this question.

Question 6: Do you agree with the Government's proposal to compensate local authorities for the cap on the multiplier in 2015-16, calculated on the same basis as in 2014-15?

The County Council agrees that local authorities should be compensated for the Government's decision to cap the business rates multiplier in 2014-15 and 2015-16. Although allocations of section 31 grant to compensate councils for the associated costs were set out in spending power figures, the basis on which these allocations have been calculated is not clear. Therefore the County Council requests that the Department sets out a clear breakdown of how the amounts have been calculated and a description of how payments will be reconciled to outturn figures.

Question 7: Do you have any comments on the impact of the 2015-16 settlement on persons who share a protected characteristic, and on the draft Equality Statement?

The absence of continued funding for local welfare provision, coupled with continuing reductions in councils' settlement funding assessment, will force authorities to curtail severely or cease their local welfare provision support in 2015-16. There is a risk that, as the draft equality statement states, *'the changes to funding could, without mitigating action and depending on spending decisions made by local authorities, have an adverse impact on persons who share a protected characteristic'*.

The County Council believes that the 2015-16 settlement is calculated on a funding baseline which has been widely discredited. It cannot reflect changes which many authorities are

experiencing with ageing and growing populations. The impact of underestimating future costs and demand, combined with the current magnitude of cuts to the settlement funding assessment, could seriously impact many vulnerable people who rely on local authority services.

ANNEX 1

The Case for Increased Funding for Leicestershire

Introduction

1. This note sets out the case for increased funding for Leicestershire County Council.

Background

2. The County Council is the lowest funded County Council in England. Funding for other local public services in Leicestershire is also very low.

Leicestershire County Council

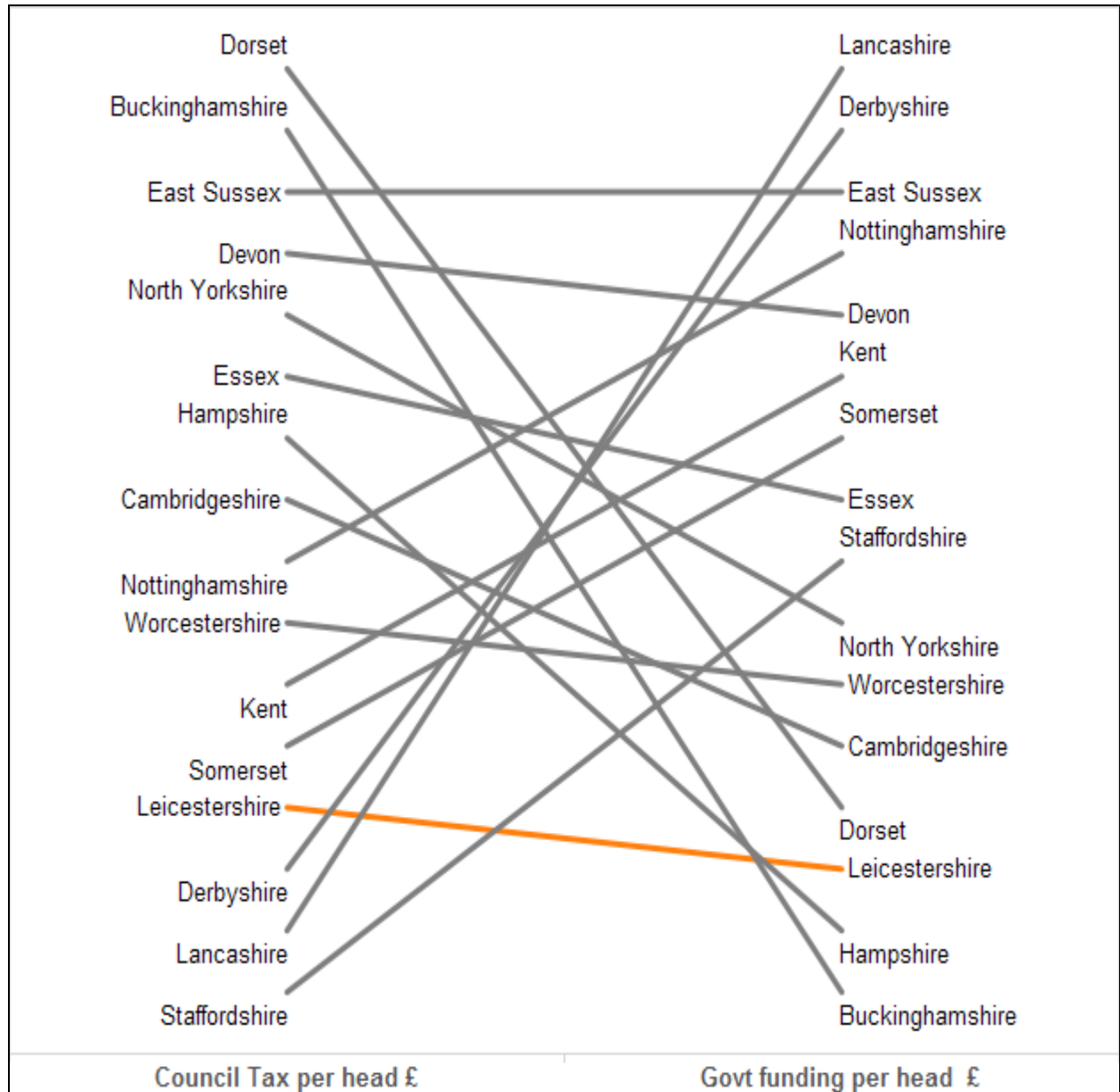
3. The County Council is both low funded and low spending. The graph in Annex 2 shows that the County Council's budget per head of population is the lowest of all counties. On average other comparable (those who do not fund the fire service) county councils spend £81 (15%) more per head of population. The table below shows the additional resources that would be available to the County Council if it spent the same amount per head of population as other authorities. East Sussex and Staffordshire have the highest and second lowest budget requirement per head respectively.

Authority	Additional resources available to Leicestershire CC if budget requirement was at equivalent level
East Sussex	£113m
Dorset	£81m
Nottinghamshire	£69m
Derbyshire	£60m
Staffordshire	£17m

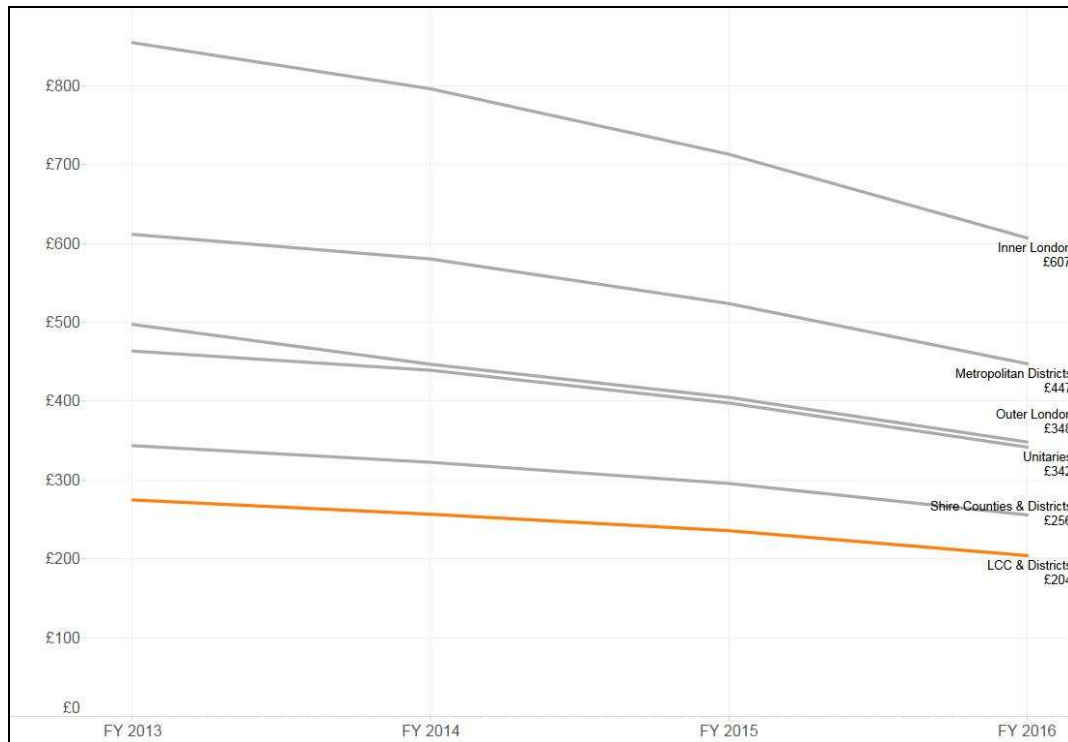
4. This low spend per head reflects the County Council's low funding position, i.e. allocation from Government. Compared to other counties Leicestershire is the third lowest funded and receives £56 (23%) per head less than the average County Council. If funded by Government at the same level as the average County Council Leicestershire would receive £37m in additional resources.
5. Leicestershire County Council also has a low council tax base. In simple terms this means that relative to other county councils we have a higher proportion of lower value properties. This means that our receipts per head of population from council tax are lower than most other counties. This position also reflects the fact that the level of council tax is slightly lower than average for County Councils. It is worth noting that other councils with a low council tax base are compensated with higher government grant. In Leicestershire this is not the case. This is clearly shown in the

diagram below where authorities are ranked in order of Council Tax and Government funding per head, with those who receive the highest at the top. Five out of the six authorities with low council tax per head are compensated with higher levels of government grant, the exception is Leicestershire.

County Councils – Comparison of Council Tax and Government Funding per Head



6. To compare central government funding of the County Council against other classes of local authority, district council expenditure needs to be included. The graph below shows our funding per head compared to other classes of authority. Again the picture shown is one of low funding. It is worth noting that Inner London Authorities receive three times more funding per head than the Leicestershire authorities. This is the backdrop against which significant savings have been, and will continue to be, made.



7. The County Council, excluding cuts to specific grants, has made savings of £85m since 2010. The current four year Medium Term Financial Strategy (MTFS) includes a savings requirement of £81m. The savings in the MTFS reflected the views of the public that were received as part of the widespread public consultation in summer 2013.
8. Central government funding was originally linked to data that indicated 'need'. Leicestershire has always been of the view that previous formulas did not fund the County for need. The issue is much more acute when funding is cut as reductions in funding are not based on need. This means that if you receive the lowest funding you are most likely to have real funding difficulties sooner than other local authorities.

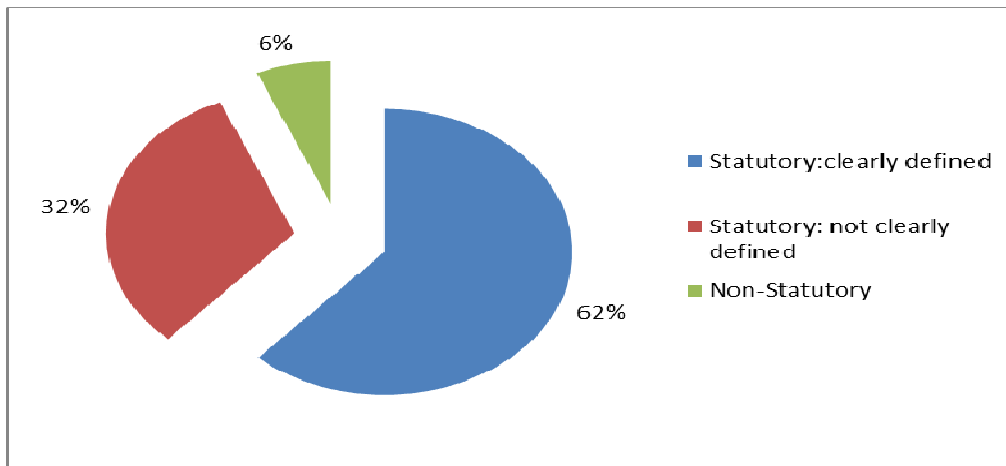
New Homes Bonus and Business Rates

9. The introduction of the new homes bonus and localisation of business rates has had a serious impact of the Council's financial position.

10. The County Council only receives 20% of the new homes bonus, with 80% going to District Councils. As the funding was top sliced from Local Government funding the County Council has calculated that it is £10m worse off as a result of the policy.
11. The localisation of business rates is a policy supported by the County Council. However, we believe it should be full localisation (not 50%). In addition, the 9% that comes to the County compared to 40% to the Districts should be changed. The introduction of a system of top up, tariffs and levies is also too complicated. There should be full localisation of business rates and around 70% should be to the County. The County Council has a key role to play encouraging economic growth so should be properly incentivised. The current position whereby £225m of business rates is generated in the County and the County Council only receives £20m is unfair.

Leicestershire Position

12. The Leicestershire County Council is currently low cost and high performing. Annex 3 shows how the council compares in terms of cost and performance against other counties.
13. The overall budget position is shown in Annex 4. The forecast savings requirement is £120m by 2018/19. The reason for this level of saving is the cost of rising demand for services coupled with reducing government grant.
14. This level of savings requirement will have a devastating impact on services. Some of the savings that will be necessary are set out below;
 - Providing bare minimum (statutory) social care services
 - Very limited 'preventative/early intervention' spending including grants to voluntary sector.
 - Communities running most (c80%) of libraries – or closure.
 - Closure of household waste and recycling sites or charging.
 - No museums service.
 - Major reductions to highway maintenance and very little funding for small scale improvement schemes - junctions etc.
 - Very limited match funding for major capital schemes (mainly highways). We have no control over the LEP.
15. In identifying savings it is worth noting that 94% of the council's budget relates to statutory services. The pie chart below shows the position in more detail and shows that the 'service' is very clearly defined by Government in many areas (62% of the County Council's budget). This severely limits scope for service reductions.



16. Scope to reduce statutory services is limited and efficiency will be the main source of savings in these areas. There are only a few services such as museums, elements of early intervention and safety cameras where there is no statutory basis.

Other Local Services

17. It is also worth noting that other local services are also low funded.
- The case for schools is well known and despite recent changes the funding per pupil is the lowest in the country.
 - Public Health funding is £33 per person compared to national average of £58 per person. There are 11 authorities with funding of over a £100 per person. These disparities are unexplainable given that many aspects of the public health service are universal.
 - NHS. The funding for CCG's in Leicestershire is £990 per head compared to an average of £1140. As well as being below average it is 6% below the 'target' level of expenditure.
 - Fire and Police services are also low funded.
18. As well as the obvious impact on Leicestershire residents there is also an impact on the County Council. For example The NAO in its recent study 'Funding healthcare: Making allocations to local areas' stated 'In local areas where aggregate health funding is below the target allocations, local authorities tend to spend more than expected - based on relative need - on adult social care'

Spending Power

19. The government general response to this type of analysis is firstly to highlight the fact the current formula is needs based and secondly as a result of other sources of income spending power of the County Council is actually increasing.
20. The paper has already addressed the first point. In relation to spending power, the County accepts that broadly the argument is relevant as there are other sources of income. However, there are a number of flaws with the concept of spending power;

- Spending power does not take account of spending pressures. The very real spending pressures faced by the county council relating to demographics and inflation account for £80m of our £120m savings requirement. The remainder of the savings requirement relates to reductions in funding.
- Spending power does not address the fundamental issue that the County Council is underfunded.
- The calculation of spending power is discredited. The inclusion of all the Better Care Fund is a good example of a flawed calculation.

Solutions

21. The potential solutions to our funding position include;

- Fairer Government funding. If we received the same grants as the average County Council we would be £37m better off.
- Fairer distribution of Business Rates and full localisation. The current position whereby £225m of Business Rates is generated in the County and the County Council only receives £20m is unfair.
- Fairer distribution of New Homes Bonus. If the current 80:20 split in favour of District councils was reversed to take account of relative size of both organisations the County Council would be £7m better off.
- Legislation to allow unitary local government. According to EY this would save over £30m pa in Leicestershire.
- Local control over Council Tax. For the last four years the County has frozen tax. The current rules cap council tax increases to 2% with illogical referendum rules. In Leicestershire a 1% council tax increase would raise £2.2m.
- Care Act fully funded. If this legislation is not fully funded the County Council will have serious funding financial issues sooner than expected.

Summary

22. The County Council is a victim of historical funding decisions that have resulted in a funding formula that does not reflect need. This is compounded by reductions in funding that also do not reflect need which have a particular major impact on low funded and spending authorities.
23. The Council is acutely aware of the need to make savings to reduce the national deficit and is more than willing to make fair savings. However, the current system unfairly penalises low funded authorities such as Leicestershire and the solutions set out above should be acted upon.

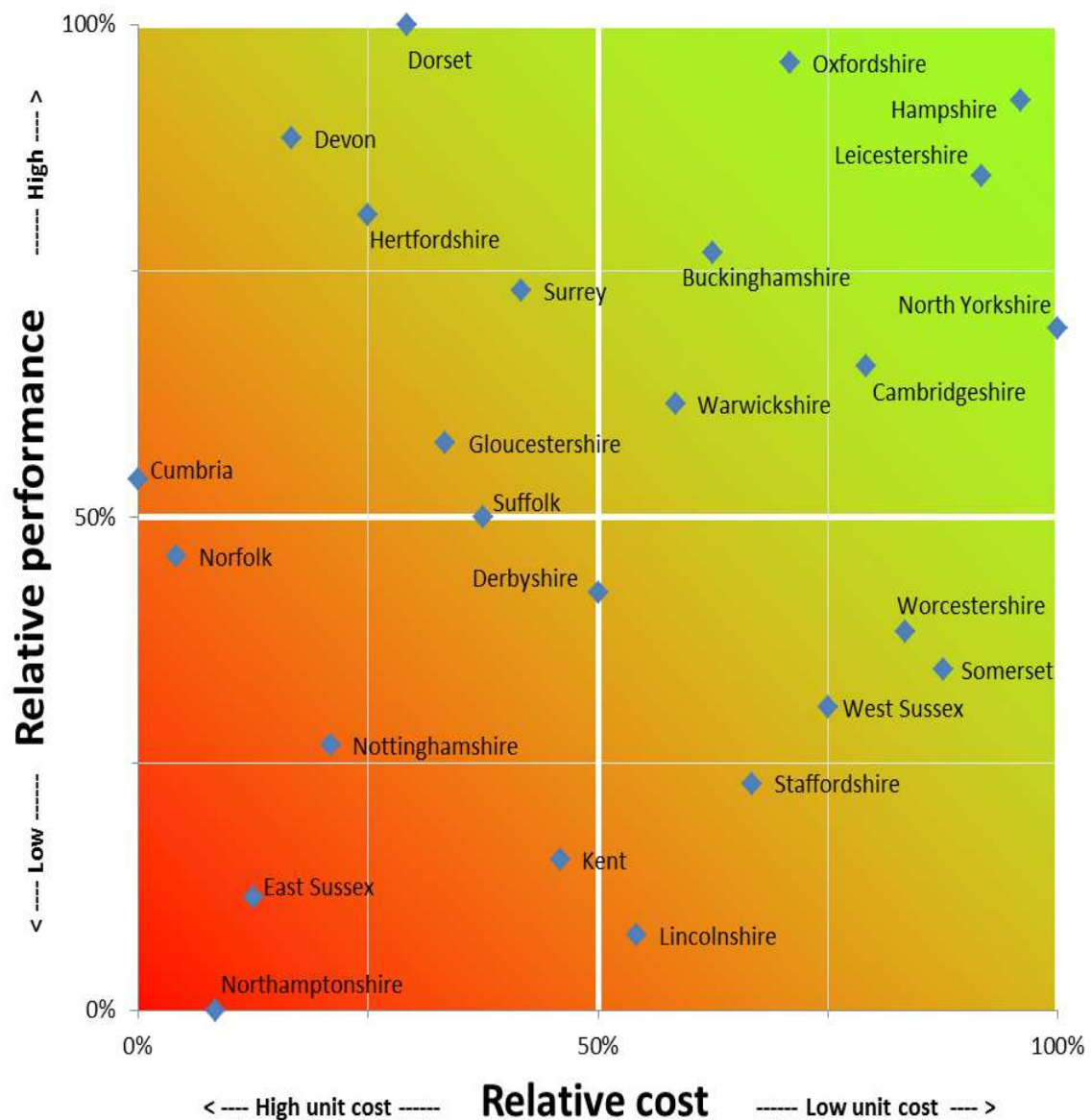
Leicestershire County Councils Funding per Head Compared to other Counties without Fire

Funding per head 2014/15

	TOTAL	=	GOVERNMENT	+	COUNCIL TAX
East Sussex	£699		£285		£414
Devon	£678		£273		£404
Dorset	£652		£195		£457
Lancashire	£642		£323		£320
Nottinghamshire	£633		£276		£358
Essex	£627		£252		£375
Buckinghamshire	£625		£180		£445
Derbyshire	£619		£291		£328
North Yorkshire	£616		£228		£388
Kent	£610		£254		£356
Somerset	£606		£254		£352
Worcestershire	£582		£225		£357
Cambridgeshire	£575		£205		£370
Hampshire	£558		£185		£373
Staffordshire	£555		£239		£317
Leicestershire	£529		£189		£340

Comparative Cost and Performance Across Counties

% rank of net expenditure per head compared to % rank of the average % rank of 210 indicators (219 excluding 9 expenditure indicators)



Expected Funding (orange) vs Spending Requirement (blue)

