

# SIGOMA

The special Interest Group of Municipal Authorities (outside London) within the LGA

## Commission into Local Government Finance

### Response to call for evidence

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### About SIGOMA

SIGOMA is a special interest group of 45 municipal authorities in the northern, midland and south-coast regions of England. Our membership includes 33 metropolitan districts and 12 major unitary authorities covering key urban areas.

Much of the key analysis of government funding policy by informed commentators, including the LGA, show the disproportionate impact on our members of the shift in funding policy away from needs. SIGOMA therefore welcomes the commission enquiry. We will continue to provide evidence throughout the conduct of the enquiry and would welcome the opportunity to engage in developing the practical issues.

### SIGOMA view on local authority funding

#### Comment on Commission Objectives

The commission has listed as the key challenges of a proposed system

- Promoting economic growth.
- Ensuring sufficient housing is provided in every place
- Integrating health and social care systems.
- Achieving welfare benefits systems that promote work and protects the vulnerable.
- Supporting families and developing young lives through early intervention.

If one was to ask each Council leader to place those objectives in order of local priority, the difference in the challenges facing authorities across the country would be evident. This needs to be recognised in developing a finance structure that works across the country.

One of the key aims of a new system should be to give greater emphasis to local priorities. Government have often stated that local authorities are best placed to determine local priorities, however this is usually when avoiding the question of how authorities should deal with cuts. It would be a welcome and practicable change for this sentiment to be reflected in funding allocations and freedoms to set local taxation. Our objections to the existing funding mechanisms is that they largely revolve around a fiscal policy aimed at stimulating those parts of the country that are already prosperous but at the expense of those other parts that are not, replicating the fiscal policy used in the 1930s recessionary tactics. Now, as then, these offer little prospect of struggling regions sharing in the recovery.

### Core principles of a better system

SIGOMA believe the core principles that underlie any new systems should be:

*Fairness* – That people in similar circumstances pay the same price for receiving the same service outcome, no matter where they live i.e. equalisation of resources and ability to pay.

*Promoting local democracy* – Local accountability in the provision of services that the community demands needs to be strong.

*Providing incentives for growth* – An ability to provide rewards for growth that does not impact on total resources for funding core services.

*Independence* – Divorcing the funding system from party political influence.

### Protection of the system

The principles and framework for local government finance should be given some constitutional protection. Inevitably available funding will fluctuate but there should be a degree of protection of the framework of funding which does not change with each parliament.

### Recognise local democracy

It seems from the outside that central government ministers wish the best of both worlds. That locally elected officials bear the burden of stretching ever diminishing funds further and carry the blame for impact on services, whilst central government intervene in the levels at which local rates and other resources are set and claim credit for reducing the tax burden. Those accountable for local services should be accountable at election time for the way in which funds are raised and spent locally.

This principle extends to recognising that Councils need time react to central government policy changes due to the need to make their decisions in an open and democratic way. In this respect local government differs markedly from other government departments.

### Recognition of roles of central and local government

As the size of local and central government diminishes and the composition changes, there needs to be a clear demarcation between the roles of central and local government extending as far as a negotiated framework contract in terms of service

standards and delivery, which could include business rates and council tax levels . The many ways in which local and central government officers work well together informally on a daily basis needs formalising into a clearly defined and documented framework that will allow every authority to focus on its responsibilities and give clarity to central government on a fair, objectively assessed funding mechanism.

### Funding, cost drivers and incentivisation

The points discussed already should help us towards jointly facing possibly the greatest challenge; that of how funds should be allocated in away that gives each authority means to discharge its service obligations, yet also rewards those authorities which reduce their dependency on grants through efficiencies and economic growth.

We believe that the current funding mechanisms and cuts are so heavily skewed towards the most economically buoyant parts of the country that they offer no real opportunity for other parts of the country either to recover or to meet the disproportionately high rise in demand that they expect due to welfare reforms, which are running in tandem with cuts to authority funding. The rate of cuts to RSG has only served to accelerate expected regional variations along the poor v wealthy dividing line.

### Outline of a new settlement

- Settlement should be based on the total quantum of business rates and council tax and reflect current taxable capacity.
- A commitment to equalise funding to all Council services based on a set of agreed minimum service standards, applied to objectively evidenced local demand for those services, ensuring all councils are sustainable.
- A wider set of new, sustainable income streams generated by local government by negotiation with central government which would be outside of equalisation, enabling councils to garner the benefits of efficiencies.
- A negotiated three year settlement which encompassed service expectations and cost drivers as well as issues such as council tax and business rate retention levels. This should minimise the necessity for government interventions and could reduce the necessity to maintain reserve levels.
- The creation of an independent body to establish and control the system and set key elements.

#### **Features of a settlement must be:**

- Stable and predictable. Early notification of all forms of grant with phasing in of changes where this is not possible.
- Flexibility to respond to changing circumstances. Options to react to significant changes should be encompassed in settlements.

- Transparent and understandable, logical and plausible, reflecting the purpose of the funding and understandable by the wider population.
- Focused on outcomes. The system should not be wholly reliant on replicating past decisions.
- Rewards efficiency. Recognise and reward efficiency, highlight inefficiency.

## Funding blocks of a new system?

The main funding “Blocks” of such a system could be :

### Equalisation and distribution block

- This would set funding levels according to negotiated funding requirements correlated with agreed service requirements and demand levels, free of all other adjustments. Set for three years.

### Incentive block

- Negotiated, or set by an independent body.
- Would include element of business rates retained by authorities.
- Negotiation on proportions of new or other income streams to be kept.
- Authorities keep shares of efficiency savings from community budgets or other cost reduction innovations, again by negotiation.

### Central share block

- By negotiation or independently set. Sets government share in efficiencies and incentive gains and possible government contribution if equalisation and incentive block does not match service demands.
- Set for three years

## Risk sharing

An unwelcome feature of recent settlements has been to place more risk with individual authorities. Examples are:

- Council Tax Support  
Individual authorities now carry the full risk of local increases in demand for Council Tax support financed by a grant which was fixed and which is now diminishing.
- Business Rate Appeals  
Authorities carry the risk for up to half of the impact of successful appeals against business rates assessments, which can be backdated for many years.

Localising the impact of demand for council tax support and of appeals exposes individual authorities to risks outside their control. Spreading the risk across all authorities and with central government will give authorities the confidence to be less pessimistic in estimates and maximise use of resources.

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