Appendix F

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Our Ref:025/RS/MG
Date: 16th January 2018

Dear Roger,

Response to the Provisional 2018/19 Local Government Finance Settlement.

The London Borough of Croydon welcomes the opportunity to comment on the provisional Local Government Finance Settlement (LGFS) 2018-19.

1. We are disappointed that the provisional settlement fails to provide new funding for local government, in the context of acute and growing pressures on key local government services. The 1% increase to the council tax referendum threshold will have a limited impact on the financial position of our Borough when compared to the £1.6 billion of savings London is required to make between 2017-18 and 2019-20.

2. In particular, we believe the settlement fails to recognise the scale of the financial challenge currently experienced by London boroughs across three key demand-led services: adult social care, children's services and temporary accommodation.

3. This response outlines a number of specific concerns we have regarding the provisional settlement including the:
   - Timing of the settlement
   - Disproportionate cuts to local government funding
   - Acute funding pressures facing London local government
   - Council Tax principles
   - Reductions in New Homes Bonus funding
   - Continued lack of transparency
   - Future of the local government finance system

4. This response firstly sets out our general comments about the settlement, followed by direct responses to the questions posed in the consultation.

General comments

Timing of the Settlement

5. The London Borough of Croydon is disappointed that this year's settlement has again been published at the latest possible time before the parliamentary recess. Local authorities typically begin preparations for the financial year during the preceding summer. While much of this preparation can be undertaken in advance of the settlement, final budget setting cannot be completed until the final figures are published by central government. The timing of the settlement is particularly challenging when unexpected policy decisions materially alter funding allocations, for example the cut to New Homes Bonus in 2017-18.

6. Especially at a time of rapidly reducing resources, it is essential that confirmed funding allocations are available to local authorities as early as possible. The London Borough of Croydon believes that the provisional LGFS should be published by no later than the end of November each year, which would provide local authorities with much greater certainty when formulating budgets and setting council tax levels for the next financial year.

7. We recognise that some of the content of the settlement relies on announcements made in the Budget – which was not announced until 22 November. However, there is no reason why provisional settlement figures could not in future be published prior to the Budget and adjusted accordingly in the final settlement for any relevant changes announced in the Budget.

Disproportionate cuts to local government

8. The London Borough of Croydon believes that local government continues to face a disproportionate level of austerity compared to other parts of the public sector. The provisional settlement confirms real terms cuts to Settlement Funding Assessment (SFA) of 12% over the next two years, on top of a cumulative cut to core funding of 57% in real terms between 2010-11 and 2017-18. Over the decade to 2019-20, core funding from central government will have fallen by 63% in real terms.

9. In London alone, funding cuts and rising demand for services mean that at least £1.6 billion of savings will be required between 2017-18 and 2019-20. If anything, this figure, based on our and the other boroughs' own financial strategies, understates the full extent of the challenge, as it does not take full account of the likely financial impact of the pay offer reflecting the impact of the National Living Wage, which is likely to increase costs in the next two years, Nor does it take account of more direct cost shunts to the general fund that have compounded the financial challenge for London local government, including: the underfunding of homelessness and Temporary Accommodation (at least £170 million per annum); the hidden cost of supporting people with No Recourse to Public Funds (at least £50 million per annum); and the growing pressure caused by a £100 million funding shortfall in the High Needs block of the Dedicated Schools Grant.

10. Rapid population growth in the capital will continue to put significant pressure on key local government services. Between 2010 and 2020 London's population will have risen from 8.2 million to 9.3 million (13%) compared with less than 6% for the rest of England. Since no recognition of population growth has been factored into the calculation of RSG, this is once again an even tougher settlement for London boroughs than may first appear.

Acute funding pressures facing London local government

11. Three service areas are facing particularly acute funding pressures in London: Housing (specifically homelessness and temporary accommodation); adult social care; and children's services.

12. In the context of London needing around 70,000 new homes to be built per annum to keep pace with demand, the current cost shunt to the general fund resulting from the shortfall in funding for homelessness is at least £170 million per annum. Significant additional costs of at least £400 million have arisen from remedial fire safety works following the Grenfell Tower fire, that government has indicated it will not fund, with Croydon funding £10m of works from our own resources. The implementation of the Homelessness Reduction Act 2017 is estimated to cost at least £77 million across London in 2018-19 alone, while only £72 million has been allocated in new burdens funding *nationally* over three years.

13. Within Adult Social Care the structural problems in funding this service area have required three central government interventions in two years, which has only been sufficient to stabilise the situation for a short period. The cumulative funding gap of between £300-400 million will have to be closed in London over the three years to 2020. Longer term funding solutions are required to put the care sector on a stable footing and meet the expected growth in demand over the next 20 years.

14. London boroughs are overspending by around £100 million per annum in children's social care, and a similar funding shortfall of £100 million within high needs funding of the Dedicated Schools Grant (DSG) suggests a funding crisis in children's services is imminent. With no additional funding in the settlement for these acute pressures, the Government has missed an opportunity to prevent these pressures from developing into fully blown crises. Croydon is no different and is forecasting overspends in all these areas with increasing costs and investment associated with Children's Social Care following our recent Ofsted inspection results.

Council tax principles

15. London Borough of Croydon believes that the 1% increase to the council tax referendum threshold is wholly inadequate in the context of these acute funding pressures. A 1% increase will have an especially limited impact in areas with low council tax bases, which means that the distribution of additional resource will not necessarily correspond with relative need. Even if every London borough raised council tax by an additional 1% in each of the next two years,

this would only generate an additional £32 million in 2018-19 and a further £35 million in 2019-20. This compares to a collective funding gap for London boroughs of at least £1.6 billion p.a. by 2019-20.

16. London Borough of Croydon fully supports the recommendations of the London Finance Commission, including devolving the operation and setting of all property taxes to London local government. We are therefore opposed to the principle of capping council tax increases, which represents central government control over the only locally determined tax. We believe the referendum limit should be lifted completely, allowing councils to address spending pressures in the ways that most affect them locally.

17. For the same reason, London Borough of Croydon remains concerned that the Adult Social Care Precept represents unnecessary central government control over local policy-making and urge the Government to ensure that the precept is a one-off policy change, rather than a precedent for the permanent hypothecation of council tax.

Reductions in New Homes Bonus funding

18. With regard to the proposed changes to New Homes Bonus (NHB), London Borough of Croydon welcomes the decision not to introduce a penalty system for appeals and to keep the housing growth baseline unchanged. As set out in our response to the technical consultation in September 2017, we firmly disagree with the proposed changes to the national baseline for housing growth and plans to withhold NHB based on planning appeals data. We are pleased that the Government has listened to the sector following that consultation.

19. However, we are concerned about the continuing reduction in the Government's contribution to the New Homes Bonus, which has now fallen 78% from £210 million in 2016-17 to just £46 million in 2018-19. This fall in government contribution means that a disproportionate amount of funding is effectively being top-sliced from the Revenue Support Grant.

20. More generally, we believe that a series of adjustments to the New Homes Bonus since its introduction in 2011 have added complexity and disrupted medium term financial plans, without leading to a meaningful improvement in the incentive for housebuilding. There are a range of further policies the Government could introduce to enable housing delivery in the capital and London Borough of Croydon urges Government to:

    – reverse the 1% cut to social rents now rather than waiting until 2020-21;
    – allow councils the flexibility to fully retain and reinvest Right to Buy receipts; and
    – go further than the limited plans to raise the HRA borrowing cap for some councils from 2019-20 (set out in the Budget) and lift the borrowing cap for all councils immediately.

The continued lack of transparency

21. London Borough of Croydon believes the local government finance system should be underpinned by the principles of stability, certainty and transparency. Local authorities should be able to understand clearly how much funding is available, and where it comes from, for the services they are required to deliver. We continue to be concerned that the current system remains incredibly complex and opaque, enabling changes to be made to the distribution of funding allocations which are extremely difficult to understand and assess accurately. For example, it is not possible to trace which departmental budgets are used to fund the Government's falling contribution to the New Homes Bonus, or understand how this contribution is ultimately derived from overall Local Government DEL.

22. We have repeatedly called for the publication of a full reconciliation between the funding made available through the local government finance settlement and the Local Government DEL figures published in Spending Review 2015. Without this, it is not clear how the overall cut to RSG has been calculated, how the overall control totals for the tiers within SFA/RSG have been derived, or how the central share of business rates is used to fund local government grants outside of settlement. We also believe that there should be much greater visibility regarding the process for determining the LG DEL at the Spending Review, which currently takes place through private negotiations between HM Treasury and DCLG.

23. The use of the term "Core Spending power" further undermines transparency regarding the real financial position councils are faced with, as this measure understates the level of funding reductions for many local authorities.

24. In particular, the assumed increase in the council tax base is unrealistically high because it is based on average annual growth over the relatively short period between 2013-14 and 2017-18. A longer trend period going back to 2010 would better smooth out anomalies arising from measures such as the localisation of Council Tax Support.

25. We also believe it is unrealistic to assume that all councils will raise council tax by the maximum in every year and that all eligible authorities raise the social care precept to its maximum in 2018-19 and 2019-20.

26. Furthermore, both NHB allocations and retained business rates depend on the number of homes built and the amount of business rates collected, respectively, by each local authority. The estimates for NHB within CSP assume that the historic share of the national housing growth continues and SFA only reflects what the Government's expects the "target" retained rates will be. For councils collecting less than their target level (such as those requiring "safety net" payments), the retained rates plus RSG will be lower than their assessed level of SFA.

Future of the local government finance system

27. Finally, London Borough of Croydon is concerned about the future of the local government finance system. It is disappointing that the Government has reigned back from its previous commitment to 100% business rates retention for the sector, with the confirmation in the settlement consultation that the sector will retain just 75% from 2020-21. London has long called for not only 100% retention for the sector, but full control over the setting and proceeds of business rates within the capital. In this context, and the recommendations of the London Finance Commission, 75% retention doesn't go far enough, and will create less of an incentive for authorities to grow their economies over the medium term.

28. More immediately, having settled on 75% retention, the Government must urgently clarify a number of technical issues regarding the design of the scheme to provide as much certainty to the sector as possible. Firstly, it is not clear what will happen in areas currently piloting, or about to pilot, 100% retention such as us in London. Moving to 75% retention would be a step backwards in these areas and we ask that the Government provides clarity about this issue as soon as possible.

29. Secondly, having spent much time deliberating on which grants and new responsibilities would be funded by business rates under the 100% plans, the Government must clarify what the remaining 25% of business rates will fund and how. Much of the opaqueness of the current system would be resolved if the Government set out how the central share of business rates currently funds local government, including which grants it funds.

30. Thirdly, the Government must set out what incentives there will be to pool under the new 75% scheme to ensure that there is a genuine benefit to groups of local authorities coming together to pool rates.

31. Fourthly, it must confirm as soon as possible the overarching architecture and parameters of the scheme, such as: the length of the reset period; the length of time growth is retained for (which do not necessarily need to be the same); how reset periods will be affected by the proposed changes to the 3 year valuation period; how the proposed changes to the method of valuation (i.e. the forthcoming consultation on what appears to be a greater level of self-assessment by ratepayers); how it will ensure against volatility in funding allocations from year to year; and how the scheme will maintain a strong growth incentive if only 75% of growth is retained. Perhaps most importantly, the Government must set out how business rates appeals will be treated and accounted for, and how the performance of the Valuation Office Agency will be improved. Arguably, this has been the major inherent weakness in the current 50% system. It goes a long way to explaining why it has failed to deliver the growth incentive previously anticipated at the outset of the scheme.

32. Having made relatively good progress under the previous plans for 100% retention, it is important that the Government does not lose that momentum and the consensus it has built across the sector. It must, therefore, have a twin-

pronged approach to setting out the future of the retention system in tandem with the ongoing Fair Funding Review.

33. With regard to the latter, London Borough of Croydon welcomes the belated publication of the technical consultation in relation to relative need announced alongside the provisional settlement. It is imperative that this review is not only thorough but involves proper consultation with the sector and the publication of exemplifications that demonstrate the scale of the impact of the proposals on funding allocations. We understand that the final funding baselines for 2020-21 will not be published until December 2019, which will leave local authorities with a great deal of uncertainty in setting their medium term financial plans for the years beyond 2020. This uncertainty will continue to grow, the closer we get to 2020.

34. We believe the new funding formula must be simpler, more transparent and more responsive to changing levels of demand than the current one. London's population has grown at twice the rate of the rest of the country since the last reset of the funding formula: it is forecast to continue to do so over the next 20 years. Any new formula must, therefore, reflect this through incorporating future projections not simply relying on static outturn population data.

35. London Borough of Croydon believes the formula must accurately reflect the innate characteristics of urban areas as well as those of rural areas. The increase in funding for Rural Services Grant in 2018-19, which London Borough of Croydon is opposed to (see question 3 below), does not reflect the proper balance of different needs and costs. It is imperative that the new formula reflects the characteristics of urban areas such as London which have, in general, higher funding per head than other areas because of the significantly higher costs associated with delivering services. Levels of demand led services, driven by higher levels of relative deprivation and higher growth in population, also impact on London and urban areas far more than rural areas.

36. London Borough of Croydon will respond to the Fair Funding Review consultation, published alongside the settlement, and will continue to make the case for a fair funding distribution that adequately reflects these factors over the course of the review.

Consultation Questions

Question 1: Do you agree with the methodology of Revenue Support Grant in 2017-18?

37. London Borough of Croydon agrees with the proposed methodology on the basis of consistency with 2016-17 and 2017-18. It seems sensible that central funding should be allocated in a way that ensures councils delivering the same set of services receive the same percentage change in Settlement Core Funding for those sets of services.

38. As set out above, we believe that there should be much greater transparency around how the overall level of RSG has been determined, which ultimately determines the distribution of spending cuts. London Borough of Croydon

continues to believe that the Government should publish a full breakdown showing how all funding made available to local government within and outside the settlement reconciles with the overall local government resource DEL.

Question 2: Do you agree with the Government's proposal to fund the New Homes Bonus in 2018-19 with £900 million from Revenue Support Grant and any additional funding being secured from departmental budgets?

39. London Borough of Croydon disagrees with the proposed methodology for funding the New Homes Bonus in 2018-19. The Government's contribution to the NHB has fallen significantly from £210 million in 2016-17 (14% of the total) to £93 million in 2017-18 (7%) and £46 million in 2018-19 (5%). This means that additional funding will effectively be top-sliced from RSG to meet the shortfall.

40. The consultation does not provide clarity over which departmental budgets are used to fund the Government's contribution to the NHB. We believe that this is another example of the lack of transparency in the local government finance system, which is especially concerning when there are rapid reductions in the Government's contribution. As outlined above, we believe that the Government should clarify exactly which departmental budgets are used to fund New Homes Bonus and how the savings made from reduced contributions ultimately reconcile back to local government DEL.

41. More broadly, with regard to the reforms to NHB announced last year, London Borough of Croydon is disappointed that the Government has confirmed plans to reduce the number of years for which NHB funding is awarded to 4 in 2018-19, which undermines financial planning in the context of a wider four-year settlement.

Question 3: Do you agree with the Government's proposed approach of paying £65 million in 2018-19 to the upper quartile of local authorities based on the super-sparsity indicator?

42. We disagree with the additional funding provided to rural areas, effectively redirecting funding away from other areas. The Rural Services Delivery Grant has increased by a further £15 million in 2018-19. All funding allocated through this separate grant could otherwise have been distributed to all local authorities on the basis of need.

43. The additional funding for rural areas raises questions about the adequacy of funding for urban areas, particularly the impact of population underestimation, high levels of mobility and the impact of day time visitors. If the Government is minded to further recognise some of the financial pressure on rural authorities, we believe that it is reasonable to expect further consideration to be given to the unique pressures faced by urban areas such as London.

Question 4: Do you agree with Government's proposal to hold back £35 million to fund the business rates safety net in 2018-19, on the basis of the methodology described in paragraph 2.6.2?

44. London Borough of Croydon continues to disagree with the safety net holdback, which penalises local authorities because of the complex system the Government has established. Since 2013, the Government has top-sliced c. £310 million to fund the safety net because of lower than expected business rates growth. The overriding reason that levy payments have not been sufficient to fund the safety net is the distortionary impact of outstanding and future appeals. Local authorities should not be penalised for the lack of assurance built into the system around the effect of appeals, which are entirely outside the control of local government.

45. Croydon believes that the overall safety net should be allowed to remain in surplus or deficit. Given that a deficit is largely driven by flaws in the centrally-run appeals system, we believe it is reasonable to expect central government to meet the cost of any deficit.

Question 5: What are your views on the council tax referendum principles proposed by the Government for 2018- 19?

46. See paragraphs 15-17 above.

Question 6: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.5.1 to 3.5.6?

47. We broadly agree with the principle behind the adjustment to top-ups and tariffs ensuring that, as far as possible, business rates income does not change solely as a result of the revaluation. As outlined in our response to the technical consultation, the use of a single year’s business rates income has the potential to distort the calculation when there are one-off appeals write backs. We therefore welcome the amendment to the methodology, which aims to adjust business rates income for the one-off impact of appeals provisions.

48. We believe that the methodology should be kept under close review to ensure that any other distortions besides appeals that result from the use of a single year of business rates income do not unfairly penalise any authority.

Yours sincerely

Richard Simpson
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