

Appendix G: London Borough of Havering 2014/15 and 2015/16 Provisional Settlement

Executive Summary:

The London Borough of Havering is unique among London boroughs. Havering has the oldest population in the capital – a population that is predicted to get older still over the coming years. Despite this demography and the acute pressure that an older population places on the services of the local authority. The borough's apparent lack of significant deprivation – which masks the growing pressure of providing support to London's oldest resident base – has seen it receive extremely low levels of per capita funding from Government. The Council's response has been to operate some of London's lowest-costing services.

The indicators used in the 2013/14 settlement are now frozen and the previous flooring methodology has resulted in an out of date formula grant system that benefits those authorities who are reliant on government grant whilst penalising those authorities that are highly reliant on council tax.

Introduction:

The London Borough of Havering's calculated 2014/15 Settlement Funding Assessment (SFA) allocation is £69.658m, £6m less than 2013/14 (2015/16 allocation is provisionally set at £60.753m, a 12.7% reduction from 2014/15). Table 1 below shows a summary of the 2 year settlement which clearly demonstrates the percentage reduction in formula grant by 2015/16.

Table 1 – Havering's Settlement Funding Allocation for 2013/14 to 2015/16

	2013/14	2014/15	2015/16	% Change since 2013/14
RSG	£45.379m	£38.881m	£29.126m	(35.8%)
Business Rates	£30.189m	£30.777m	£31.627m	4.7%
Total	£75.569m	£69.658m	£60.753m	(19.6%)

The figures stated above is "best" case scenario as this is assuming our business rate yield increases in line with Government's expectations as well as not including any shortfall due to the proportionate share calculation

Havering has been continuously penalised with low level settlement funding which have far from reflected the needs of the borough. The authority has had to revise its saving plans, bringing forward its plans to reduce back office costs, and thereby increasing the pressure to find savings in other services in the future. Havering has on numerous occasions responded to the shortfalls and the flawed approach in the methodology surrounding the settlement with the outcome unchanged and with our position deteriorating further.

Havering has a unique demographic which is not truly reflected in the current formula grant methodology. How can an authority with the highest proportion of elderly

population in London – with indications that this is likely continue and increase further – but yet receive one of the lowest settlements?

The London Borough of Havering’s Concerns:

Funding reductions

Havering has one of the lowest levels of grant per capita in London. As a result, Havering has had to increase its council tax to compensate for the unfair allocation distributed by the current formula methodology. For comparison purposes, if Havering received the same level of grant per head as its lowest neighbouring outer London authority, Havering would be able to reduce its Council Tax by 24%. In contrast if Havering received the same level of grant than another neighbouring outer London authority, Havering could reduce its council tax by approximately 75%. This clearly demonstrates the cliff edges and flaws within the current funding system that by a change in postcode residences see a dramatically different level of funding compared to someone living a few metres away.

The continuation of a funding formula which is unfit for purpose and using this as a base for future funding models magnifies the issue. The indicators used in the current frozen formula grant is out of date and does not reflect or apportion funding in a fair and transparent way. In contrast to the method of apportion funding, the methodology in allocating specific / unringfenced grant provides Havering with a highly comparable allocations. Table 2 below shows the grant per capita for Havering and the rest of East London clearly demonstrating the poor allocation Havering receives.

Table 2 – 2014/15 Grant per Head of Population

Code	Authority	Inner / Outer London	SUFA (m's)	Projected Population	Grant Per Head £'s
R383	Barking & Dagenham	Outer London	£113.681	185,911	£611
R393	Havering	Outer London	£69.658	237,232	£294
R398	Newham	Outer London	£218.534	307,984	£710
R399	Redbridge	Outer London	£105.635	278,970	£379
R402	Waltham Forest	Outer London	£138.543	258,249	£536

Penalising Self-Funding Authorities

Previous settlements have continued the emphasis on penalising local authorities for being self-funding. Those authorities who have had to increase their council tax to mitigate the flawed funding system that Government has initially created and rolled forward year on year have seen the largest reductions in funding. No attempt has been made by central government to address the significant unfair cliff edges in

funding between one neighbouring authorities to another. The previous smoothing mechanism is now out of sync with the current relative needs of the authorities and some authorities are receiving significantly more funding than their relative needs suggests. Now the formula grant is frozen until 2020 this only magnifies the issue rolling forward year on year.

Area Cost Adjustment

As part of the formula grant calculation, the Area Cost Adjustment (ACA) is used to reflect geographical variation in the costs of providing local services. The ACA underestimates wage differentials across England by applying a lower limit. This does not allow for the cost of living in London to be factored into the calculation and penalises London authorities. Although the formula is currently frozen, there is every opportunity for this to be revised as this not only factors into the Revenue Support Grant (RSG) allocations but also for new grants that are using the out of date Relative Needs Formulae. For any improvement to affect Havering's formula grant, the formula grant would need to be re-opened and the currently flooring methodology removed and reassessed.

Council Tax Support

As part of the local government financial settlement, Council Tax Support has been rolled into the formula grant calculation. As a consequence, this grant previously allocated from the DWP has now been reduced in-line with the funding cuts affecting local government. In 2013/14 the Council Tax Support grant was localised to Local government with a 10% reduction due to the inability of the DWP to find the necessary reductions and force Local Government at the forefront of the current budget cuts to find further savings. Now the grant has been reduced further by 28% through scaling which assumes Havering is able to keep up with the targets placed by DCLG in respect of their business rates, which due to the proportionate share calculation puts Havering in a deficit position. Table 3 below shows the reduction of Council Tax Support within the formula; for Havering, the effective reduction is over £3.7m. This is one of the reasons behind Havering's overall funding reduction and will require significant savings in 2015/16. Havering is now facing a reduction £9m in overall formula grant funding from 2014/15 to 2015/16 which may force significant changes to our localised council tax support scheme as a result.

Table 3 – The impact of Council Tax Support within the formula grant

2014/15	RSG	Business Rates	Total
2013/14 Allocation	8,135,525	5,412,342	13,547,867
(Scaling) / Inflation	(2,063,055)	105,432	(1,957,622)
Revised 2014/15 allocation	6,072,470	5,517,774	11,590,244
% (Reduction) / Increase	(25.36%)	1.95%	(14.45%)
2015/16	RSG	Business Rates	Total
2014/15 Allocation	6,072,470	5,517,774	11,590,244
(Scaling) / Inflation	(1,958,290)	152,295	(1,805,995)
Revised 2015/16 allocation	4,114,180	5,670,069	9,784,250
% (Reduction) / Increase	(32.25%)	2.70%	(15.58%)
Total Reduction	RSG	Business Rates	Total

2013/14 Allocation	8,135,525	5,412,342	13,547,867
(Scaling) / Inflation	(4,021,344)	257,727	(3,763,617)
Revised 2015/16 allocation	4,114,180	5,670,069	9,784,250
% (Reduction) / Increase	(49.43%)	4.76%	(27.78%)

Council Tax Freeze Grants

As part of the 2014/15 settlement, the 2013/14 freeze grant has been rolled up into the SFA in addition to the 2011/12 allocation. Prior to the recent settlement, the unringfenced grant has not seen any reduction through recent announcements however the 2011/12 grant has started to be reduced. In addition there are fears that over the next few years these grants will be rolled into the formula grant and reduce in-line with departmental budget cuts or removed completely. This raises questions over the financial viability of accepting government freeze grants if these are to be reduced in later years of Government spending cuts.

New Homes Bonus

As announced in the 2013 Spending Round, the New Homes Bonus (NHB) was due to reduce by £400m across the country, however, since the 2013 Autumn Budget Statement it was decided only to top-slice the grant from London authorities to the London Enterprise Partnership (LEP). There is London wide support of the removal of this decision which based on DCLG protection for the New Homes Bonus would result in a potential reduction to Havering's allocation in excess of £1.6m. This funding stream was created for financial year 2011/12. Although it has been classed as a new funding stream, it is effectively money top-sliced from the overall funding "pot". As the national NHB pot grows, the overall pot for RSG reduces. This funding was originally a grant to local authorities who can "predict" their NHB allocation to prepare and build long-term plans. The decision to top-slice funding from the NHB demonstrates the concerns in any funding from central government for long-term projects may be cut for other purposes. Long-term financial planning is key in bringing quality services to the community and finding efficiencies and savings to the public sector. This policy decision undermines any long-term funding provided from central government and creates resilience in building long-term strategy as this funding can be reduced or removed in a moment's notice for other purposes.

Housing Benefit Admin Grant

Previous to the settlement announcement the Housing Benefit and Council Tax (HB/CTS) Administration grant allocations were released. This showed that Havering will receive the largest reduction in administration grant in London for 2014/15 of 11% whilst having one of the lowest grants per caseload in London. Authorities with the same level of caseload are receiving significantly more funding than Havering. Havering's caseload is relatively low compared to inner London authorities, however these authorities have not seen any / minimal reductions in funding in comparison. The methodology does not take into account the fixed costs in administration HB/CTS at the detriment of those authorities with relatively low caseloads.

Local Welfare Provision

The Local Welfare Provision was created in 2013/14 in order to help those individual in most need due to the economic climate. As announced as part of the settlement, this will cease from 2015/16. Once again local government are being asked to deliver savings on behalf of central government with those at most risk likely to be affected. It is our belief that given the cuts to local authorities over the next couple of year and during the next parliament that this service will no longer be able to be provided by most authorities especially without the funding currently offered.

Demographics

Action needs to be taken to address the on-going flawed methodology from the current formula grant calculation. Havering has continued to receive significantly less funding than the National; London; and outer London average. The population of Havering is growing at a faster rate than the England average. Our **65+ population** is the **highest in London** and our 90+ population is expected to increase considerably by 2021 within the current methodology the funding model is and will not address this high need, high cost area.

Havering is the third largest borough in the capital, however again this funding does not reflect this. The formula grant calculation has continued to be rolled over each year without a fundamental review of the cliff edges that exist between authorities. From a change in postcode, the spend per head of population can increase by £1000 which in our opinion is not a fair method of apportionment. This would be even higher if it was not our on-going transformation programme initiated from the emergency budget back in 2010.

In our opinion, this needs serious review and quickly as these and the additional cuts affecting local government hits local authorities in the coming year. Assuming the current methodology in funding continues this well result in either front line cuts or an increase in council tax. It is unfair to expect local authorities with minimal grant to continue whilst the numerous flaws in the formula grant allocation.

Possible solutions

We genuinely believe that the local government funding system is neither objective nor equitable in its allocation of resources to local government and as a direct result has a direct impact to Havering's taxpayers. We would therefore ask Minsters to consider the following proposals:

1. Review the current formula grant in respect of
 - a. Cliff edges - One method of rectifying this on-going issue to create a phased smoothing affect between local authorities to ensure that a postcode lottery does not continue to exist. We accept that this is not a "quick-fix" solution however a phased approach would address the issue in time.
 - b. Indicators used in allocating funding. A number of the indicators are out of date and or do not reflect the demographic pressures.

2. Reverse the decision in regards to the NHB top-slice
3. Review the methodology in allocating HB/CTS admin grant to include the fixed costs of allocating funding.
4. Removal of the lower limit in regards to the ACA
5. Revision to the methodology to address low benefit take-up in London
6. Reinstate the Local Welfare Funding

Response to the technical questions

Questions

Question 1: Do you agree with the Government's proposal to remove the capitalisation holdback and re-allocate the funding?

- Havering agrees for with Government's decision to remove the capitalisation holdback however we do not agree with the reallocation of the holdback to fund the Efficiency Support grant or rural funding element. If Government wishes to provide funding for specific purposes this should be provided for by new funding.

Question 2: Do you agree with the Government's proposal to reduce the New Homes Bonus holdback from £800m to £700m?

- Havering agrees that the hold back should be reduced by £100 million.

Question 3: Do you agree with the Government's proposal to increase and roll in funding for rural authorities?

- As per Question 1