



XXXXXXXXXX Council
XXXXXXXXXX, Leader of the Council
cc. XXXXXXXXXX, Chief Executive

Dear XXXXXXXXXX

Fairer Funding for Local Authorities

We are writing on a Birmingham cross-party basis to invite you to join us in making representations to the Government to seek changes in the way that cuts in Revenue Support Grant are allocated between authorities. On the basis of our calculations, we think that your authority would have been x% (£ym) better off in 2015/16 from our proposals.

As you know, for the last two years cuts in local authority funding have been allocated pro rata to the amount of Settlement Funding Assessment (SFA) for each authority. You will be aware that SFA is the concept which replaced Formula Grant, and which comprises locally retained business rates, business rates tariff/top-up, and Revenue Support Grant. This means that those authorities which are more dependent upon Government grant (through a combination of the assessed need in their area and the relatively small size of their taxbase) have faced the biggest cuts as a percentage of their overall budget. Put another way, councils which are and have been less dependent on Government grant and are able to generate a bigger proportion of their income from Council Tax have been protected.

We don't think that this has been fair and if changes are not made for future years, this unfairness will continue to increase. If, instead, the reductions in funding were allocated by reference to the total resource base, including Council Tax, each council would be asked to bear an equal share of the burden as a percentage of its overall net expenditure (for 2015/16 this would have been a reduction of 6.7%). Further details of this proposal are set out in the attached presentation.

This is not a party political matter. Neither are we asking the Government to wind the clock back nor use this as a way of challenging Government policy on the total level of Government support to local authorities. It is, rather, about the fair distribution of this total level of Government support between local authorities.

We are not aware of plans for a technical consultation on local government funding this year. We would ask, therefore, that you consider making representations in support of this Fairer Funding campaign either in response to the Government's invitation to make



comments to feed into the Spending Review or in subsequent local government funding responses.

If you require further information about the proposal please do not hesitate to contact claire.holcroft@birmingham.gov.uk or steve.powell@birmingham.gov.uk.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Albert Bore", written over a light blue circular stamp.

Cllr Sir Albert Bore
Leader of the Council

A handwritten signature in blue ink, appearing to read "Robert Alden".

Cllr Robert Alden
Leader of the
Conservative Group

A handwritten signature in blue ink, appearing to read "Paul Tilsley".

Cllr Paul Tilsley
Leader of the
Liberal Democrat Group

Fairer Finance

— This is not about extra money

- Spending cuts will continue
- Local government will have a share

• It is about:

- Making the cuts fairer and the system more sustainable from 2016-17
- Having a finance system that supports local growth
- Reforming public services to achieve better outcomes

Overview

- All LAs have received large reductions in funding. There is a growing understanding of the impact on different types of LAs (e.g. JRF and NAO Reports)
- We offer here a constructive proposition for local government funding based on:
 - where we are now
 - maintaining incentives for growing business rates
 - without favouring any class of authority

Historic Approach

Formula Grant:

- Needs based approach recognising different levels of need across country
- Needs based took account of need to spend and ability to raise resources locally (council tax)

Business Rates Retention 2013/14

Baseline

- Needs based approach recognising different levels of need across country
- Took account of need to spend and ability to raise resources
- RSG paid across having taken into account all of this
- So foundations of the system were formed upon a needs based approach

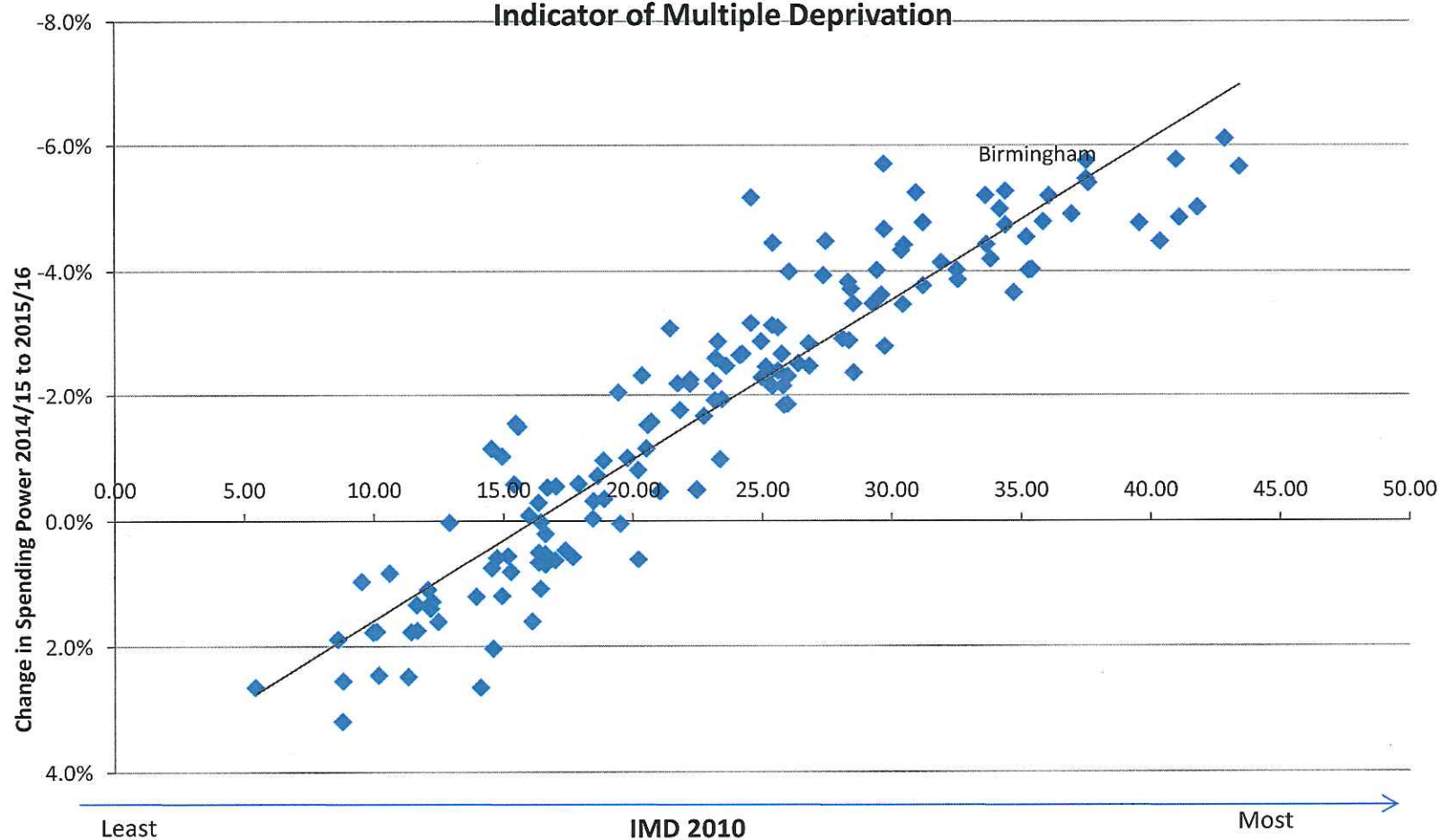
Current Approach to Funding

Reductions

- Essentially funding reductions are made pro rata to SFA in line with Government Spending Control Totals
- Variable Council Tax income is not taken into account
- Results in uneven distribution of funding reductions relative to total resources.
- Those most reliant on Government Grant (i.e. those most in need) receiving the largest proportion of the funding reductions
- Specific Grants are allocated in addition to this

2015/16 Change in Spending Power vs Levels of Deprivation

Comparison of Change in Spending Power from 2014/15 to 2015/16 against Indicator of Multiple Deprivation



Current Reductions by Authority Type

Current SFA + Council Tax Reductions by Authority Type			
Government Settlement Announcement			
	2014/15	2015/16	Current Reduction
	£m	£m	£m
City of London	37.4	32.5	(4.9)
Fire Authorities	461.0	436.9	(24.1)
GLA	1,961.7	1,964.0	2.3
Inner London Boroughs	2,960.7	2,649.9	(310.8)
Metropolitan Districts	9,720.0	8,820.3	(899.7)
Outer London Boroughs	4,072.2	3,770.8	(301.4)
Shire Counties	13,582.4	12,932.1	(650.3)
Isles of Scilly	4.7	4.7	0.0
Shire Districts	2,331.9	2,173.3	(158.7)
Shire Fire Authorities	986.4	951.4	(35.0)
Unitary Authorities	9,478.2	8,795.0	(683.1)
Total	45,596.7	42,530.9	(3,065.8)
			-6.7%

Short-Term Alternative Approach to Funding Reductions

- We accept that a new regime is in place
- And are not seeking to adjust the base position i.e. revisit the “old” formula
- Instead apply a fair approach to future funding reductions within the new regime – i.e. pro rata to SFA + Council Tax (i.e. traditional net budget)
- Therefore take into account resources able to be raised locally (i.e. council tax)
- Inequality of last two years should be taken into account

Alternative Reductions by Authority Type

Alternative SFA + Council Tax Reductions by Authority Type			
Alternative Settlement			
	2014/15	2015/16	Alternative Reduction
	£m	£m	£m
City of London	37.4	34.9	(2.5)
Fire Authorities	461.0	430.0	(31.0)
GLA	1,961.7	1,829.8	(131.9)
Inner London Boroughs	2,960.7	2,761.6	(199.1)
Metropolitan Districts	9,720.0	9,066.5	(653.6)
Outer London Boroughs	4,072.2	3,798.4	(273.8)
Shire Counties	13,582.4	12,669.2	(913.3)
Isles of Scilly	4.7	4.4	(0.3)
Shire Districts	2,331.9	2,175.1	(156.8)
Shire Fire Authorities	986.4	920.1	(66.3)
Unitary Authorities	9,478.2	8,840.9	(637.3)
Total	45,596.7	42,530.9	(3,065.8)
			-6.7%

Potential movement compared to current allocations

Potential Change in Reductions by Authority Type		
	2015/16	
	Variation	
	£m	%
City of London	2.4	6.4%
Fire Authorities	(6.9)	-1.5%
GLA	(134.2)	-6.8%
Inner London Boroughs	111.7	3.8%
Metropolitan Districts	246.2	2.5%
Outer London Boroughs	27.6	0.7%
Shire Counties	(262.9)	-1.9%
Isles of Scilly	(0.3)	-7.2%
Shire Districts	1.9	0.1%
Shire Fire Authorities	(31.3)	-3.2%
Unitary Authorities	45.8	0.5%
Total	(0.0)	0.0%

Benefits of the approach

- Maintains the incentive effect of the business rates retention scheme:
 - Government does not assume real terms growth in BR so growth achieved would still be retained in full (subject to levies)
- No favouring/protection of any class of authority e.g. for deprivation; the funding reductions are not targeted.
- Ensures all local authorities bear an equal proportion of the funding reductions for their whole net budget.
- Meaning each local authority would be asked to respond to the same scale of financial challenge
- Would lock in the needs based assessment of the 2013/14 baseline without trying to amend it
- Would recognise the varying ability to generate resources locally through Council Tax

Summary

- Grants cuts should be allocated on basis of equal reduction in Net Budget (SFA + CT) – taking into account council tax and other income
- All classes of authority treated the same
- All councils face the same relative financial challenge
- Business rates retention incentive retained

