

## CABINET

16 December 2014

This report is submitted under Agenda Item 11. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency in order not to delay the lobbying of Government in respect of the Local Government Finance Settlement.

<b>Title:</b> Fairer Funding	
<b>Report of the Cabinet Member for Finance</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> No
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<b>Accountable Director:</b> Jonathan Bunt, Chief Finance Officer	
<b>Summary</b>  Following changes to the way Government distributes the Revenue Support Grant (RSG) from April 2013 the Council has been disadvantaged by certain aspects of the new methodology.  Cabinet is asked to support actions to seek that the Council receives its fair share of RSG.	
<b>Recommendation(s)</b>  The Cabinet is recommended to agree:  (i) To support actions by the Council that seeks a fair share of Revenue Support Grant from Central Government;  (ii) To support actions by other Local Authorities that assists the Council in seeking a fair share of Revenue Support Grant from Central Government;  (iii) In principle, the provision of resources to assist the Council and other Local Authorities in actions that seek to ensure the Council receives a fair share of the Revenue Support Grant from Central Government.	
<b>Reason(s)</b>  Ensuring the Council receives its fair share of Government funding will enable it to deliver its priorities and provide required services within its overall corporate and financial planning framework.	

## **1. Introduction and Background**

- 1.1 From April 2013 the proportional distribution of RSG to Local Authorities was frozen until 2020. By continuing to distribute grant based on outdated data certain elements of the calculation have disadvantaged the Council and other London Boroughs, particularly North East London Boroughs.
- 1.2 The two most significant elements that disadvantage the Council are its above average population growth and the impact of Damping within the system.

## **2. Population Growth**

- 2.1 The Borough is forecast to have a larger than average increase in population from 2013 to 2020. As the proportionate distribution of RSG is now frozen there is no additional funding provided through the grant to meet the resources required by a larger population.
- 2.2 Modelling undertaken by LG Futures shows that the Borough is anticipated to experience population growth of over 14% between 2013 and 2020 compared to an England average of 4.3%. London as a whole is anticipated to be above the England average with only two Boroughs expected to be under. Appendix 1 shows the estimated population growth for each London Borough based on Office of National Statistics (ONS) 2012 sub-national population projections which are the latest available for England and Wales.
- 2.3 By 2020 the Council is expected to be losing over £7m a year in RSG by not having its increase in population factored into the distribution formula.

## **3. Damping**

- 3.1 RSG is distributed based on a needs formula and prior to 2013 it was recalculated annually. To ensure no Authority was subject to an unreasonable decrease in RSG from year one to the next a system of Damping was introduced. The Damping system identified decreases in RSG that were deemed unreasonable and increased that Authority's RSG above its calculated need.
- 3.2 The additional RSG awarded through the Damping system is fully funded by a reduction in other Authority's RSG to a level that is below their calculated need. There are winners and losers of Damping and the Council has historically been a loser.
- 3.3 Any protection an Authority received from Damping would be depleted annually when RSG was recalculated. This ensured Authorities had time to manage a reduction in their funding. From 2013 Damping is no longer recalculated annually and the level of funding above or below the level of calculated need is fixed until 2020. This means the Council will never receive the proportion of RSG that it was calculated to need over this period of distribution freeze.

- 3.4 Between 2013/14 and 2020/21 it is estimated the Council will lose nearly £50m due to Damping. For 2013/14 and 2014/15 the amount of grant lost was £7.9m and £7.0m respectively. In monetary terms London is a winner of the Damping system overall although over half of Boroughs are losers. North East London is the largest regional loser. Appendix 2 shows the gain or loss due to Damping for each London Borough.

#### **4. Next Steps**

- 4.1 It is proposed that interested Local Authorities, mainly from North East London, submit responses to the Local Government Finance Settlement before Christmas. Each authority will submit their own response but all will include some common text outlining the issues with the current funding arrangements. Input into the wording of the common text will be provided by legal experts.
- 4.2 The settlement will be carefully considered by each local authority to assess the full impact of damping. If the settlement continues to be unfair in its distribution to Barking and Dagenham the Council will look to propose a legal challenge in the New Year by way of a judicial review of the funding system. The challenge will likely be based around population increases and Damping.
- 4.3 Lobbying action involving local MPs and the Department of Communities and Local Government will be undertaken. This will provide an opportunity to highlight concerns around the current funding system and raise the profile of the issues.

#### **5. Financial Implications**

Implications completed by: Jonathan Bunt – Chief Finance Officer

- 5.1 Changes to the current Government funding formula to take into account growth in local population and to reduce the impact of Damping could result in significantly higher funding for the Council. This would reduce the level of savings the Council is currently forecast to require.
- 5.2 There will be costs associated with legal action and the agreement to incur these costs should be entered into on the understanding that the legal action maybe unsuccessful.

#### **6. Legal Implications**

Implications completed by: Fiona Taylor, Head of legal and Democratic Services

- 6.1 Any possible Judicial Review of the funding freeze until 2020 would be on the basis of disadvantage to Barking & Dagenham in comparison to other Councils based on factors that should be relevant to funding decisions such as population changes and need.
- 6.2 Barking and Dagenham has, together with other northeast London Councils, consulted with a QC about the merits of such an application and how we can put ourselves in the best possible position to challenge the funding decision. This includes a detailed response to the consultation relying on statistical data which

highlights the disproportionate effect on our Councils. A decision on litigation will be made in January at the close of the consultation.

**Public Background Papers Used in the Preparation of the Report:** None

**List of appendices:**

- Appendix 1 – Estimated Population Growth 2013 to 2020
- Appendix 2 – Estimated Gain or Loss due to Damping from 2013/14 to 2020/21