Andrew Lock
Department of Communities and Local Government
Zone 5/J2
Eland House
Bressenden Place
London
SW1E 5DU

15 January 2014

Dear Andrew,

Consultation:
Local Government Finance Provisional Settlement 2014/15 and 2015/16

I attach, for your information, a response to the consultation from the Liverpool City Region Director's of Finance, and represent the views of:

- Halton
- Knowsley
- Liverpool
- St Helens
- Sefton
- Wirral
- Merseyside Police & Crime Commissioner
- Merseyside Fire & Rescue Service

I trust that you will find this response helpful.

Yours sincerely

James Duncan
Director of Finance and Information Technology
Knowsley MBC

LIVERPOOL CITY REGION RESPONSE TO THE PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2014/15 and 2015/16

Overview of the Local Government Finance Settlement

The Liverpool City Region welcomes the opportunity to respond to the consultation on the most recent Local Government Finance Settlement covering 2014/15 and 2015/16 and would like the Government to consider the following comments.

In April 2013, the Government introduced the most radical reform of local government funding in a generation in a time of significant reductions in the resources available to local government and major reforms to the welfare system. With such significant changes occurring, last year's announcement of a two-year Local Government Finance Settlement, although very late in the financial planning cycle, was welcome as it did allow councils to plan for them over the two-year period. To that extent, by March 2013, most councils successfully set a two-year balanced budget. Therefore, the Chancellor's Budget announcement within weeks of councils setting balanced two year budgets that the 2014/15 Local Government Finance Settlement would be re-opened and be reduced by a further 1% to contribute to the Government's national deficit plan.

The Liverpool City Region is extremely disappointed with the timing of the announcement of the Local Government Finance Settlement with no forewarning of it to ensure authorities had the appropriate staff available over the holiday season to assess the impact on their financial plans. Furthermore, the opaque nature of the announcement and emphasis on spending power figures, after transfers and adjustments had been made, to hide the extent of the cuts on core services such as Supporting People, Social Care, Highways Maintenance etc. is extremely disappointing.

The Liverpool City Region firmly believe that it is more important than ever that the distribution of available resources reflects the assessed needs of areas (i.e. levels of deprivation) and the ability to raise resources. Unfortunately, the latest Local Government Finance Settlement follows those of the past three years with the greatest impact [cuts] affecting the most deprived authorities, such as the Liverpool City Region.

In addition, the Government's decision to continue funding its policies (Council Tax Freeze Grant, and New Homes Bonus) through the local government finance system have actually resulted in a top slice of the resources that would have gone through the needs based formula, in effect reallocating money from deprived areas to more economically active areas. Meanwhile, new burdens are being placed on councils without 'new' funding as claimed - top-slicing resources already paid to councils is not providing new funding. Whilst some funding, such as Welfare Fund (Emergency Support) has been removed without any consultation or apparent impact assessment.

The Liverpool City Region response to the consultation questions are outlined below:

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

No, the Liverpool City Region does not agree with the proposal and remains disappointed that the Government had persisted with a £100m top-slice from the Local Government Finance Settlement in 2013/14 to support capitalisation across local government. The basis for the top-slice was due to a central government financial accounting even though local authorities already pay for capitalisation out of future revenue streams.

Accessing capitalisation resources usually comes with stringent conditions with an emphasis on authorities using reserves first. It is apparent that few requests were made, which left £50m to re-allocate to local authorities. However, the Government has confirmed that it will only return £28m of the top-slice from 2014/15 funding due to lower than anticipated capitalisation requests with £22m of the funding now being redirected fund Government policy to support rural areas, the continuation of efficiency support grant, and safety net payments, none of which Liverpool City Region authorities can access. Therefore, Liverpool City Region authorities will only receive 56% of the outstanding holdback.

In previous years, the Government has provided the funding for Efficiency Support Grant. The Liverpool City Region firmly believe that if funding for this is to continue it should be provided by the Government and not via a holdback taken from councils for a completely different purpose. Similarly, where the Government makes a policy decision to provide more resources to rural areas it should fund it from central resources and not from a holdback. Finally, in terms of the safety net, the failure of the Business Rates Retention system is the Governments and not local government and they should fund the ongoing cost, primarily due to historic appeals, and not via holdbacks or further top slices of Revenue Support Grant.

The Liverpool City Region has previously requested that the Government is more flexible than it has been previously with regards its approach to capitalisation. The announcement that £200m of capital receipts could be used in such a manner is supported in principle by the Liverpool City Region authorities, but further details on the bidding process and applicable receipts is required before full support can be made.

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

No. Although the reduction in the holdback is welcome by the Liverpool City Region authorities, it remains fundamentally opposed to the New Homes Bonus and the way it is funded.

The New Homes Bonus is rewarding local authorities that have available land and adequate demand for housing, which tends to be wealthier areas at the expense of the most deprived communities, such as those in the Liverpool City Region. Furthermore, the resources now identified to fund the New Homes Bonus is double that proposed in the Comprehensive Spending Review, which inevitably leads to even greater top slicing of resources in the new Business Rates Retention system, which leads to an overall reduction in local government funding to the Liverpool City Region.

New Homes Bonus was originally predicated on compensating authorities who would lose income due to the Relative Resource adjustment in formula, which reduced Revenue Support Grant as Council Tax income increased. As the Relative Resource adjustment is now effectively frozen until 2020, the New Homes Bonus should similarly have been frozen as authorities with extra Council tax will retain additional income.

The reduction in the cut from £800m to £700m in 2014/15, with the potential for the cut to rise to £2bn by 2018/19, still provides a disastrous funding scenario for many councils. The fact that it is coming out of existing core revenue funding currently used to pay for services such as social care, roads, transport, economic development and support for business growth etc. is a major problem. It has been shown to have the effect of redistributing very large amounts of funding from poorer to wealthier parts of the country.

Rather than being distributed on a needs basis, this funding will be distributed on the basis of future increases in the Council Tax base. This method of distributing funding inherently favours those local authorities where the tax base is comprised of higher banded properties and where there is greater potential for building new homes on land without having to first demolish older properties.

For example, a projection of future New Homes Bonus likely to be received by 2018/19 and of funding lost as a result of the eventual £2 billion top slice shows Liverpool could lose over £26 million as a result of the funding being distributed as part of New Homes Bonus rather than forming part of the Settlement Funding Assessments under the Business Rates Retention System.

The National Audit Office has also stated that the New Homes Bonus has failed to deliver its policy objectives. The Public Accounts Committee has now agreed to review the New Homes Bonus further and will report to Parliament. In response, the Chancellor confirmed in the 2013 Autumn Statement that a review of New Homes Bonus and its link to incentives would be undertaken before the 2014 Budget. The Liverpool City Region authorities ask the Government to ensure the review considers the unfair re-distribution of resources under the current methodology and that this is addressed too.

In 2014/15, a top-slice of £700m of Formula Grant previously allocated to fund statutory services now funding New Homes Bonus sees the Liverpool City Region authorities suffering most from its re-distributional impact. For example, it is estimated that Knowsley has contributed £3.947m to the top-slice. Therefore, for every £1 top-sliced Knowsley receives £0.33p in New Homes Bonus. By contrast Basingstoke & Deane receive £20.97 for every £1 lost in the top-slice, while Mid Sussex receives £18.08 for every £1 lost.

The New Homes Bonus is an un-hypothecated grant and should be treated as general grant. Therefore, the Liverpool City Region is pleased that the Government reversed its proposals to top slice New Homes Bonus from 2015/16 to fund the Single Local Growth Fund, with the exception of London Boroughs, in the 2013 Autumn Statement.

Alternative Methodology

As demonstrated above, Liverpool City Region authorities lose significant funding due to the mechanics of the top-slice, and receive very little back. However, there are alternative methods that the Government could use. An option put forward by the Core Cities, which the Liverpool City Region authorities support in principle, is that the allocation of the grant top-slice between councils is on the basis of their stock of dwellings, as opposed to making a simple percentage cut in grant. It is felt that this more equitable allocation of the grant top-slice would reduce the redistributional impact of the scheme and would mitigate against the excessive adverse impact on the most deprived areas of the country.

The table below shows the impact of the proposed £700m New Homes Bonus top-slice and the effect of an alternative cut made in proportion to the number of dwellings in an area. Using the number of dwellings at September 2012 would result in an average top-slice of £30 per dwelling around the country (the Government could even use the number of dwellings at an earlier date prior to the impact of the New Homes Bonus scheme). This contrasted with the current approach, which allocates the top-slice disproportionally around the country between £190 per dwelling and just £13 per dwelling in different areas. The highest reductions being made in the areas of the country that are generally more deprived.

Delivering a fairer way of funding the New Homes Bonus top-slice would reduce the cuts for Knowsley by £2.033m in 2014/15, and Liverpool by £4.623m in 2014/15 with significant savings in the levels of cuts currently proposed for the most deprived authorities. The impact in future years would be even greater as the top-slice is expected to grow towards £2bn by 2018/19.

Examples of Impact of £700m New Homes Bonus Top-slice:

	CURRENT FORMULA		TOPSLICE ON A £ PER DWELLING BASIS		CHANGE
	£M	£/Dwelling	£M	£/Dwelling	£M
City of London - Non-Police	-1.052	-£190.31	-0.167	-£30.29	0.885
Hackney	-7.023	-£67.81	-3.137	-£30.29	3.886
Newham	-7.048	-£67.69	-3.154	-£30.29	3.894
Tower Hamlets	-7.054	-£65.16	-3.279	-£30.29	3.775
Knowsley	-3.947	-£62.46	-1.914	-£30.29	2.033
Southwark	-7.330	-£58.96	-3.765	-£30.29	3.565
Camden	-5.796	-£57.84	-3.035	-£30.29	2.761
Islington	-5.399	-£55.03	-2.971	-£30.29	2.427
Birmingham	-22.675	-£53.38	-12.867	-£30.29	9.808
Lambeth	-7.059	-£53.05	-4.030	-£30.29	3.028
Manchester	-11.268	-£52.56	-6.494	-£30.29	4.774
Liverpool	-11.138	-£51.78	-6.515	-£30.29	4.623
Barking & Dagenham	-3.652	-£51.13	-2.164	-£30.29	1.489
Greenwich	-5.286	-£50.58	-3.165	-£30.29	2.120
Sandwell	-6.444	-£50.47	-3.867	-£30.29	2.577
Lewisham	-5.998	-£50.47	-3.599	-£30.29	2.398
Leicester	-6.387	-£50.05	-3.865	-£30.29	2.522
England	-700.000	-£30.29	-700	-£30.29	0.000
Purbeck	-0.073	-£16.49	-0.674	-£30.29	-0.601
Horsham	-0.132	-£16.46	-1.720	-£30.29	-1.588
Mid Sussex	-0.138	-£16.45	-1.802	-£30.29	-1.664
Cheshire East	-2.733	-£16.38	-5.055	-£30.29	-2.321
Basingstoke & Deane	-0.194	-£16.35	-2.170	-£30.29	-1.975
South Bucks	-0.071	-£16.24	-0.843	-£30.29	-0.772
Fareham	-0.123	-£16.19	-1.461	-£30.29	-1.337
Chiltern	-0.094	-£16.13	-1.165	-£30.29	-1.071
East Hampshire	-0.119	-£16.05	-1.497	-£30.29	-1.378
Hart	-0.089	-£16.04	-1.116	-£30.29	-1.027
Christchurch	-0.063	-£15.91	-0.702	-£30.29	-0.640
Ryedale	-0.106	-£15.70	-2.784	-£30.29	-2.678
East Dorset	-0.087	-£15.43	-1.183	-£30.29	-1.096
Wokingham	-0.890	-£14.18	-1.901	-£30.29	-1.011
Windsor and Maidenhead	-0.821	-£13.43	-1.850	-£30.29	-1.030

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

No, the Liverpool City Regions does not agree with the proposed increase and roll in funding for rural authorities. Where the Government makes a policy decision to provide more resources to rural areas it should fund it from central resources and not from a holdback.

4. Do you have any comments on the impact of the 2014/15 settlement on protected groups, as set out in the draft Equality Statement?

The Liverpool City Region is disappointed with the content of the draft Equality Statement. Local Government is currently seeing the largest cuts to its funding due to Government policy, which have significant equality issues that are not addressed. To say that the decisions on how services are affected are made locally and so are not the responsibility of the Government, which is choosing where the cuts are being targeted, is seen by the Liverpool City Region as a dereliction of duty.

The Liverpool City Region is concerned by the significant level of risk transfer from central government to local government that has occurred. The aggregation of the individual risk items, presents a major difficulty for local government that does not have the room for manoeuvre that is available to the Government.

The examples of risk transfer that have, or will, occur are:

a. Moving away from a 'needs' basis for allocating resources;
b. Erosion of Resource Equalisation;
c. Changes to the Business Rate regime – reliefs, cap etc.;
d. Business Rates Appeals prior to April 2013;
e. Welfare Reform (Universal Credit, bedroom tax etc.);
f. Council Tax capping; and
g. Council Tax Benefits localisation and the reduction in funding.

In regions, such as the Liverpool City Region, the above changes will represent a fiscal cliff, threatening the livelihood of the community and essential services. The Government has not quantified or acknowledged the varying cumulative impact by region or authority, of these combined initiatives. Therefore, the Liverpool City Region asks the Government to engage with authorities on evaluating this regional impact during 2014/15 and onwards and mitigating the impact on the worst affected.

There are a number of specific comments that the Liverpool City Region would also wish to raise, and these are outlined below.

Settlement Funding Assessment

Neither the Minister's statement or the consultation paper highlight the overall size of the grant funding cut that is being proposed for 2014/15, which amounts to a national cut in Settlement Funding Assessment of 9.4% and a national cut in the Revenue Support Grant element of 17.5%. The impact of these cuts is felt greatest by authorities most reliant upon Revenue Support

Grant to fund their core services, deprived authorities such as in the Liverpool City Region.

Funding Top-Slices

The Business Rates Retention System has a safety net mechanism to protect authorities that lose significant amounts of Business Rates in any year. It was established to protect tariff authorities (not Liverpool City Region authorities) and after a £25m top-slice in year one would be self funded by charging a levy to tariff authorities benefitting from significant Business Rates Growth. However, due to the risk of historic appeals sitting with councils and not funded by the national Business Rates Pool that was closed with a surplus of circa £600m the Government is proposing a top-slice of £120m in 2014/15 to fund the safety net. This has effectively reduced Liverpool's funding by £1.778m and Knowsley's funding by £0.628m.

Resource Equalisation

The Government's focus is on the need for local authorities to be more self-sufficient by providing incentives for areas where economies grow. This approach effectively rejects the principle that funding should be sufficient to reflect the different needs of communities. The new funding system fails to recognize the varying requirements on councils in different areas to provide statutory services, or the very different abilities to raise money locally from Council Tax. These were previously the core principles which underpinned the local government finance system when Council Tax was first introduced in 1993/94. The principles were aimed at ensuring that any resident, anywhere in England, would receive a standard level of service to meet their needs with a similar council tax charge for a similar property. These principles are being abandoned – although it is unclear whether this is by design or by accident, and whether Ministers, MPs and the wider public fully understand the implications of the new funding system that they have introduced.

In 2012, the Secretary of State agreed to restore the Council Tax Resource (equalization) Amount to its 2010/11 cash level of -£6.323bn (excluding the amount previously allocated to Police authorities) in the base funding level for 2013/14. The adjustment has now been embedded into upper and lower tier elements within the Settlement Funding Assessment and is no longer separately visible.
The Liverpool City Region is concerned that the mechanics of the Business Rates Retention System will see the Council Tax Resource Equalization amount cut and eroded each year as these blocks receive no protection. This is a significant erosion of a core funding principle of resource equalization. This issue is one of the biggest causes of the disproportionate cuts in funding and spending power between poor and wealthy area in the country that is now very visible in the change in spending power in 2014/15 and 2015/16.

The Liverpool City Region has little evidence that this issue has been adequately consulted upon, given the dramatic distributional impacts that it

has. The Government claims that the issue was sufficiently clear in their consultation proposals. However, it was not adequately highlighted and was not the subject of a specific question, and the impact of reducing it was not separately exemplified. Similarly, as this is not particularly visible in the Local Government Finance Settlement, and not highlighted in the recent consultation, the Liverpool City Region are concerned that Parliament may not be sufficiently aware that this key principle has been abandoned by the Government. The lack of consultation contrasts sharply with the consultation on the protection of the council tax freeze grant (which involved separate questions and exemplifications of its impact), which generally provides more benefit to councils with higher tax bases.

The Liverpool City Region believe that it would be relatively simple to separate this adjustment out of the amounts allocated for the tiers and to give it cash protection similar to that given to council tax freeze grant. The impact of this would appear to result in a very significant grant distribution. For example, Knowsley could be better off by nearly £5m in 2015/16.

Early Intervention Grant (EIG)

The EIG remains separately identifiable in the Settlement Funding Assessment and reduces by 15.6% over the two-year settlement period. It is clear that these reductions represent a significant pressure for councils and is contrary to the level of investment councils are trying to make in Intervention services to support Government policy, such as 'troubled families'.

The Liverpool City Region is disappointed that the £150m top slice made for central distribution in 2013/14 was not made available to authorities, and is now being used to fund new Government policy, such as £80m to fund new burdens relating to SEN transport.

Localisation of Council Tax Support

The Liverpool City Region requests again that the allocations of Localised Council Tax Support should remain transparent and protected in the Settlement Funding Assessment. Although, the Government highlight the £3.3bn in the control total, its failure to identify and protect the allocation effectively leads for it to be cut (redistributed from deprived to wealthier authorities).
In 2013/14, Knowsley received £15.369m to fund its localised scheme. Based on the provisional settlement this funding will reduce by 5.4% in 2014/15 and by 7.9% in 2015/16 to £13.392m (see table below):

Year	Funding (£m)	Reduction (£m)	Change
2013/14	15.369	n/a	n/a
2014/15	14.542	0.827	-5.4%
2015/16	13.392	1.150	-7.9%

Meanwhile, Sefton have assessed that due to the Localised Council Tax Support Grant being funded by Revenue Support Grant that within just a couple of years the funding provided by the Government will diminish to the point where Sefton cannot fund, in full, the national scheme for pensioners. The failure to fund the national scheme (pensioners) is effectively an unfunded burden on local authorities.

Specific Grants

The Liverpool City Region continues to support the use of Specific Grants for new Government initiatives or new burdens on local authorities, such as the new Better Care Fund. This method of grant allocation allows local authorities to meet the demands of the Government.

NHS Funding for Social Care – Better Care Fund

The Liverpool City Region is pleased that the Government continues to acknowledge that funding for health and social care services are at risk from the ongoing cuts by continuing with the NHS grant funding in 2014/15. The purpose of this funding is to mitigate against an increase in admissions and costs to the NHS budget.

From 2015/16, the position becomes much more difficult for local authorities to assess the impact of delivering the transformation required by the Government in partnership with the NHS and whether the funding provided is adequate. Clearly, this funding is not additional resource, but a transfer of resources to fund this Government priority. Therefore, it is most unhelpful that the Government includes this funding in the 'spending power' figures to hide the cuts in funding actually being incurred by local government.

Part of this funding is the National Health Service funding transfer to local Government for Social Care. This grant has now existed for four years and effectively underpins core Social Care budgets. The Liverpool City Region is concerned that this funding will now be diverted to meet the outcomes required by the Health and Wellbeing Partnership Boards at the expense of councils' Adult Social Care services.

Adult Social Care

The Liverpool City Region is pleased that the Government has confirmed specific grant funding for new adult social care burdens will be provided in 2015/16.

Public Health

The Liverpool City Region was pleased that the Government confirmed the allocations for the two year period to 2014/15, which included real terms growth for all.

The Liverpool City Region is concerned there has been no confirmation of funding for 2015/16 as the Government look to introduce a new funding formula and performance incentives. In particular, if the future allocation formula used is based on that proposed by ACRA. The Liverpool City Region authorities are likely to lose significantly under these proposals. Therefore, it is essential that the Government commits to protection (a slow, long term pace of change).

Education Services Grant

The Liverpool City Region is pleased that the funding for Education Services Grant (£1bn nationally) for 2014/15 and how it is to be distributed between councils and academies based on pupil numbers was announced by the Department for Education. However, planning for 2015/16 and beyond is extremely difficult for local authorities.

In the 2013 Comprehensive Spending Review, the Chancellor announced a 20% reduction in overall Education Services Grant from 2015/16. However, consultation is yet to be undertaken on how these cuts will be implemented, but inevitably these reductions represent a significant pressure within the overall financial forecasts.

Business Rates Cap Funding

In the 2013 Autumn Statement, the Chancellor announced a 2% cap on Business Rates increases in 2014 and not 3.2% in line with inflation. The cap restricted the growth in the Business Rates tax base and thus top up payments. HM Treasury agreed to fund the balance outside the Business Rates Retention System, which is supported by the Liverpool City Region.

The details of the calculation remain unclear as the costing was £143m, but the proposed section 31 grant is only £118m. The former reflects the true impact of indexation and the Liverpool City Region ask that the Government honour this in the section 31 grant allocations. This funding must be provided on a permanent basis, and if the Government want to add it to the baseline it must be protected and not added to Revenue Support Grant and subject to future cuts in funding.

Welfare Fund (Emergency Support)

The Liverpool City Region is extremely disappointed with the Government's decision to withdraw the Welfare Fund in 2015/16. This was announced without notification or consultation. After querying this, the Government has claimed that the funding had been rolled into core funding. However, there has been no such adjustment to the control total.

New Burdens
The Liverpool City Region supports the funding of new burdens via Specific Grants and is pleased that the Government is providing support for new burdens such as the implementation of Localisation of Council Tax Support. However, there is disappointment that some new burdens are being funded by holdbacks or re-distribution of resources already provided to local government. The Government is asked to fund all such new burdens in accordance with the 'new burdens doctrine'.

Council Tax Referendum

The Liverpool City Region does not feel that the introduction of a referendum for excessive Council Tax rises is an improvement on capping. Indeed, it adds an unnecessary extra burden on councils over and above the normal democratic processes. As has been stated by the LGA, local authorities feel that true localism should be reflected in the ability of local communities deciding whether a referendum is appropriate and at what level.

Although a 2% referendum threshold has been stated in the 2013 Spending Round, and in the 2013 Autumn Statement, local authorities find themselves in mid January still not knowing what the threshold will be, as determined by the Secretary of State? The Liverpool City Region believes the approach taken by the Government is most unhelpful given that Council Tax bases must be set by the end of January. Furthermore, when the legislation was introduced the threshold was meant to be set at the time of the Local Government Finance Settlement. The Government is asked to formally confirm the threshold with immediate effect?

The Liverpool City Region still awaits the Government's confirmation on how the Relevant Basic Amount will be calculable following the imminent Royal Ascent of the Local Accountability and Audit Bill. The Government could have provided local authorities with the indicative basis for the new calculation and how levies would be treated, plus how any retrospective action in relation to 2013/14 would be applied. This would have helped significantly the financial planning in local government and allowed a clearer local debate about whether to freeze or increase Council Tax in 2014/15.

Council Tax Freeze

The Council Tax Freeze Grants reward high tax-base authorities at the expense of low tax-base authorities, such as those in the Liverpool City Region that also have higher relative needs. This has become a permanent feature of the new local government finance system as the proposal is for the Council Tax Freeze Grant to be included in the baseline funding i.e. it is not based on needs, but on tax base. The Institute for Fiscal Studies have commented that this policy is actually undermining the credibility of the Local Government Finance System.

The Liverpool City Region is disappointed with the Government's Council Tax freeze proposal for 2014/15 as it is payable over multi years and is well below inflation.

The Government has confirmed that the Council Tax Freeze Grant previously provided to councils for 2011/12 and 2013/14 will be protected and built into future funding baselines. The Liverpool City Region believe that this position should have been made clear at the point of the offer, and maybe would have meant differing decisions as to accept of decline the freeze grant offer. The Government has suggested that 2014/15 and 2015/16 freeze grants would also be built into future baselines. The Liverpool City Region would like that indication to be a formal costed commitment by the time the Government confirm the final settlement in February 2014.

Spending Power

The Liverpool City Region have a number of concerns with the Government's chosen methodology for comparing the cuts in funding from year to year, known as spending power. The spending power methodology is inconsistent and includes grants that local authorities will receive to fund new burdens and grants that are provided by the NHS and are ring-fenced, therefore, giving local authorities little or no power to influence. For example, if you were to exclude just the Public Health grant and NHS Funding for Social Care the reduction in spending power moves from 2.9% to 4%.

Even using the Government's chosen methodology the Liverpool City Region authorities are significantly worse off than the national average in 2014/15 and 2015/16. An assessment of the spending power date shows significant disparities between wealthier authorities and deprived authorities.

In 2014/15, Knowsley will lose 'spending power' of £172 per dwelling (5.6%) compared to the average cut across England of £62 per dwelling (2.9%). Yet, in Windsor and Maidenhead the cuts in spending power are just £5 per dwelling (0.3%). In Wokingham (the least deprived upper tier Council in England) there is actually an increase in spending power of £5 per dwelling (+0.3%).

In 2015/16, the inequality is even greater. Knowsley will lose 'spending power' of £174 per dwelling (6%) compared to the average cut across England of £37 per dwelling (1.8%). Yet, Windsor and Maidenhead, and Wokingham will see their 'spending power' **increase** by 2.7% and 3% retrospectively.

The spending power for the Liverpool City Region authorities has fallen year on year since 2011/12, yet Wokingham's is now higher than its adjusted spending power was in 2011/12.

The Government's policy is to attempt to reduce the differences in spending power across the country – assuming that the cost of providing services should be broadly similar regardless of geographical location. However while this may be true about the day to day costs incurred by Councils, this approach fails to recognize that spending power should also reflect differences in spending pressures, and in particular the much greater need to provide statutory services in more deprived areas. The new funding arrangements that the Government has put in place will continue to cut spending power for the poorest and most deprived councils and while increasing spending power for the most wealthy and least deprived councils.

Business Rates Retention System

It is estimated that the Business Rates national pool closed in 2012/13 with circa £0.600m surplus. Therefore, the Government should provide a commitment that the surplus in Business Rates collected under the national pool arrangements up to 31 March 2013 is retained for use by local government to ease the impact of the introduction of the new Business Rates System and could replace the need to top slice resources, and could also be used as an off-set for the risks facing local government since April 2013 from appeals, in particular back dating, and mandatory reliefs, this is especially relevant from academy conversions.

The Liverpool City Region remains concerned that the new system will affect those areas that have higher needs due to deprivation, which traditionally have lower tax bases to fund the services residents require, which places significantly higher demands on services.

The Liverpool City Region supports the retention of the Small Business Rate Relief scheme during these difficult economic times. Currently, 12,790 businesses benefit in the Liverpool City Region (£19m). Indeed, the City Region would support the Small Business Rates Relief being used by the Government, outside the Business Rates Retention system, to deal with the ongoing economic crisis and be treated on a similar basis to transition relief.

The Liverpool City Region is concerned that the funding for the extension of Small Business Rates Relief in 2013/14 are yet to be made. Therefore, budgeting for the announced continuation in 2014/15 is difficult.

Appeals are causing significant problems to the new system. The Liverpool City Region supports the Government's commitment to clear 95% of the caseload by July 2015. However, the Government could do more to deal with the pressures the appeals are causing individual authorities or indeed the whole Local Government Finance System.

Mandatory reliefs are set by Government and cover matters over which local authorities have little control and only marginal influence. This has already been referred to in previous Liverpool City Region responses to consultation on the Business Rates Retention System. Such reliefs should be taken outside of the system as they will unfairly affect authorities. For example, there is a significant risk that local authorities will pick up the bill for future reliefs allowed that they have no control over, including Government policy, where school conversions into academies across the Liverpool City Region are set to cost more than £7m since the new system was introduced.

Merseyside Fire and Rescue Service

Overall, the Merseyside Fire and Rescue Authority is enormously disappointed that the settlement makes yet further significant grant funding cuts to Merseyside. In part because of variations in reliance on grant funding between fire and rescue services mean that the cuts are disproportionately more impactful on Merseyside than other less grant reliant fire authorities. The Authority has already reduced the number of fire appliances from 42 to 28 and has reduced Fire-fighter numbers from 1,500 to 760 across the last decade. These further cuts will inevitably mean real cuts in the service in Merseyside. Ministers should assure themselves about the overall impact on reductions in the fire service on national resilience.

- ***Specific Grants***

The 2015/16, I Transformation Fund, £75m, is to be made available to Fire and Rescue Authorities on a "bid-for basis". It has been painted that this is 'protection' to some degree for the Fire and Rescue service. However this is:

- Money to bid for – not guaranteed;
- Only available for one-year; and
- Partially capital

So the true underlying funding cut for the Fire and Rescue Service is 10% who have not in actual fact been protected.

In addition, the proposed bidding process appears potentially bureaucratic for relatively small one-off fund and the Government should consider distributing this mix of revenue and capital grant on the basis it used for the 2011/12 and 2012/13 capital grants, especially as this is the only grant funding source.

- ***Council Tax Freeze Grant and Referendum Limitations***

In the past the government has given some more freedom around Council Tax referendum limits to smaller/lower Council Tax precpeting organisations (and indeed exercises no controls over parishes that in many cases have higher council tax levels).

Eight Fire and Rescue Authorities were afforded the freedom in 2013/14 to raise their precept levels by £5.00, albeit only seven of these authorities raised their precept with the eighth accepting the freeze grant. Parish council precepts are not subjected to referendum constraints despite the fact that some parish precepts are significantly higher than fire authorities precepts (for 2013/14 the highest parish precept was £256.00 and the highest fire authority precept was £90.45) and the average increase in parish precepts was 5.4% which is considerably more than the 2% referendum limit imposed on precepting fire authorities.

As a national example, an average 5% increase in the fire authority precept would cost the average Band D householder £3.33 per year or 6.5p per week. Many precepting fire authorities cover more than one billing authority area and therefore the fire authority would be required to run a referendum across the entire area that it covers with separate votes in each district. If all precepting fire authorities decided to run a referendum to raise their council tax by 5% for 2014/15 the costs would total an estimated £41million yet the income raised would be just £38million. In comparison, if the corresponding billing authorities held a similar referendum to raise council tax by 5% the cost of running the referendum would be £41million but the income raised would be £483million. The difference between the highest and lowest fire precept is 80p per week, significantly smaller than the difference between the highest and lowest overall council tax bill (£20 per week).

Whilst the Authority sympathises with the financial strain households currently face and feels it is unlikely it would use any discretion, it believes it is important that any such freedom should be granted consistently to all similar organisations as a matter of fairness. The Government should therefore consider giving all FRAs the discretion to increase council tax in a flexible manner acknowledging that authorities will determine the appropriate increase (or not) according to local resource requirements and local circumstances and in consultation with local communities.

Merseyside Police & Crime Commissioner