

**FAIR FUNDING – SUMMARY OF ISSUES**

<b>Funding issue</b>	<b>Government Policy Decision</b>	<b>Financial Impact</b>	<b>Potential Government Action</b>
<b>Croydon Council</b>			

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<p>1. There is a significant population under-estimate of 13,278 people (3.8%) between Croydon's ONS population projection and Census 2011. This compares to an underestimate across London of 1.3% and nationally of 0.7%.</p>	<p>The Census serves as the baseline for ONS' population projections. Following the 2001 census, ONS' population estimates were rolled forward based on estimates of local birth rates, mortality and migration levels (both local and international). Migration is recognised as being particularly difficult to measure.</p> <p>For local government funding purposes, ONS makes use of population projections. These take the latest population estimates as their baseline, and project forward the population based on previous trends in birth rates, mortality and</p>	<p>Based on an estimate that each person is 'worth' approximately £1,025 in local government funding terms, population under-enumeration could have cost Croydon up to £13.6m in foregone funding, annually, prior to 2013/14 (when official population estimates were once again benchmarked to the Census).</p>	<p>The government should recognise that the funding distribution – now effectively frozen until 2020/21 – only partially reflects updated population measurement from the 2011 Census. Funding should be reallocated to fully reflect these corrected population estimates. This will not address historical underfunding, but will prevent the problem from being perpetuated until 2020/21.</p>

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	<p>migration levels (usually based on the past five years).</p> <p>Over time, significant variations can emerge between ONS' population projections and the actual population.</p>		

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<p>2. Damping of local government funding means that Croydon is not receiving the resources it is initially assessed as requiring through the funding formula.</p>	<p>Local authorities' main central grant funding has been 'damped' by scaling back a proportion of increases in funding. In setting the baseline level of resources for the Settlement Funding Assessment in 2013/14, local authorities' assessed proportion of the national pot was damped. As this level has been frozen until the next reset, local authorities that were scaled back will receive a lower proportion of resources than the Relative Need Formulae assessed in each year, with no mechanism to unwind the damping in place.</p>	<p>Between 2011/12 and 2014/15, damping has cost Croydon Council a total of £31.1m. If damping levels were to continue at estimated 2015/16 levels, the loss in funding due to damping between 2015/16 and 2020/21 could be up to a further £47.4m in total for Croydon.</p>	<p>In conjunction with the Relative Needs Formulae being re-opened on an annual basis (as identified above), unwinding of the damping system, with adjustments to local authorities' Revenue Support Grant (RSG) amounts, would better reflect the actual relative need for resources between authorities.</p>

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<p>3. 'Freeze' on updating data; in particular population data, within the local government funding system, which disadvantages authorities with needs increasing above the national average level.</p>	<p>The introduction of the business rates retention system in 2013/14 has meant that data used in the local government funding system will not be updated until the next reset period (2020/21).</p>	<p>If the distribution of funding was 'rebalanced' to account for different rates of population growth, it is estimated that Croydon Council's funding levels would increase by a total of £2.2m between 2014/15 and 2020/21 (and would rise to £0.8m per year by 2020/21).</p>	<p>The Settlement Funding Assessment for local authorities still includes an element of RSG. This is the element that allows government to alter the level of funding received by authorities year on year. This element could also be used to reflect changing levels of need in between any reset of local authorities' business rates baselines. Re-opening the determination of local authority need levels annually, would assist in ensuring that resources follow the level of demand for services.</p>

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<p>4. For all authorities outside London, the New Homes Bonus is received in full, with only London boroughs having their allocations top-sliced from 2015/16 onwards.</p>	<p>The Autumn Statement 2013 announced that, rather than £400m of New Homes Bonus funding being pooled with Local Enterprise Partnerships across England, only £70m of New Homes Bonus will be pooled within the London Local Enterprise Partnership.</p>	<p>This will result in a top-slice of approximately 27% in each London Borough's allocation in 2015/16. The cost to Croydon is estimated at £2.4m for 2015/16, £2.3m for 2016/17 and £2.1m per annum from 2017/18 onwards. By 2019/20, the cumulative cost to Croydon is therefore estimated at £11.0m.</p>	<p>The New Homes Bonus top-slice from London boroughs should be removed, as NHB is predominately funded from reductions in local authorities' RSG. RSG is a non-ring-fenced grant and should therefore not be converted into funding that is targeted towards a specific central government policy or top-sliced to another body.</p>

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<p>5. Croydon's 'Outer Rest' London Area Cost Adjustment (ACA) group receives the lowest cost adjustment in London. Croydon physically borders the Outer West London group, which has higher labour costs and is also bordered by Surrey County Council, whose labour costs are higher than the 'Outer Rest' London group.</p>	<p>A full review of the ACA was announced in December 2007, and subsequently discussed at seven Settlement Working Group (SWG) meetings. As part of this review, CLG considered moving from the current 53 ACA geographies, to having an individual geography for each upper-tier authority. Minimal changes were introduced as a result of the review and the existing geographies were retained. Before this review, CLG had also consulted on proposed changes to the London geography (July 2007).</p>	<p>Assuming that the West London ACA is unchanged following the inclusion of Croydon in the group, moving Croydon to the Outer West London ACA geography would have increased its undamped Formula Funding by £9.0m (7.5%) in 2013/14. After damping, the impact would still be significant, increasing Croydon's final Formula Funding by £2.5m (2.4%).</p>	<p>Government should continue to review labour market evidence to consider whether Croydon is more appropriately grouped in the Outer West London ACA geography.</p>

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<p>6. Potential underestimation of labour costs in the ACA and use of the lower limit for labour costs.</p>	<p>These issues were raised as part of the ACA review announced in December 2007. In concluding the review (early 2010), CLG opted to retain the lower limit, despite criticism from London Councils and NERA (commissioned by West Sussex), who argued that the lower limit was arbitrary and unfair. London Councils' proposals to correct for underestimated labour costs were not adopted by CLG, partly on the grounds that it would require additional use of judgement.</p>	<p>No estimates as to the potential impact can be made, as datasets are not publically available.</p>	<p>CLG should consider removing the lower limit on the ACA, particularly on any new funding streams that are introduced before 2020/21. If the lower limit is to be included, CLG should first provide evidence that public pay scales are relevant in determining the cost of providing the service in question.</p>