



**Our reference: NF/AT**

20 November 2012

The Rt Hon David Cameron MP  
Prime Minister  
10 Downing Street  
London  
SW1A 2AA

**Newcastle City Council Budget Settlement**

Dear Prime Minister

I am writing to you to raise a number of serious concerns, following a resolution agreed recently by Newcastle City Council.

As you will be aware, the average cut for local government over the 4 year period of the current Comprehensive Spending Review period was announced as 28% in real terms – very much higher than many other Government departments. However, the 28% cut has not been applied equally to all councils. Because of alterations to the funding formula made by the Department for Communities and Local Government, some councils have faced even bigger cuts in the Revenue Grants than they receive. The cut in grants and spending power in Newcastle at the mid point in the spending review has been around £143 per person compared with an average of £74 per person in the country as a whole, and we expect that difference to increase further over the next two years. This is also reflected in a higher percentage cut in our spending power with a 12.6% cut in Newcastle compared with a 6.8% cut for England. Initial estimates for the grant in 2013/14 indicate that our cash reduction will increase further and the gap will widen.

Newcastle's larger spending power grant cut reflects the decision to cut all of the Working Neighbourhood Fund and significantly reducing the Early Intervention Grant and a number of other funding streams. This led directly to a further £10m cut for Newcastle. It also reflects the decisions to make deep cuts in formula grant funding allocated to Children's Social Care, concessionary travel and the cut in resource equalisation.

As a result, Newcastle has suffered far worse than many local authorities in the local government financial settlements since 2010. We have calculated the 'fairness gap' and, if Newcastle's cut had been in line with the national average, the Council would have £20m extra to spend in the current financial year and a further £22m in the next financial year alone.

Like many northern and urban areas, Newcastle has a low Council Tax base. 72% of the properties in the city are in Council Tax bands A and B, which means that the proportion of revenue that we are able to raise through additional Council Tax is much less than many other areas. This affects the size of the council tax freeze grant that we get. Because new houses also tend to be in lower than average council tax bands this means that the amount of New Homes Bonus we receive is also lower than average. Looking ahead to 2013/14 we are concerned that our loss of spending power will continue to grow, to potentially well above £150 for every person in the city – whereas some of the wealthiest least deprived councils are facing cuts of less than £15 a person and some have a small net increase in spending power taking into account New Homes bonus and Council Tax freeze grant. This is why we believe, with some justification, that the current grant funding arrangements discriminate against authorities like Newcastle and are unfair.

This pattern of regressive cuts is a common theme in many of the funding arrangements announced since 2010, which is one of the reasons why the cuts have such a greater cumulative impact on Newcastle. This pattern is very clear in some of the larger funding streams, which will add significantly to the challenge in the coming years;

- The New Homes Bonus has been top sliced by the government from money previously earmarked for local government, which means it has to be found from further savings in our budget for core front line services. The New Homes Bonus will benefit the affluent south east where it is easier to build new homes. It disadvantages places like Newcastle where, in many areas such as brownfield sites, house building requires subsidy in order to be financially viable and housing demand is still constrained by the recession. By 2018/19 the council is expecting to receive £5m of new Homes Bonus in year, but our core funding could be cut by up to £16m – resulting in a net loss of resource of around £11m effectively paying for new homes in other parts of the country.
- The Public Health funding formula is to be reformed and if deprivation is not adequately reflected in the new formula it will result in less funding to Newcastle and more money to less deprived areas. This is illogical and counter-intuitive, as places like Newcastle have lower numbers of older people because deprivation and health inequalities mean people die younger here than elsewhere - the very issue public health spending is designed to deal with.
- The Pupil Premium, intended to support pupils most in need, is being used to support school base budgets which have been cut in real terms. Even with the pupil premium, the Government's plans to reform school funding will, in some cases, leave many schools in Newcastle worse off than before.
- The Council Tax freeze grant is allocated in a way that gave less money to places like Newcastle with a lower council tax base.
- Council Tax Benefit, which is to be devolved to councils but with a 10% cut, means that we have to introduce our own benefit scheme. We fear that the cut for Newcastle will be more than 10% because the way in which the cut is being made – ignoring changes in benefit figures this year. However, the flexibility to change exemptions and discounts that we are allowed to make does not cover the full cost of recovering the grant cut and as a result every non-pensioner who has previously had 100% Council Tax benefit will, in future, have to pay at least 20% of council tax. This is an additional tax of £300 a year for some of the poorest families in the city; we estimate 27,000 households will be in this position. The Council will potentially be forced to pursue large numbers of people for very small amounts of money, one of the consequences that undermined the Poll Tax.
- At a time of increasing numbers of looked after children (+10% nationally and +26% in the North east over the last three years), in part due to current economic downturn, with the potential for numbers to rise further following the child abuse revelations in recent weeks and the call for councils to intervene earlier, the Government has cut children's social care funding by 32% (estimated at £1.3billion) in the formula grant and this could

increase to a cut of 43% by 2014/15. This is a major issue which needs to be corrected with funding provided to enable councils to adequately respond to children in need.

Newcastle City Council believes this situation to be profoundly unfair. Whilst we have worked hard to propose the fairest budget that we can, it is almost impossible to do so when the national settlement is so unjust. The cuts will leave Newcastle City Council in a situation where it struggles to provide valuable and essential services to residents. Using the Local Government Association's analysis and applying it to Newcastle we calculate that, on current funding forecasts, the council will run out of money for even some statutory services by 2018.

There are four key points that I would like to make:

Firstly, you can be reassured that in Newcastle we have done everything we can to protect valued public services. We are making huge management and administrative savings, but the financial settlement we have received means that this is just not enough. We have been forced to reduce our frontline services reluctantly and as a last resort. We are not alone - this sorry situation is being repeated in councils across the country. These local government cuts are in fact central government cuts that we are having to implement.

Secondly, you have set out that reducing the deficit is your main concern. Regrettably this is being done in a grossly unfair way through reductions in services for those most in need. It is the poorest in the country who are paying yet, when you came to office, you set out to engage in deficit reduction in a fair way. You promised 'we're all in this together' but this is demonstrably not the case. The cut to Newcastle City Council is over twice the national average. If it were in line with the average we should receive an additional £22m for the financial year 2013-14. We have lost this funding directly as a result of your decision to implement cuts to local government unfairly.

Thirdly, we are increasingly concerned that these cuts will be counterproductive. The economic impact of the cuts themselves will be significant because of the reduction in the number of people we employ. It will also impact on the cultural and social offer of the city which will in itself have a negative economic impact. It will affect our ability to support local businesses and attract new private sector jobs. Public services will increasingly only be able to deal with people when they reach a crisis point in their lives. This is a potentially expensive burden that our country will face long into the future. While the cuts may seek to reduce the financial deficit, you are creating a serious social deficit for future generations.

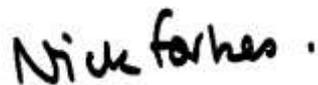
Finally, the implications of your efforts to reduce the deficit are now becoming increasingly clear for individuals and communities. They are seeing familiar services disappear and they are angry. This is not just about cuts to councils, but an undermining of the role of the whole public sector in creating and sustaining decent neighbourhoods, exacerbated by the corrosive impact of welfare cuts. There are major risks that the cumulative impact on our residents will be severe - turning the clock back to a darker time in this city's history where the strain on individuals and neighbourhoods once again reaches crisis point, resulting in widespread civic unrest and a breakdown in the social fabric of our communities.

The City Council is gravely concerned about this emerging situation and wishes to bring it to the Government's attention. The need for spending restraint is understood and accepted but, if we are to avoid a gathering storm, we must remember that people matter more than percentages. The cuts to local government may appear straightforward as a line in the DCLG budget, but there is nothing straightforward about the harmful consequences of the cuts that are now appearing on people's doorsteps. Ministers must look beyond the percentage figures they see quoted to the cash impact around the country.

You have set about balancing the nation's books, in part, through cuts to local government. But there is little convincing evidence that you have considered the impact of these cuts on individuals and communities. I am therefore writing to seek a meeting with you, so I can talk to you directly about the consequences of that decision. I want to explain to you personally the impact on the poorest and most vulnerable in society; children at risk of harm in their homes, or elderly residents who need assistance with washing and dressing. I want to explain how cultural facilities like libraries, theatres and museums, so important in transforming our industrial heritage into a platform for creative renewal, are now seriously threatened. I believe you need to hear first hand about the emerging national crisis that is not being properly discussed because you are concealing your responsibility behind the tough choices that councils are having to make.

Above all, I would like the opportunity to explain to you how it is not necessarily the scale of cuts to local government that are forcing councils to cut frontline services, it is the unfair way you have chosen to apply them. I am writing to you directly because we have raised these issues with the Department for Communities and Local Government, without receiving an adequate response. I am asking you to urgently review the formula and principles you have applied. This could save frontline services across the country and help us to draw back from the abyss of austerity so severe that it threatens to permanently undermine the cohesion of our communities.

Yours sincerely

A handwritten signature in black ink that reads "Nick Forbes". The signature is written in a cursive, slightly slanted style.

**Councillor Nick Forbes**  
**Leader of Newcastle City Council**