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TONBRIDGE & MALLING BOROUGH COUNCIL

EXECUTIVE SERVICES

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13 January 2016

FINANCE, INNOVATION AND PROPERTY ADVISORY BOARD - WEDNESDAY, 13TH JANUARY, 2016

I am now able to enclose, for consideration at the Wednesday, 13th January, 2016 meeting of the Finance, Innovation and Property Advisory Board, the following Annex that was unavailable when the agenda was printed.

Agenda No	Item
4.	**Revenue Estimates 2016/17** **(Pages 3 - 8)** Annex - Proposed response to settlement consultation.

J E BEILBY
Chief Executive

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Summary of consultation questions

Pre-amble and Headline Response from Tonbridge & Malling Borough Council

The Settlement on 17 December has proposed **radical changes** to the way council services are funded in the medium term; some changes of which were completely unexpected**. It is vital that the government continues to work closely with us to ensure the views of all councils are heard and understood in order to deliver sustainable financing of local government services**.

Both the Settlement and proposed changes to New Homes Bonus are designed in the context of the particular pressures experienced by councils with responsibility for social care. Effectively in simple terms this means taking resources from district councils and giving it to upper tier authorities and, in so doing, placing added funding pressure on district councils and the services they provide. **In short, we believe that district council services are at severe risk as a result of this provisional settlement**.

The methodology adopted within the provisional settlement is different to previous years, and no 'floors' have been set to protect authorities from excessive reductions in core spending power. As a result of the changes, made TMBC is one of 15 authorities in the country to lose all its RSG by 2017/18, and thereafter be subject to a clawback through a business rates tariff adjustment. **This is not an outcome we had expected prior to the business rate retention reform, and indeed would go so far as to say we have been misled given the (then) government's statement that tariffs and top-ups would not change until the system was reset**. The imposition of the tariff adjustment as a way of balancing the figures overall has a most unfair and significant impact on some authorities including TMBC to the extent that it should be reworked to reduce the effect and enable further time for those local councils to make the transition to new ways of funding their service provision. TMBC has joined with the group of 15 authorities to make a further and separate response.

TMBC could also be significantly affected by the outcome of the separate consultation on New Homes Bonus and we must also have regard to this in terms of the potential impact on our Medium Term Financial Strategy. We note that we are being invited to 'sign up' for a four–year funding deal; allegedly to give us greater certainty prior to business rate retention reform. The **principle of a 4 year funding** deal is a good one for which we commend government. However, with the questions and unexpected outcomes of this settlement alongside a review of NHB which could mean a significant reduction in resources and spending power way beyond those reported by government, it is presently very difficult for Members of the Council to make a truly informed decision about a 4-year settlement. This is unfortunate and disappointing given the government's good intentions in this respect.

We ask that:

- **district councils should be removed from the council tax referendum principles** or at the very least enable council tax increases of up to 4% for lower tier authorities. If neither of these options can be supported, we suggest the minimal position should be that all district councils should be able to increase council tax by £5 or 2% (whichever is higher);
- **as in previous years, a 'floor' is introduced in respect of reduction in** core spending power;
- DCLG **revert to methodology adopted in previous years regarding a council's ability to raise council tax**, and at the same time we question why the OBRs forecast of taxbase growth have not been used within the calculations. As these figures are significant in future spending power projections, it is important we use the most robust forecast ;
- clarification is provided about **baselines from 2020 onwards**, and also how/if/when **New Homes Bonus** is to be subsumed into council's funding, to assist in making informed decisions about the offer of a 4 year funding settlement.

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Question 1: Do you agree with the methodology for allocating central funding in 2016-17, as set out in paragraphs 2.6 to 2.8?

We disagree. It appears that there is a fundamental change in the way the finance settlement has been allocated by taking into account **the amount that can be raised locally from council tax which penalises councils with a higher than average council taxbase**. Effectively taxpayers in those authorities (where for example the authority could have made the difficult decision to increase council tax and done what has been asked and encouraged growth in house-building) are disadvantaged in comparison to taxpayers in other areas. As a result we are of the view that the **approach adopted previously should continue to be used**.

In turn, we express **our grave concerns** at the way the Provisional Local Government Finance Settlement has impacted on TMBC. We ask how it can be right that over the four-year period 2016/17 to 2019/20 the Settlement Funding Assessment **reduction for Tonbridge and Malling is 65.1%** in comparison to District Councils 44.3%; and England 31.8%? In the lead up to the Spending Review the Chancellor asked non-protected departments to work on a 25% and a 40% reduction in funding, and these were the absolute 'size' of cuts we had been modelling and anticipating. The outcome for TMBC at 65.1% is significantly higher and has forced the Council to contemplate even greater savings targets and cuts to services within its Savings and Transformation Strategy. Furthermore, over the four-year period the **Council's core spending power is projected to fall by 10.9%**

(based on what are considered ambitious projected council tax income levels – see response to question 4). This compares very unfavourably to the published headline figures for reductions in spending power i.e. "England 0.5%" and is most misleading for the general public.

Question 2: Do you agree with the proposed methodology for calculation of the council tax requirement for 2016-17, as set out in paragraphs 2.10 and 2.11?

We disagree with the proposed change to take into account the amount that can be raised locally from council tax as set out in the response to question 1.

Question 3: Do you agree with the proposed methodology in paragraph 2.12 for splitting the council tax requirement between sets of services?

We have no comment.

Question 4: Do you wish to propose any transitional measures to be used?

Yes. During the last Parliament no council had a reduction in spending power below a floor. In the 2015/16 Settlement the floor was 6.4%. In 2018/19, Tonbridge and Malling core spending power falls by 9.2%. Why was a floor not deemed to be appropriate for this settlement? **This is a departure from previous principles and on the grounds of consistency, fairness and not least financial sustainability, we suggest that the same or similar arrangement should continue**.

On the subject of spending power, by using the average growth in the taxbase for TMBC between 2013/14 and 2015/16 gives a figure of 2.2%. However, this is distorted by one-off changes such as the uplift in taxbase as a result of changes to the Council Tax Reduction Scheme (increasing working age minimum liability from 8.5% to 18.5% in our case) and changes made to council tax discounts and exemptions during that two-year period. By way of comparison, in years prior to the introduction of the Council Tax Reduction Scheme average growth in the taxbase was 1.2%. **As a result, projected council tax income levels are ambitious and in turn dampen down the potential real reduction in core spending power**. We question why the OBRs forecast of taxbase growth have not been used within the calculations. As these figures are significant in future spending power projections, it is important we use the most robust forecast.

Question 5: Do you agree with the Government's proposal to fund the New Homes Bonus in 2016-17 with £1.275 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.15?

We agree.

Question 6: Do you agree with the Government's proposal to hold back £50 million to fund the business rates safety net in 2016-17, on the basis of the methodology described in paragraph 2.19?

We agree.

Question 7: Do you agree with the Government's proposed approach in paragraph 2.24 to paying £20 million additional funding to the most rural areas in 2016-17, distributed to the upper quartile of local authorities based on the super-sparsity indicator?

We note that it is intended to increase this to £65 million by 2019/20 which is more than a five-fold increase in funding compared to £11.5m in 2014/15. We are unclear on what basis this significant uplift has been determined to support the proposed increase. It could also be the case that some of the councils in this group can raise council tax by £5 under the council tax referendum principles? **We therefore feel unable to respond to this question**.

Question 8: Do you agree with the Government's proposal that local welfare provision funding of £129.6 million and other funding elements should be identified within core spending power in 2016-17, as described in paragraph 2.28?

We agree.

Question 9: Do you agree with the Government's proposal to include all of the grant funding for the Care Act 2014 (apart from that funded through the Better Care Fund) in the settlement, using the methodology set out in paragraph 3.2?

No comment.

Question 10: Do you agree with the Government's proposal to include all 2015-16 Council Tax Freeze Grant in the 2016-17 settlement, using the methodology set out in paragraph 3.3?

Agree.

Question 11: Do you agree with the Government's proposal to include all 2015-16 Efficiency Support Grant funding in the settlement and with the methodology set out in paragraph 3.5?

Agree.

Question 12: Do you agree with the Government's proposal to include funding for lead local flood authorities in the 2016-17 settlement, as described in paragraphs 3.6 and 3.7?

Agree.

Question 13: Do you agree with the Government's proposal to pay a separate section 31 grant to lead local flood authorities to ensure funding for these activities increases in real terms in each year of the Parliament?

Agree.

Question 14: Do you have any views on whether the grant for lead local flood authorities described in paragraph 3.8 should be ring-fenced for the Spending Review period?

Yes. In the spirit of freedoms and flexibilities suggest the grant is not ring-fenced.

Question 15: Do you agree with the Government's proposal to adjust councils' tariffs / top ups where required to ensure that councils delivering the same set of services receive the same percentage change in settlement core funding for those sets of services?

We disagree. At set out in the pre-amble, the imposition of the tariff adjustment as a way of balancing the figures overall has a most unfair and significant impact on some authorities including TMBC to the extent that we believe it should be reworked to reduce the effect and enable further time for those local councils to make the transition to new ways of funding their service provision. **On the introduction of the business rates retention scheme it was stated that tariffs / top-ups would, other than an increase in line with the Retail Price Index, not change until the system is reset**. The intention behind it was, we understand, to give 'strong financial incentive for councils to promote economic growth'. **This proposal is clearly at odds with that statement.** In early 2015, the Council sought the Coalition government's assistance (through a meeting with the then Minister for Local Government) in adjusting TMBC's baseline under exceptional circumstances when the highest business ratepayer (a paper recycling plant, one of only 3 in the country) went into administration and consequently placed the Council into safety net. It was not deemed appropriate to adjust the baseline despite the exceptional circumstances, and the Council is still in safety net (and may continue to be until 'reset' in 2020). **It is extremely disappointing that the Council is now being subject to a tariff adjustment prior to 2020 at the same time that it is still suffering from the impact of the demise of the highest ratepayer**. This feels like a 'double whammy' for our taxpayers. If the government is insistent on implementing these tariff adjustments prior to 2020, perhaps it would consider simultaneously adjusting the Council's baseline to reflect the impact described.

Question 16: Do you have an alternative suggestion for how to secure the required overall level of spending reductions to settlement core funding over the Parliament?

Yes. We suggest that you do not look at settlement core funding but instead core spending power noting the comment to question 4 on this matter. Set a floor so that

no council sees a reduction in core spending power of say 6.5% over the four-year period. In 2019/20 on the introduction of the 100% business rates retention scheme the baseline funding and NHB in that year become the starting point for the revised baseline under the scheme.

If this is not practical within the overall funding envelope then, in recognition that both the Settlement and proposed changes to New Homes Bonus are designed in the context of the particular pressures experienced by councils with responsibility for social care, we propose that **district councils should be removed from the council tax referendum principles** or at the very least enable council tax increases of up to 4% for lower tier authorities. Finally, if neither of these options can be supported, we suggest the minimal position should be that all district councils should be able to increase council tax by £5 or 2% (whichever is higher).

The **principle of a 4 year funding** deal is a good one for which we commend government. However, with the questions and unexpected outcomes of this settlement alongside a review of NHB which could mean a significant reduction in resources and spending power way beyond those reported by government, it is presently very difficult for Members of the Council to make a truly informed decision about a 4-year settlement. This is unfortunate and disappointing given the government's good intentions in this respect.

Clarification on the offer of a four-year funding settlement is therefore sought. Will both Settlement Funding Assessment and NHB figures be provided for each year? That said, without clarification as to what is to happen post 2019/20 how can the Council make an informed decision over the offer to take up a four-year funding settlement. For example, what its business rates baseline will be on the implementation of the 100% business rates retention scheme; if and how NHB is to be subsumed within the scheme; and what if any protection is to be offered to authorities who see a marked fall in spending power.

Question 17: Do you have any comments on the impact of the 2016-17 settlement on persons who share a protected characteristic, and on the draft equality statement published alongside this consultation?

No comment.