

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

19 March 2019

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 FAIR FUNDING REVIEW

Alongside the 2019/20 provisional local government finance settlement, the Ministry of Housing, Communities and Local Government (MHCLG) confirmed it is looking to implement the Fair Funding Review in April 2020 and published a further consultation paper: “Review of local authorities’ relative needs and resources”. This report provides an overview of the consultation paper, together with our response that was agreed in liaison with the Cabinet Member for Finance, Innovation and Property.

1.1 Introduction

- 1.1.1 As we approach the 2019 Spending Review, the implementation of new funding baselines as part of the Fair Funding Review in 2020 and greater Business Rates Retention, the challenges for local government finance are greater than ever.
- 1.1.2 Any outcome of the Fair Funding Review will not be sustainable unless it is introduced alongside sufficient additional resources to meet the funding gap facing local authorities.
- 1.1.3 Local authorities must receive as much advance notice as possible of their provisional funding baselines to enable proper financial planning.

1.2 Fair Funding Review

- 1.2.1 Alongside the 2019/20 provisional local government finance settlement, the MHCLG confirmed it is looking to implement the Fair Funding Review in April 2020 and published a further consultation paper – “*Review of local authorities’ relative needs and resources: Technical consultation on the assessment of local authorities’ relative needs, relative resources and transitional arrangements*”. Its aim to provide councils with their fair share of funding according to relative needs and resources. The deadline for receipt of responses was 21 February.
- 1.2.2 This consultation sought views on the approach to measuring the relative needs and resources of local authorities, which will determine new baseline funding allocations for local authorities in England in 2020/21.

1.2.3 The consultation paper outlined:

- Further proposals to simplify the assessment of local authorities' relative needs by introducing a simple Foundation Formula, alongside several 'service-specific' formulas. This includes a focus on the structure of the needs assessment, Area Cost Adjustment, the weighting between services, weighting of cost drivers and future proofing the needs assessment.
- The type of adjustment that will be made to an authority's relative needs assessment to take account of the relative resources available to them to fund local services, such as council tax.
- A set of principles that will be used to design transitional arrangements and examines how the baseline for the purposes of transition should be established.

1.2.4 The consultation paper can be found at the following link:

<https://www.gov.uk/government/consultations/review-of-local-authorities-relative-needs-and-resources>

1.2.5 The deadline for responses was 21 February 2019. A copy of the response agreed with the Cabinet Member for Finance, Innovation and Property under delegated authority can be found at **[Annex 1]**.

1.2.6 A summary of the key issues from the consultation paper are set out below.

- The current proposal is for a Foundation Formula with seven service-based blocks.
- Population (including projections) and an Area Cost Adjustment featuring adjustments for rurality are proposed for the Foundation Formula.
- The intention is to use 'notional' council tax levels and not use council tax base projections.
- The level of the 'notional' council tax rate resources block is yet to be determined.
- Aside from excess income from car parking, which is going to be reconsidered, sales, fees and charges income will not be included as an income source.
- The weighting of funding between services, indicators and the data sources used remain outstanding issues.
- The transition methodology is likely to be broader than in the past, but this will not be determined until later in the process.

- A consultation on indicative allocations is intended before the 2020/21 Settlement, but post Spending Review 2019.

1.3 Overview

- 1.3.1 The paper is split into three main subject areas: Relative Needs; Relative Resources; and Transitional Arrangements, each of which is considered in turn below.

Relative Needs

- 1.3.2 This chapter focusses on how to establish the relative needs of local authorities and in particular considers:

Structure of the needs assessment

- 1.3.3 The Government is committed to implementing an approach that is as simple and transparent as possible, but recognises this should not be at the expense of accuracy and fairness. It proposes the new system begins with a transparent foundation formula to allocate funding to each type of local authority using common cost drivers, but acknowledging certain service areas may require a more specific approach, service specific cost drivers. The starting point for the foundation formula will be that all services should be included within it, unless there is a strong enough case for individual services to have their own formula.
- 1.3.4 The paper proposes a foundation formula alongside seven service specific funding formulas, two of which are relevant to district councils – legacy capital finance and flood defence and coastal protection. In order to reflect the structure of local government and the responsibilities of different tiers, the government will introduce separate upper tier and lower tier foundation formulae.
- 1.3.5 The paper, based on analysis, states that population is by far the important predictor of the costs that councils face for services included in the foundation formula. As such the proposed formula includes population size (based on Office for National Statistics population projections) as the only cost driver, i.e. these services will be funded on a per capita basis, with an Area Cost Adjustment applied.
- 1.3.6 Rurality and deprivation which were identified as potential cost drivers in the December 2017 consultation paper were found not to be a major cost driver for the services included in the foundation formula, but that relative levels of deprivation do remain an important cost driver for some specific service areas; and that sparsity and remoteness can have a significant effect on the cost of providing some services and therefore, it is proposed that a specific cost driver is included in a new Area Cost Adjustment methodology.
- 1.3.7 A separate service specific formula for Legacy Capital Finance (not applicable to Tonbridge and Malling) is proposed to ensure that borrowing commitments agreed

to be funded through the local government finance settlement prior to the introduction of the Prudential Capital Finance System is recognised in the relative needs assessment.

- 1.3.8 A separate service specific formula for Flood defence and coastal protection is proposed for shire district councils to recognise that it can account for a significant amount for a small number of lower tier authorities.
- 1.3.9 In order to illustrate where specific council services are captured in the proposed relative needs assessment, MHCLG has 'mapped' expenditure lines from local authority general fund revenue account outturn forms to specific areas of the needs assessment. This is set out in a technical paper published alongside this consultation.

Area Cost Adjustment

- 1.3.10 The MHCLG believe it is important to include an Area Cost Adjustment in the assessment of relative needs and propose it comprise a rates cost adjustment, a labour cost adjustment and a remoteness adjustment. The factors will be weighted together into a single index for each relevant funding formula.

Weighting of funding between services

- 1.3.11 The overall level of funding available for redistribution at the 2020/21 local government finance settlement will be subject to the outcome of the 2019 Spending Review. The proposed system is to include several funding formulae and as such it will be necessary to decide the proportion of overall funding that is allocated by each one. The approach to determining control totals has yet to be decided.

Weighting cost drivers in a relative needs formula

- 1.3.12 The paper states that statistical techniques offer an evidence based way to determine funding allocations by minimising the use of judgement in constructing funding formulae. In determining the merits of a particular technique, the following factors were considered: robustness, complexity and practicality. The two leading statistical techniques identified for the review were 'multi-level' modelling and expenditure based regression.

Future proofing the needs assessment

- 1.3.13 To reflect the impact of population and demographic changes over time, MHCLG propose using the Office for National Statistics population projections to calculate allocations for each year of a forward funding period, at the outset of the period, and updating these when the needs assessment is refreshed.

Relative Resources

1.3.14 Principles that will be used to determine the approach to a new relative resources adjustment: no redistribution of council tax or sales, fees and charges between authorities; not look to reward or penalise authorities for local discretion; and authorities with a lesser capacity to fund services through locally raised resources will receive a smaller reduction to their relative needs share.

Council Tax

1.3.15 In determining a measure of council tax resources, there are several factors which need to be accounted for and these are set out below.

- Council tax base, including treatment of discounts, exemptions, premiums and local council tax support.
- Council tax level.
- Council tax collection rate.
- Council tax tier splits in multi-tier areas.
- An approach to council tax in successive years.

Council tax base

1.3.16 The MHCLG is minded to continue including the effect of all non-discretionary discounts and exemptions in its measure of the tax base using data captured by local authority council tax base returns. It is also minded to take account of the impact the pension-age element of local council tax support has on the tax base and asks how they should do this.

1.3.17 In order to avoid taking direct account of local policy choices the MHCLG is minded to continue with an assumption-based approach to take account of the impact discretionary discounts and premiums (the second homes discount, empty homes discount and the empty homes premium) have on the tax base and asks what assumptions to make.

1.3.18 The MHCLG wishes to explore options for taking account of the working-age element of local council tax support in the measure of the council tax base.

Council tax level

1.3.19 There are two options for the treatment of council tax levels in the measure of council tax income, actual or notional. Given an 'actual' approach would undermine the MHCLG intention to not reward or penalise authorities for historic local decision making it is minded to use a notional assessment of council tax levels. As to the notional council tax level to adopt no preferred option is put forward and asks how this should be determined, e.g. the average council tax level?

Council tax collection rate

- 1.3.20 The paper considers the collection rate and whether to either use the actual rates (thereby creating a disincentive for a higher rate) or a single, uniform collection rate and asks for views on how the council tax collection rate should be determined.

Council tax tier splits in multi-tier areas

- 1.3.21 The paper states that MHCLG is minded to calculate the average share in council tax receipts in multi-tier areas between the shire county precept, the shire district element and the fire element of council tax bills across the country, and apply that percentage uniformly to the measure of council tax for relevant areas.

Council tax in successive years

- 1.3.22 In the case of a multi-year settlement from 2020/21 onwards, it will be necessary to consider the treatment of council tax income in successive years as part of a resources adjustment. The paper outlines two approaches: a single measure of council tax resource fixed over the period and full or partial projections of council tax resource at the outset of the period. The paper states that MHCLG is minded to fix a single measure of council tax resource over the period. Whilst there is no definitive “right” or “wrong” approach, the government is minded to fix the tax base whilst, on the other hand, being minded to use population projections for relative need.

Sales, Fees and Charges

- 1.3.23 Unlike council tax, sales, fees and charges have not previously been taken into account in a relative resources adjustment and having considered whether it is appropriate and practical MHCLG are minded not to do so and to use net revenue expenditure when past expenditure is used as a proxy for local authorities’ relative needs. However, do ask for views whether, if minded to do so, how services areas which have generated an increasingly significant level of surplus income, specifically parking income, should be taken into account.

Transitional Arrangements

- 1.3.24 Principles proposed in designing of transitional arrangements: stability; transparency; time-limited; and flexibility.
- 1.3.25 Once the new funding baselines have been determined, there will be transitional arrangements that will determine the basis on which authorities reach their funding allocations. The paper states that it is the intention that the transitional arrangements will unwind over time to “ensure that every council reaches their full funding allocation as quickly as practicable”. It provides the following formula to show the role of these arrangements in increasing/decreasing authorities’ final funding position.

Final funding position = (relative needs share – relative resources adjustment) ± possible transitional arrangements + actual resources income

- 1.3.26 The paper proposes that the starting baseline for the purposes of transition will be a measure of the funding available to each local authority in 2019/20. However, it recognises that the approach may require some adjustment to reflect changes to the business rates retention system and the treatment of negative RSG.

1.4 Summary

- 1.4.1 This consultation sets out the potential approaches that have been identified to measuring the relative needs and resources of local authorities; and transitional arrangements. However, it does not include any exemplifications showing potential funding allocations and, therefore, difficult to make an informed response in isolation. Clearly, further data and modelling is required to better understand how the various strands might come together to make an informed response. As such, the response to the consultation is to be read in that context.
- 1.4.2 The proposed use of a foundation formula plus the two service specific funding formula, legacy capital finance (not applicable to Tonbridge and Malling) and flood defence and coastal protection with an area cost adjustment applied as appropriate, together with the cost drivers to be used in each formula to measure shire district councils' relative needs in principle supported.
- 1.4.3 The proposals in respect of the council tax base including treatment of discounts, exemptions and premiums; council tax level; collection rate; council tax tier splits in multi-tier areas; and the approach to successive years in determining a measure of council tax resources also in principle supported.
- 1.4.4 Strongly of the view that surplus sales, fees and charges including surplus parking income should not be taken into account when assessing local authorities' relative resources adjustment.
- 1.4.5 As the level of funding attributed to any one council post 2020 could decrease markedly, transitional arrangements in the form of damping will be a prerequisite.
- 1.4.6 Of further (probably greater) concern to this Council is New Homes Bonus (NHB). This is a critical component of our overall grant funding and included in core spending power calculations. Papers on future funding are silent on this source of funding which we again ask be made a permanent part of overall funding rather than open to potential change year on year. The current arrangement does not aid financial planning and at worse could put financial sustainability at risk.
- 1.4.7 A view expressed previously and again is to give greater control and flexibility over their finances council tax levels should be a decision for councils and the council tax referendum principles withdrawn.

1.5 Legal Implications

- 1.5.1 The legislative framework for the setting, billing, collection, recovery and administration of council tax is set out in the Local Government Finance Act 1992.

1.6 Financial and Value for Money Considerations

- 1.6.1 A key part of the jigsaw is the Council's baseline funding level and how this then compares to that reflected in the Medium Term Financial Strategy taking into account transfer of any new responsibilities?
- 1.6.2 Of further (probably greater) concern is the ongoing uncertainty about the future of New Homes Bonus which we again ask be made a permanent part of overall funding rather than open to potential change year on year. The current arrangement does not aid financial planning and at worse could put financial sustainability at risk.
- 1.6.3 The level of funding any one authority receives in future could decrease markedly and place financial sustainability at risk where transitional arrangements in the form of damping will be a prerequisite.
- 1.6.4 It may not be a surprise to hear that previous assessments of relative needs and resources have not been particularly positive for this Council. Its relative need seen as low and its relative resource high. Based on being no better or worse off in relation to the Spending Review 2015 reductions might suggest at best a baseline funding allocation similar to that prior to the removal of negative RSG in 2019/20 plus a share of business rates growth of circa £1.4m. In this scenario, additional funding sources, e.g. NHB which is at risk of change year on year and at worse withdrawal, amounting to £1.0m is required to achieve the overall grant funding assumed in the Medium Term Financial Strategy.

1.7 Risk Assessment

- 1.7.1 There is so much uncertainty and volatility that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections; and the consequent implications on the level of reserves held.

Background papers:

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Nil

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