

# **COMPREHENSIVE SPENDING REVIEW AUTUMN 2020**

## **TONBRIDGE AND MALLING BOROUGH COUNCIL**

### **SUBMISSION**

We welcome the opportunity to submit proposals for consideration as part of the Government's Comprehensive Spending Review. Local authorities can play a vital role in meeting the CSR priorities and supporting recovery from Covid-19, but this relies on them having the spending and investment flexibility needed to take advantage of local opportunities, within a sustainable overall framework for local government funding.

Our policy proposals respond to the spending review priorities as follows.

#### **Economic recovery**

- Provide funding to enable local authorities to continue offering targeted business support
- Fund business support and locally defined programmes to meet businesses' needs and help enable the post-Covid economic recovery

#### **Levelling up**

- Provide direct funding to local authorities for affordable homes in the form of interest-free lending
- Provide pump priming funding to enable local authorities to bring empty residential and commercial properties back into use
- Support the roll-out of superfast broadband
- Enable local authorities to help local employers create apprenticeships

#### **Public service outcomes**

- Provide continued support for Covid-19 expenditure pressures
- Continue to provide 75% compensation for lost sales, fees and charges income
- Provide a similar scheme to fund lost Council Tax and Business Rates income
- Provide support for public leisure and cultural service providers who are not eligible for 75% sales, fees and charges compensation
- Avoid cliff-edge arising from ending of business rates support by tapering withdrawal of 100% relief
- Provide flexibility to manage downturn in commercial income by providing access to borrowing and by allowing capital losses to be spread

#### **Making the UK a scientific superpower and reducing carbon emissions**

- Provide a streamlined mechanism for local authorities to fund capital investment that meets the CSR priorities for investment in new technology
- Subsidise investment by local authorities in energy saving measures for their property holdings, including local authority housing

### **Management and delivery**

- Flexibility on setting Council Tax
- Local discretion on Council Tax discounts
- Flexibility on Council Tax banding
- Recognise lower tier contribution to the social care agenda by allowing districts to raise an equivalent amount to the adult social care precept
- Reform system of business rates retention
- Ensure a meaningful review of business rates, to provide a fair and sustainable basis for funding local services
- Continued access to finance for local investment

Relevant context about the rationale for each proposal and evidence about its deliverability is set out below.

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### **BACKGROUND - LOCAL CONTEXT**

Kent and Medway has a population of around 1.8 million, with approximately 760,000 households and 80,000 businesses. Before the onset of Covid-19, unemployment was low by historical standards, at around 3.8% of the workforce and slightly below the national average. There is substantial variation across the area, with significant deprivation in some places. The local economy is generally resilient, thanks to sectoral diversity and its proximity to London and the greater South East. Although Kent and Medway contains one of the ten largest ratepayers in the country (Eurotunnel), the business base is generally dominated by small and medium enterprises.

Tonbridge and Malling has a population of just over 130,000 and around 6,400 businesses. Overall, unemployment levels in the Borough are typically well below the Kent and Medway average (at around 2% before the onset of Covid-19), however there remain small pockets of deprivation in the borough – notably in Aylesford, Snodland, East Malling and Trench (Tonbridge). The business make-up of the borough is dominated by small and micro-businesses, with 18% of the workforce being self-employed (compared to 10% in Kent).

## SUPPORTING ECONOMIC RECOVERY

Direct intervention by central government in supporting businesses has mitigated some of the potential worst impacts of Covid-19. Local authorities, with their knowledge of local communities and their capacity to mobilise effectively to support central government, have been at the forefront.

### Case Study: Grant Support to Local Businesses

Following the announcement in March 2020 of the 'Small Business Grant' and the 'Retail, Hospitality and Leisure Grant' the Council set about distributing £20,120,000 of grant funding to eligible local businesses. This work was led by the Revenue Team with support from the Economic Regeneration Team along with a number of other staff across the council that helped to track down eligible businesses. A huge amount of work was required to get hold of eligible businesses, explain the availability of grants and to encourage them to use the Borough Council website to apply for their grants. It was announced at the end of July that the scheme would be closing down on 28 August 2020 at which time £19,355,000 had been paid out to 1,524 businesses.

Following government guidance received on 13 May 2020, a further grant scheme – the 'Small Business Discretionary Grant Scheme' was launched on 26 May 2020 and focussed on supporting businesses that were ineligible for the other grant support. This scheme was led by the Economic Regeneration Team and all funding was allocated by 26 June 2020, with just over £1m distributed to around 150 businesses in the space of six weeks.

Businesses tell us that direct grants have often made the crucial difference as to whether they have been able to survive or not. Long term economic recovery cannot rely on this kind of support, and would in any case risk creating a dependency culture. However, studying the impact of the government's direct grant schemes would likely show what a significant difference they have made, and suggest that interventions of this kind, targeted and administered appropriately, have a role in the recovery.

### **Proposal: Provide funding to enable local authorities to continue offering targeted business support**

Local authorities can play a vital role in promoting economic development as they are uniquely placed to understand the sectorial issues affecting their localities.

### Case Study: Business Advice

At the forefront of the county's Covid-19 response has been the Kent & Medway Growth Hub and Covid-19 Business Helpline. With support from KCC and partner councils, the Growth Hub was active within days of lockdown has now taken some 10,000 calls from businesses seeking support or advice since lockdown. Our specialist advisers have provided some 4,000 one-to-one advice sessions.

In supporting businesses to adapt and “pivot” to the post-lockdown local economy, KCC is working with Districts, the Kent Invicta Chamber of Commerce and local business partners to define business need and the support required over the next 3, 6 and 12 months.

**Proposal: Fund business support and locally defined programmes to meet businesses’ needs and help enable the post-Covid economic recovery.**

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## LEVELLING UP

Whilst Kent and Medway benefits from being part of the greater South East, and overall economic outcomes compare well with UK averages, there are areas of deprivation which would benefit from 'levelling up' as much as parts of the Midlands and the North, through investment in infrastructure, innovation and people.

A key element in the deprivation that 'levelling up' seeks to address is the quality of housing. Here, local authorities are well placed to support central government priorities. Both through experience of providing housing, and more recently through the creation of new housing for the private rented sector, local authorities have developed a strong capability to commission housing and regeneration projects successfully.

### Case Study: Temporary Accommodation

In recent years, the Council has funded the purchase of some in borough Temporary Accommodation via s106 affordable housing contributions. These units, managed by the Council, have a lower cost and sometimes offer an income to the Council, which is recycled into covering the costs of more expensive TA options required to meet our demand. Although the planning process makes every effort to ensure on site delivery of affordable homes, this alternative use when those options have been explored and exhausted does enable the Council to be proactive in ensuring suitable TA is available and can be financially sustainable.

There is a strong incentive for local authorities to create more affordable housing, as it helps create more sustainable communities and reduces the risk of households becoming homeless. By using its own land and by offering a mix of tenure, the council was able to provide affordable housing in the illustration given above. However, in general it is very difficult for local authorities to create affordable housing. Meanwhile, developers make S106 contributions which are intended to fund affordable housing, but in practice the funds provided are too small-scale to provide the necessary incentive for development for registered providers.

In the current low interest environment, local authorities would be well placed to take advantage of long term interest free borrowing to build more affordable homes, provided cost recovery were not threatened by the right to buy. Such an initiative would make an enormous difference to house building, affordability and tackling social exclusion.

### **Proposal: Interest free lending to local authorities for affordable homes**

Existing vacant residential and commercial properties represent an unutilised asset that could be unlocked with public funding.

### Case Study: No Use Empty

This is an innovative programme delivered by Kent County Council which has enabled previously empty or derelict residential properties to be brought back into use through the provision of interest free loans. The programme has not only contributed valuable additional housing capacity but has also generated additional council tax.

The scheme required an initial injection of seed capital funding. The repayment of loans has enabled this seed funding to be reinvested several times over through a rolling programme

The scheme has recently been extended to include loans to develop vacant sites. Over the forthcoming CSR period the County would like to develop a similar scheme for commercial premises.

**Proposal: Provide pump priming funding to enable local authorities to bring empty residential and commercial properties back into use.**

Rural areas continue to be held back through the lack of reliable and fast broadband connections.

**Case Study: Broadband**

Kent County Council has invested in order to support the roll out of superfast broadband to 95% of homes in the county. This includes an innovative voucher scheme which enables connection to broadband in hard to reach locations.

**Proposal: Support the roll-out of superfast broadband**

With the "claimant count" (those claiming Jobseekers' Allowance and those claiming Universal Credit and required to seek work) increasing 110% in Kent since March, and Government support programmes soon to close, rising unemployment - particularly youth unemployment - will be a major challenge. Through our Kent and Medway Employment Task Force bringing together senior councillors, business, education, DWP and local Members of Parliament, our aim is to create opportunities for local employment, linking local businesses with local people who can provide the skills they need. Apprenticeships will be critical to providing the skills local businesses need. Greater local oversight of the apprenticeship levy is essential to drive up rates in key sectors linked to local labour market supply skills needs and local economic priorities.

**Proposal: Enable local authorities to help local employers create apprenticeships**

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## PUBLIC SERVICE OUTCOMES

Local authorities in Kent and Medway have played a vital role in the response to Covid-19, as outlined in the case studies below.

### Case Study: Accommodating Rough Sleepers

Prior to COVID-19, working with West Kent partners, TMBC had reduced rough sleeper numbers by 50% and had working arrangements in place to identify and assess any known or new rough sleepers. Through the use of initiative such as Housing First, we had established a range of options for move on accommodation for rough sleepers. This work put TMBC in a strong position when COVID-19 restrictions and initiatives such as MHCLG's 'Everybody In' came into place, as we had established excellent working relationships and had assessment processes in place, which enabled us to move quickly to accommodate rough sleepers appropriately.

### Case Study: Community Hub

Following the government's request to provide support to the 'shielded' population, Tonbridge and Malling Borough Council set up a 'Community Hub' comprising a contact centre where people can seek support, a physical distribution hub, a befriending service and a dedicated part of the TMBC website to provide information for people needing support and a place where volunteers could offer support. Staff were quickly re-deployed from across the council to enable the hub to be set up in a matter of days. The Community Hub provided free phone and web based contact channels, the team developed processes for managing contact with residents and the provision of support, sourced and procured food and household essentials and linked in with parish councils, community services, voluntary groups, KCC, health providers and volunteers. The Hub has provided support or signposted 1781 residents who have telephoned the TMBC Community Hub support line directly, along with supporting 370 residents who have been referred to us from KCC. In the region of 4800 people from the NHS shielded list were contacted by the team, to make sure they had appropriate support in place.

Local authorities have the capacity, the skills, and the local knowledge to deliver a wide range of services. Their ability to do so successfully is supported by opinion polling showing that local authorities are amongst the most trusted of public sector organisations.

However, in the case of the support provided in the response to Covid-19, this has come at a cost. The additional expenditure incurred as a result of Covid-19 is not fully covered by government funding in Kent and Medway, and the overall position of local authorities, particularly districts, has been significantly weakened through loss of income. See table below.

	Estimated impact (£m)	Government funding (£m)
Additional expenditure pressures	157.3	142.2
Reduction in income:		
Business Rates (excl Covid-19 reliefs)	31.5	?
Council Tax	78.9	?
Housing Revenue Account	6.0	None
Sales, Fees and Charges	62.6	40.0?
Commercial Income	13.5	None
Other Income	9.3	None
<b>Total</b>	<b>359.1</b>	<b>182.2</b>

Note: Estimated impact per September returns to MHCLG. Government funding excludes earmarked grants other than Infection Control and Test & Trace.

It can be seen that the existing Covid-19 grant funding has only covered approximately 90% of costs. Whilst it is possible for local authorities to use reserves in the short term to cover any such shortfall, it is highly likely given the continuing impact of Covid-19 that there will be further costs in 2021/22. At this stage we do not have permanent funding for these costs, which would be an added pressure to 2021/22 budget along with the spending growth we would usually have to factor into budget for rising demand and inflation. With reduced reserves and other spending pressures, it will be more difficult for local authorities to continue playing their part in the effort to combat Covid-19. We therefore wish to see a firm commitment to cover the cost of future Covid-19 expenditure pressures.

### **Proposal - Provide continued support for Covid-19 expenditure pressures**

The government has offered to cover 75% of lost sales, fees and charges income above a minimum threshold percentage loss. This is very welcome. However, in many areas it is unlikely that income will return to pre-Covid-19 levels by the end of the financial year. For example, the trajectory of parking income recovery suggests that it may continue to be 10% - 20% below pre-Covid-19 levels. Parking services, like many other Council services, are characterised by high fixed costs, so it is not possible to compensate for a permanently lower level of income by reducing costs; unfortunately, a continuing subsidy to the service will be required, if not from the government, then from Council Tax payers. It is therefore proposed that the '75% scheme' is maintained for a further year.

**Proposal: Continue to provide 75% compensation for lost sales, fees and charges income**

Although local authorities are now resuming normal revenue collection processes, most are seeing lower collection rates than in previous years. In addition, the Council Tax base has been reduced through large numbers of council tax payers applying for Council Tax support. It is understood that the government is considering making a contribution to lost CT and BR income, in addition to allowing any deficit arising to be spread over the three years 2021/22 to 2023/24. We propose that this be a very substantial contribution. Having established the principle that 75% of losses above a minimum threshold be covered in relation to sales, fees and charges, we propose that the government introduce a similar scheme for lost Council Tax and Business Rates income.

**Proposal – Provide a similar scheme to fund lost Council Tax and Business Rates income**

The sales, fees and charges compensation scheme does not address the cost of funding leisure and cultural service providers, many of whom are dependent on local authority support for their survival.

**Provide support for public leisure and cultural service providers who are not eligible for 75% sales, fees and charges compensation**

The burden of paying business rates for the retail, leisure and hospitality sectors has been removed through 100% rate relief for 2020/21. This relief is very welcome for the businesses themselves and the local authority sector, given that in many areas it constitutes 50% or more of the business rates base.

However, ending this relief in March 2021 will create a cliff-edge, from which many businesses could fall into permanent failure given the slow pace of economic recovery. Business rates is already seen as a burdensome tax, and whilst the Business Rates Review announced in the Chancellor's March 2020 budget offers an opportunity for reform, it is assumed that no major changes will be introduced as early as April 2021. We therefore propose a tapered withdrawal of the S31 business rates relief.

**Proposal - Avoid cliff-edge arising from ending of business rates support by tapering withdrawal of 100% relief**

The '75% scheme' does not cover commercial income, yet many authorities, particularly districts, are heavily dependent on income from this source. They have expanded commercial activities in recent years, with the encouragement of central government, in order to reduce the burden on Council Tax payers and central government grant of subsidising local government services.

It is recognised that commercial activities are subject to risk, and it is accepted that providing a direct subsidy to cover commercial income losses could give rise to a perverse incentive to increase risk levels. Instead, authorities should be given the flexibility to mitigate the risks. Risk mitigation could include further investment (providing there is a strong business case); divestment; and

portfolio rebalancing. In order to invest, it will be necessary to continue having access to low interest rates. In order to rebalance a portfolio in the long term interest of the authority, it may be necessary to spread capital losses.

**Proposal - Provide flexibility to manage downturn in commercial income by providing access to borrowing and by allowing capital losses to be spread.**

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## **MAKING THE UK A SCIENTIFIC SUPERPOWER AND REDUCING CARBON EMISSIONS**

Local authorities are making use of their existing freedoms and flexibility to support the innovation agenda.

### **Case Study: Investment in Innovation**

East Malling Research Station has been the site of world-class horticultural research for over a century. In 2016, following many years of decline, East Malling Research was rescued in a takeover by the National Institute of Agricultural botany to become NIAB EMR. Since this takeover, new plans are now afoot to reinvest in the site to create an Advanced Horticultural Technology Zone. Funding has been successfully secured through the UK R&I's 'Strength in Places Fund (£18m consortium funding), along with Local Growth Funding (£1.8m) and Growing Places Funding (£600,000) via the South East LEP, and development is about to commence on site to create new research space, wine innovation centre, greenhouses and zero carbon energy centre. Along with the drive and commitment of NIAB EMR, access to public support and funding has been essential component of this recovery.

Such investment depends on continuing access to sources of funding including to borrowing and the ability to bid for the equivalent of ERDF funding.

### **Proposal – Provide a streamlined mechanism for local authorities to fund capital investment that meets the CSR priorities for investment in new technology**

Local authorities can play a major role in reducing carbon emissions. First and foremost, as major property owners, with sufficient investment we could reduce the emissions from our own estate.

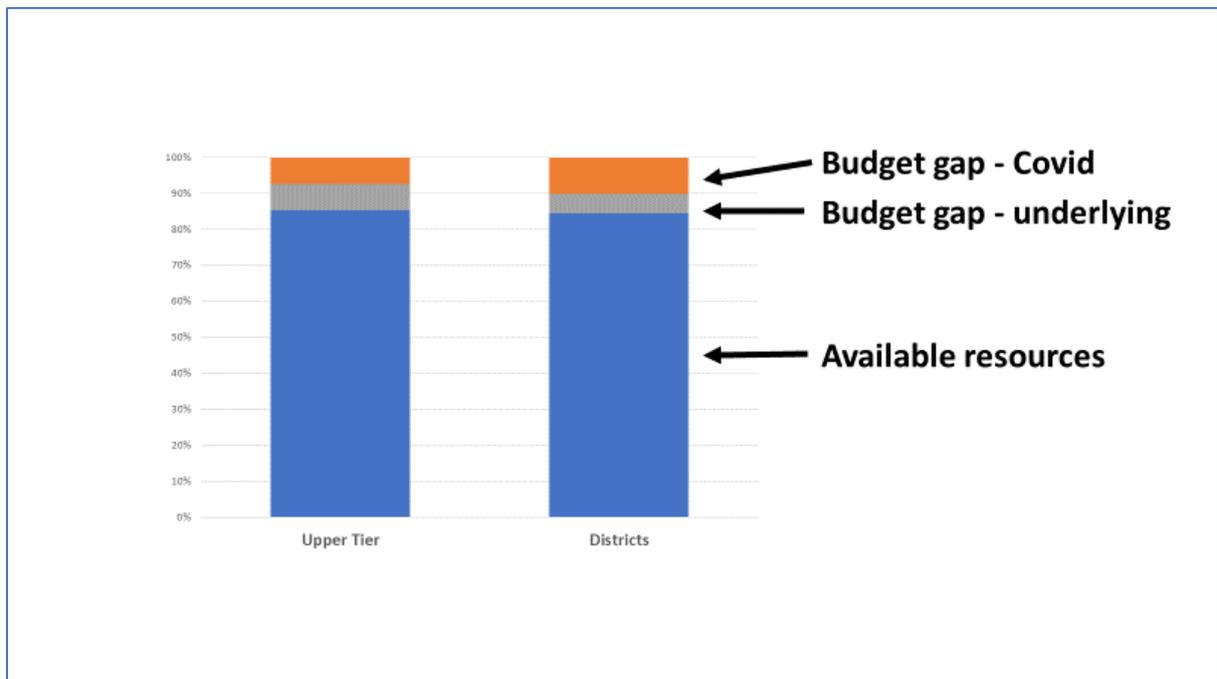
### **Proposal - Subsidise investment by local authorities in energy saving measures for their property holdings, including local authority housing**

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## MANAGEMENT AND DELIVERY

We support the Government’s CSR priorities and wish to play our part in delivering them, but we need the funding to do this. Local authorities face significant uncertainty about our future financial position and we trust that this will be resolved through the CSR, given that the process of developing budgets for 2021/22 is already under way. We are obliged to set balanced budgets; if S151 officers and external auditors are not satisfied about authorities’ financial sustainability, they cannot commit the necessary level of resources to deliver existing services, let alone invest in the recovery.

The following table shows the current estimated position next year for Kent and Medway, assuming that existing funding arrangements are simply rolled forward for another year.



It can be seen that we collectively face a significant budget gap. For district councils, this arises predominantly from the effect of Covid-19. The two upper tier authorities already faced a challenging position, owing mainly to social care funding pressures. Management and delivery of the CSR priorities requires a radical fresh look at the current local government funding framework.

The existing arrangements, and the basis for the forecasts set out above, effectively limit Council Tax increases to 2%. We would like to see greater flexibility, so that decisions about spending continue to be made locally and authorities have the ability to fund services, subject to democratic accountability.

### Proposal - Flexibility on setting Council Tax

We would like to see further local discretion on council tax discounts. We have welcomed the additional discretions on empty properties and local councils have exercised these powers sensibly. We believe discretion over other significant fixed discounts e.g. single person discounts and we believe councils would similarly act responsibly balancing local needs and individual household circumstances.

### **Proposal - Local discretion on Council Tax discounts**

The devolved administrations have additional powers to vary the 8 fixed bands. We can see no logical argument why English councils should not be granted similar powers to better reflect local needs and circumstances. The relative weighting of the bands was arbitrary in the first place and have never been reviewed. We recognise a national review of the banding of individual properties is probably unrealistic and could be better addressed locally. Flexibility to vary the relativity of bands within set parameters would be a first step towards a more flexible and responsive approach to banding.

### **Proposal – Flexibility on Council Tax banding**

Upper tier authorities in two-tier areas have been able to mitigate some of the pressures of social care spending by means of the adult social care precept. However, lower tier authorities have not been able to raise equivalent funds, even though many functions that they carry out, such as housing, support the social care agenda.

### **Proposal – Recognise lower tier contribution to the social care agenda by allowing districts to raise an equivalent amount to the adult social care precept**

Local authorities should retain some of the financial benefit from successful economic development and promoting business rate growth, but the current business rates retention system means that most of the business rates collected in Kent and Medway are remitted to central government. This reflects the fact that spending requirements on core services move in inverse proportion to business rate movements i.e. areas facing decline in business rates often have much higher spending needs than areas of growth. The current arrangements are complex, opaque and now significantly out of date.

We understand and support why the reform of business rates retention has been paused. If business rate retention is to remain then we would like the government to reconsider its approach.

### **Proposal – Reform system of Business Rates Retention**

We welcome the review of the relevance and appropriateness of business rates as a form of taxation to fund local services. There are a number of serious concerns with the current property basis of the tax even though such taxes are a long-established approach to funding local services. We look forward to engaging with the consultation on the future of business rates which runs concurrently with CSR.

**Proposal – Ensure a meaningful review of business rates, to provide a fair and sustainable basis for funding local services**

As already alluded to, access to finance for investment is an essential element in local authorities' capacity to contribute to CSR priorities. Only through long term investment can the government's objectives be achieved.

**Proposal – Continued access to finance for local investment**

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## SUMMARY OF PROPOSALS

### **Economic recovery**

- Provide funding to enable local authorities to continue offering targeted business support
- Fund business support and locally defined programmes to meet businesses' needs and help enable the post-Covid economic recovery

### **Levelling up**

- Provide direct funding to local authorities for affordable homes in the form of interest-free lending
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- Support the roll-out of superfast broadband
- Enable local authorities to help local employers create apprenticeships

### **Public service outcomes**

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- Continue to provide 75% compensation for lost sales, fees and charges income
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- Avoid cliff-edge arising from ending of business rates support by tapering withdrawal of 100% relief
- Provide flexibility to manage downturn in commercial income by providing access to borrowing and by allowing capital losses to be spread

### **Making the UK a scientific superpower and reducing carbon emissions**

- Provide a streamlined mechanism for local authorities to fund capital investment that meets the CSR priorities for investment in new technology
- Subsidise investment by local authorities in energy saving measures for their property holdings, including local authority housing

### **Management and delivery**

- Flexibility on setting Council Tax
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- Flexibility on Council Tax banding
- Recognise lower tier contribution to the social care agenda by allowing districts to raise an equivalent amount to the adult social care precept
- Reform system of business rates retention
- Ensure a meaningful review of business rates, to provide a fair and sustainable basis for funding local services
- Continued access to finance for local investment