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Dear Mr Khan

Provisional Local Government Finance Settlement 2016-17

This response to the consultation on the provisional local government finance settlement is on behalf of Kent County Council (KCC). Kent is the largest shire area in the country with a population of around 1.5 million and over 640,000 households. This makes KCC the largest council responsible for services to more people than any other council in the country.

We appreciate that the Secretary of State has sought to address a number of concerns raised by the local government sector. This includes recognition of the pressures in adult social care with the new power to levy a specific 2% council tax precept and the improved Better Care Fund. We recognise that the settlement is against the backdrop of need to tackle the national budget deficit and that local government's chief contribution is through reductions in Revenue Support Grant (RSG).

However, having recognised the need to tackle the deficit we firmly believe that there is not enough money within the overall settlement for local government and flat cash is not good enough over the four year period, and better settlement is needed in the first two years. This is particularly the case for upper-tier authorities where disproportionate additional spending demands are imposed upon them compared to other tiers. This is especially severe for county councils in two tier areas. To give evidence for KCC the spending power shows a £27m reduction in 2016-17 and a further £9m reduction in 2017-18, however, when recurring additional spending demands of £67m each year are factored in this leaves real terms reductions of £94m and £76m respectively. To address this we ask the Secretary of State to consider:

- A fundamental review of the redistribution in the 2016-17 settlement based upon needs led analysis of all the current and future spending demands across all types

of authority factoring in all sources of additional income (not just council tax). This should be used to inform revised 2017-18 allocations and redistribution under the proposed new 100% business rates arrangements. It would mean that the offer of a 4 year guaranteed settlement should be withdrawn

- Additional funding in the settlement for 2017-18, especially for county councils. One option would be to bring forward and enhance the introduction of the Better Care Fund. We also request reconsideration of the 80/20 split for New Homes Bonus in two tier areas

Setting the budget continues to be one of the biggest challenges for the council with reducing central funding at the same time as spending demands are rising. This increase in spending demands continues to be overlooked in the settlement which includes a pro rata reduction in central funding for all authorities irrespective of individual circumstances. We note the proposed change in the provisional settlement with the reductions for 2016-17 to 2019-20 pro rata to central funding, business rate baseline/top-up and council tax yields, we will come back to this change in this response. We contend that this disregard of individual circumstances is a fundamental flaw in the settlement and adds significantly to the challenge to find savings in order to balance the budget.

The settlement represents a significant real terms reduction in the council's revenue budget for 2016-17 and future years. This will require the council to make substantial savings as increases in council tax fall well short of the money needed to fund additional spending demands and compensate for reductions in central grants. The county council already has a substantial amount of long term debt taken out under the previous supported borrowing regime, and the ongoing cost of financing this borrowing has not been protected from the significant RSG reductions.

One of the consequences of the further reductions in central funding is that the council will be unable to provide any additional funding towards capital infrastructure (principally roads and schools) over and above central government capital grants and any external funding for individual projects. This will inevitably mean that if the capital grants from other government departments (principally DfE and DfT) prove to be inadequate then there will be a knock on consequence through the deterioration of assets (especially condition of the roads) or provision of inferior quality asset replacement (especially schools where if basic need allocations are inadequate we will be forced to consider mobile accommodation). This is regrettable and we hope the Secretary of State for Communities and Local Government will make these consequences clear to other ministers should they be considering reductions or reprioritisation of capital grants. We are particularly concerned that the Spending Review appears to suggest that capital funding for transport initiatives will be focused on rail (£46.7bn of the £61bn) and the majority of the remaining £13.4bn for roads will be earmarked for the strategic network leaving little for local infrastructure.

Our initial reaction to the settlement was one of dismay that once again Inner London authorities have benefitted from some of the lowest RSG reductions e.g. Westminster 19.7%, Wandsworth 20.6%, Greenwich 21.4%, compared to 34.3% for Kent County Council. We support the objective of providing protection for those authorities with a low council tax base and high social care pressures, which cannot be addressed through the additional social care council tax levy. However, we do not believe the

settlement has totally achieved this objective and has resulted in some perverse outcomes, particularly in the low reductions in RSG for Inner London boroughs.

KCC has consistently challenged that the previous Formula Grant which underpins the RSG and business rate distribution favoured Inner London boroughs disproportionately, meaning they received significantly more per capita than other authorities. This has been compounded as London boroughs have become more affluent and can raise more income from other sources e.g. car parking charges. We contend that the effect of both of these deficiencies means London boroughs (particularly Inner London) have much lower council tax band rates than other authorities e.g. Westminster charge £672.74 for a band D property (excluding parishes), while in Kent the average is £1,490.03. A difference of this magnitude cannot be due to better efficiency on the part of the London Borough of Westminster. We contend that the inclusion of each authority's council tax requirement (which includes the impact of these differential band D rates) in the RSG redistribution is the principle reason why London boroughs have fared so well (unjustifiably in our opinion).

The combination of these historical discrepancies in the previous funding arrangements and that the redistribution of RSG has not taken into account the current/projected needs of individual authorities (including population changes) has resulted in unjustifiable funding allocations both in 2016-17 and over the four-year Spending Review period. Given the significance of the impact of the funding reductions KCC believes a fundamental reassessment of the needs and historic factors influencing council tax rates is vital and calls on the Government to reconsider the proposals in the provisional settlement. Reluctantly we accept this now may be unrealistic for 2016-17 but we strongly urge further consideration and consultation for 2017-18.

We are also disappointed that the spending power determination is still misleading. Whilst we welcome this no longer includes specific grants it still takes no account of the additional spending demands councils are facing. Many of these are imposed on us and outside our control. The spending power actually represents our change in funding. The fact that the things we need to spend it on are rising in cost e.g. impact of the National Living Wage, and the demands from residents are rising from increasing population and ever more complex needs, means the published 2.4% increase in spending power for KCC has to go an awful lot further, and is actually a significant reduction in real terms.

Before we address the individual questions there are a number of other specific points we would like to make.

Late Announcement

The announcement of the provisional settlement came very late in the year and more than three weeks after the Autumn Statement/Spending Review announcement. Considering the fundamental changes within the settlement we believe this timing, which only leaves 4 weeks to consider and prepare responses (including bank holidays over the Christmas and New Year period), is far too tight. We not only need to respond to the significant issues in the consultation but at the same time we have to factor the consequences into our budget plans for next year. The County Council has to consider and approve the budget in February. The uncertainty created by the late and unexpected redistribution in the settlement makes preparing the necessary reports and

analysis for the proper scrutiny process of the council's budget for 2016-17 virtually impossible.

We had prepared budget plans based on our estimates of the potential settlement. We updated these plans as best we could from the Spending Review announcement using the previous pro rata arrangements, albeit this included very limited information about the levels of RSG for 2016-17 and subsequent years within the Departmental Expenditure Limit (DEL) totals. However, the announcement of the redistribution of RSG means KCC's funding shows a much steeper decline that we could reasonably have anticipated. As a consequence we have to publish budget plans for scrutiny which includes an amount for as yet unidentified savings.

Social Care Spending

We are experiencing particularly acute pressures on adult social care services in Kent. These pressures include £10.3m to meet the cost of activity/cost in the current year and £29.2m of forecast new additional pressures for next year. This means we need to increase the adult social care budget by £39.5m for 2016-17.

The new pressures include the need to address a severe recruitment crisis for care providers (made even greater as a result of the impending introduction of the National Living Wage in April) and the widening gap between the amounts we can afford to pay providers for state funded clients compared to self-funders. This is putting a significant inflationary pressure on prices for social care next year of an estimated £16.4m in 2016-17. The new pressures also include rising demand for social care services as a result of £8.3m due to a range of demographic factors (within this we have particular pressures in Kent on the numbers with learning disabilities arising from a combination of children transferring into adult care/increasing complexity of need and longer life expectancy), and £4.5m for the transfer of Care Act grants into RSG.

These social care pressures are particularly acute in county areas and are exacerbated by historically low levels of funding for social care. The additional 2% social care precept on council tax would raise an additional £11.2m towards addressing these pressures in 2016-17, this falls well short of the total additional spending demands. However, the change in the RSG distribution mechanism means we lose more than this amount from RSG compared to the previous pro rata reduction arrangements.

We are opposed to the changes to the distribution methodology for RSG because they only take into account resources the raised through council tax (which as we have already identified includes a significant historical discrepancy between London and the rest of the country) and takes no account of the additional social care spending needs for individual authorities. As outlined above for Kent these not only arise from rising population and demographic factors but also severe price pressures necessary to stabilise the social care market. For example in Kent the number of over 65 has increased by 12.2% between the 2011 census and the latest 2014 population forecasts compared to national increase of 3.2%, with over 65s now comprising 19.5% of the total population. By 2020 this is age group is forecast to increase by 26.6% compared to the census and will account for 21% of the total population.

We recognise that including spending demands/population changes is a complicated equation, and it is unlikely this can be addressed in time for 2016-17. However, we are

very willing to work with the Government on the development of a new social care needs formula, which addresses historical discrepancies and better takes into account of future demographic and price pressures which could be implemented in future years.

We are also concerned over the requirement to report social care spending in RA and RO returns linked to the additional 2% council tax precept. This could prevent the council from making transformational changes in social care aimed at improving outcomes for clients at lower cost. We believe a more effective alternative to the reporting requirements through RA/RO would be to require external auditors to confirm that the additional funds raised through the social care council tax precept have been spent on adult social care as part of the annual accounts audit.

The Government should also consider that in two tier areas the 2% social care levy is only on the upper tier authority's precept whereas in other areas it is levied on the full council tax amount including the lower-tier (and Fire and Rescue in those authorities unaffected by previous local government review and retaining fire functions within the upper tier element). This underlines the need for social care funding to be calculated on need rather than the current arbitrary levels of current council tax requirement across different authorities.

Improved Better Care Fund

The consultation paper includes details of how the additional funding through the improved Better Care Fund (BCF) is included in the spending power calculation. KCC is concerned that these calculations are based on the 2013 adult social care relative needs formula adjusted according to the amount which can be levied through the 2% social care council tax precept. We have already restated our concerns that the relative needs formula provides an unrealistically high per capita funding for some types of authority and the data underpinning this formula is out of date. We are also concerned that this approach will penalise those authorities which are unable to justify levying the additional 2% precept. We accept this is only an illustrative calculation at this stage and will be subject to further consultation.

We suggest that BCF calculations should be based on an updated needs formula and does not make assumptions that councils will raise the additional 2% social care council tax precept. We would also like to see increased BCF allocations made available from 2017-18 to provide additional support towards the considerable pressures on social care spending which include more than the planned escalation in the National Living Wage. This would go some way towards compensating for the sharper than anticipated decline in funding in 2016-17.

Moving on to the specific questions

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

KCC strongly disagrees with the proposed approach to redistribute RSG allocations for 2016-17 and the following years. The methodology results in KCC losing an estimated £12.4m in funding in 2016-17 compared to the our calculation of what the 2016-17 RSG would have been under the previous approach based on pro rata reduction of RSG

excluding 2015-16 council tax requirement. We contend that the consultation should have illustrated the impact of this change for all authorities rather than leaving individual respondents to make their own calculations (and thus could include different assumptions).

We are also strongly opposed to the aggregation of the individual constituent components in the adjusted 2015-16 RSG into a single amount from which the reductions are made. This aggregation precludes the protection of individual elements which have been protected to date e.g. Learning Disability and Health Reform, Council Tax Freeze, etc. It also means the adjustments to the 2015-16 allocations e.g. Care Act, are not protected from future reductions. We contend this lack of protection has a greater impact on upper tier authorities and thus penalises county councils in particular.

The RSG reductions in 2016-17 and 2017-18 are much greater for county councils than the illustration in the Spending Review. This means we need to find even more savings in both 2016-17 and 2017-18 compared to those we had expected. We can only respond by drawing down from ring-fenced reserves. These reserves will not only need to be replenished at some time in the future, but also means we need to find substantial additional savings in 2017-18 as the use of reserves is only a one-off solution.

KCC has always supported a local government finance system which enables redistribution between authorities, but this redistribution should take into account not only resources but also should reflect spending needs. The proposals as they currently stand clearly do not reflect this. We believe this significant change should only be made following a full and timely consultation. Ideally the changes to RSG should be aligned to other changes in the New Homes Bonus and the increased funding for the improved Better Care Fund, to provide complete transparency in the distribution of resources. However, we reluctantly accept this is now unrealistic for 2016-17 but we strongly urge further consideration and consultation for 2017-18.

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?

The calculations are correct but as we have already stated we do not believe council tax requirement should be a factor in the redistribution of RSG as it has been applied in the proposed allocations. The four-block model which underpins the existing RSG allocations already includes a resource equalisation element which assesses authorities' ability to raise council tax based on their relative band D equivalent tax base. The proposed RSG distribution is different to the four-block approach as it uses the council tax requirement rather than relative band D equivalent tax base. We contend that the existing resource equalisation is more appropriate as it more accurately reflects the relative tax base (and there relative affluence) than the council tax requirement (which as we have already outlined includes all sorts of historical factors that result in significantly different band D charges in individual authorities).

Including the council tax requirement in the calculation of RSG not only therefore takes council tax into account twice in determining RSG, but also protects authorities with low tax rates for a number of historical reasons. If a further adjustment to RSG is needed (particularly to help those most deprived authorities with the lowest tax base) we

suggest it should use the same methodology as the resource equalisation rather than actual 2015-16 council tax requirement. As we have already commented we do not think it acceptable to introduce a new adjustment for relative resources, effectively as a 'bolt-on' to the current system, without also reassessing the measures of relative need at the same time.

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

This does not impact on KCC, and thus our views should carry less weight, but we think the approach is reasonable.

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

We have already responded that we believe the changes to RSG should have been subject to a full and timely consultation. The impact on KCC is very significant (and we believe disproportionately unjustifiable), and the very late announcement does not leave sufficient time to undertake proper financial and service planning or budget scrutiny. Ideally, the changes should be delayed by a year, to enable proper consideration to be given to the proposals and other options to be explored.

Alternatively, if this is not feasible at this stage (which we have already reluctantly accepted may be the case), DCLG should treat the changes to the 2016-17 settlement as a 'one-off' and undertake a full and inclusive review taking into account the issues we have raised.

We always think that any funding change should include transitional mechanisms to ensure the impact is manageable. In this instance we believe the changes should have been subject to a floor which limits reductions to manageable proportions, especially as a result of the very late announcement. In particular we believe that the effective negative RSG for some authorities by 2018-19 or 2019-20 could have been avoided through floor protection arrangements. Bearing in mind the objective of assisting those authorities with high social care needs and low tax base we are not convinced in this instance a ceiling would have been appropriate.

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?

KCC notes that the contribution from the DCLG Communities DEL to New Homes Bonus (NHB) is reducing by £40m compared to previous years. No justification is provided for this reduction at the same time as NHB is rolling out as originally planned. This means that the contribution from the Local Government DEL is increasing by more than originally planned resulting in greater RSG reduction than implied in the Spending Review (which KCC like most authorities based their funding estimates). We find it very hard to agree with this further reduction in RSG and ask Government to reconsider the timing of the reduction in the DCLG Communities contribution to NHB, which should be

the same £250m in 2016-17 as in 2015-16. This reduction should coincide with the reform of NHB in 2017-18.

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?**

KCC does not agree with this proposal. The original principle of business rates retention scheme was that the safety net protection should be self-financing from levy payments. Holding back £50m with the Local Government DEL effectively reduces RSG by a further £50m from the amount implied in the Spending Review (on which we based our funding estimates). KCC suggests the £50m should be returned to 2016-17 RSG and safety net and levy payments adjusted to maintain the original self-financing principle.

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?**

KCC agrees with the findings of independent research which identified the additional costs of providing services in rural areas. We have provided evidence to previous spending reviews that peninsular authorities (those like Kent where the majority of the border has no neighbouring authority) also face additional costs in providing services as there is no scope for cross border efficiencies from joint working. We ask again for consideration of this issue.

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?**

KCC does not think it appropriate to identify welfare provision and the other spending elements within the spending power when the funding for these has not been protected from the reductions in RSG (we have previously expressed our opposition to the aggregation of funding in RSG with no protection for specific elements). Identifying these elements in the spending power has the effect of implying ring-fencing of the amounts to be spent on these services. If these elements are to be shown in the spending power then corresponding amounts should be specifically identified and protected with the RSG calculation methodology.

KCC does not understand why the Government has proposed to identify the original £129.6m for welfare provision in the 2015-16 settlement (which we commented last year had effectively been top-sliced from RSG with no funding transferred from DWP) and not also the additional £74m included in the final settlement for upper tier authorities. We are concerned that this additional settlement for upper tier authorities has not been included in the 2016-17 RSG despite recognition in 2015-16 that the transfer of welfare provision in the original £129.6m was inadequate. We request that the impact of

reductions to the £74m in the 2015-16 final settlement be clearly identified in 2016-17 and future years.

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?

We do not understand why the adjusted baseline for RSG in 2015-16 includes £302.8m for Care Act implementation funding when only £285m was paid to local authorities for activities related to the Care Act. Within the £285m in 2015-16 was £146m for the assessment of clients for the cap on care costs which has now been deferred. This funding for the cap appears to have been reallocated within the elements for universal deferred payments and support for carers etc. We are pleased that the funding for the cap has been transferred into the adjusted 2015-16 RSG (thus honouring the principle that following the deferment this funding would be available towards other pressures on social care spending) but we suggest this should have been transparent in adjustment calculation and not absorbed into the other elements of the Care Act. We would like confirmation of how the £302.8m included in the adjusted 2015-16 settlement has been derived.

We have previously expressed our opposition to aggregating the individual elements within RSG and applying pro rata reduction to the aggregated sum. This means that the individual amounts are no longer separately identifiable. This is particularly the case for Care Act which is effectively lost in RSG reductions. For KCC a total of £8.1m is identified for Care Act in the adjusted 2015-16 RSG (out of a total of £169.5m). The provisional RSG reduces to £9.5m by 2019-20 but it is unclear whether this includes all the original Care Act funding or whether responsibility for the Care Act is increasingly to be borne from council tax (and therefore whether it is part of the additional 2% flexibility). When the Care Act was introduced, assurances were given that new burdens arising from additional responsibilities would be fully funded. This no longer appears to be the case.

KCC would prefer that funding for the Care Act should continue to be provided through a separate un-ring-fenced section 31 grant. This would ensure that funding commensurate with previous assurances is transparent. Alternatively, as we have already suggested for other elements, the funding for Care Act should be separately determined within RSG and explicitly identified for each authority. Including Care Act within the core spending power calculations and not RSG is misleading, for the reasons highlighted above. If neither of these are feasible and it is the government's intention that the new responsibilities under the Care Act are to be borne out of council tax (including the 2% social care flexibility) this should be clearly identified so that councils can explain this to residents in the justification for the additional 2% precept.

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?

KCC did not take up the grant in 2015-16 and thus our views should carry less weight. However, if this funding is transferred into RSG we think it should be protected from reductions (as should previous year's council tax freeze grants) as authorities froze council tax on the understanding that compensating funding would be permanent.

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?

KCC supports this approach

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?

KCC supports this approach as it has been confusing to have some funding for core flooding responsibility included in RSG and some allocated as separate Section 31 grant. However, as already outlined above for Care Act this should not be included within the aggregated amount an should continue to be separately identifiable within RSG and SFA. This would provide a transparent link whether increasingly this responsibility is to be borne from council tax.

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?

KCC welcomes this proposal.

14. Do you have any views on whether the grant for lead local flood authorities described in paragraph 3.8 should be ringfenced for the Spending Review period?

Generally KCC is opposed to ring-fencing and thus would not support any ring-fencing of this section 31 grant.

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?

KCC is opposed to the Government's proposal to adjust the tariffs/top-ups for those authorities that effectively would otherwise have a negative RSG. We have already commented that floors should have been included in the RSG methodology to avoid this.

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?

KCC welcomes the publication of figures for four years as this is essential for effective financial and service planning. However, these figures need to be derived from a proper, open and transparent process, particularly where responsibilities are effectively transferring from central funding to council tax within the flat cash equation. This would help authorities to explain to tax payers that tax increases are not only to fund spending pressures and service improvements but are also part of the overall fiscal consolidation of public finances. It would also help authorities to explain the conundrum that council tax may increase at the same time as savings need to be found which could include service reductions.

KCC remains unconvinced that the spending power currently provides an accurate picture of the real terms impact on local authorities. Whilst we accept the need for some sort of spending power measure, any measure which fails to take into account the impact of inflation and demographic growth is fundamentally flawed. Similarly, whilst there may be a case that council tax income should be taken into account in a measure of spending power, we are not convinced it is reasonable to include assumptions about increases in council tax. Council tax is a local tax and it is for democratically elected councillors to make decisions on the council tax levels over the next four years. We suggest that it should be a requirement for council's to publish their own spending power figures setting out the combined impact of spending demands, council tax changes and reductions in central funding equivalent to the real change in spending power. This requirement should be included in council tax information so residents are clear about the need for councils to make savings in order to meet the change in real spending power.

One of our previous suggestions is that the 2016-17 settlement should be considered a one-off. If this were agreed then it would not be possible to offer any authority a guaranteed four year settlement. If some authorities are given guaranteed settlements there could effectively be no review for 2017-18 as the scope for headroom to make changes would be restricted. We strongly urge the Secretary of *State* to remove the offer of a guaranteed settlement until after the full review and further consultation on the changes to RSG methodology which we have previously suggested.

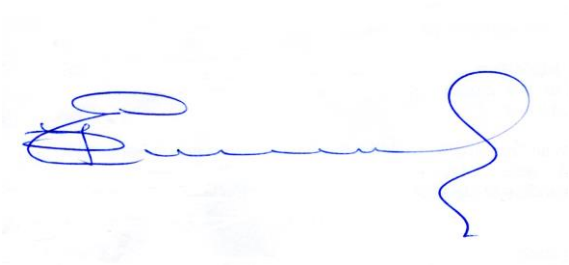
17. Do you have any comments on the impact of the 2016-17 settlement on persons who share a protected characteristic, and on the draft equality statement published alongside this consultation?

The disproportionate effect of the proposed changes to RSG will have a detrimental impact on equalities for KCC residents. These are likely to be significantly greater than those living in London boroughs and metropolitan areas for the reasons we have outlined in this response. Whilst we accept there may be a case for disproportional impact to protect the poorest metropolitan areas with high social care needs and low council tax base we do not accept the same case for London (particularly affluent Inner London boroughs). The draft equality statement fails to recognise this disproportionate impact.

Furthermore, there is a real risk the lack of transparent funding for the Care Act could have an impact on elderly and disabled persons. These risks should be properly acknowledged in the equality statement.

We hope ministers find these comments helpful.

Yours sincerely



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