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HM Treasury  
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28 January 2016

Dear Sir,

**KCC SUBMISSION IN RESPONSE TO SPENDING REVIEW AND AUTUMN STATEMENT 2015**

This submission in response to the Spending Review and Autumn Budget statement 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. The county council has 84 elected councillors serving 72 electoral divisions (some larger divisions return 2 councillors).

KCC recognises that the Spending Review is against the backdrop of need to tackle the national budget deficit and that local government's chief contribution is to be 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 amount identified for local government from the combination of central and local funding. Local government cannot endure the same level pain over the next four years as it has had to endure over the last 5 years. The "flat cash" equation proposed in the Spending Review is not good enough over the four year period, and a better settlement is required in the first two years, to adequately reflect the additional spending demands expected of local authorities. This is particularly the case for upper-tier authorities where disproportionate additional spending demands are imposed compared to other tiers. We will return to these spending demands later in this submission and provide evidence of the forecast demands KCC is anticipating over the next 4 years. KCC's submission is based on the call to Government to urgently address the following two key points:

- A fundamental review of the distribution within the current central funding arrangements (and those proposed for 2016-17) 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 central funding allocations and redistribution principles under the proposed new 100% business rates arrangements. It would mean that the offer of a 4 year guaranteed settlement for individual authorities should be withdrawn as this would compromise any fundamental review;

- Additional funding in the Spending Review plans for 2017-18, especially for county councils which face a unique combination of the greatest reductions in central funding and most significant additional spending demands. 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.

### **Impact of Spending Review on Revenue and Capital Spending**

The Spending Review and provisional local government finance 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 the level of council tax increases included within the Spending Review assumptions (and the amounts we can realistically raise locally) fall well short of the money needed to fund additional spending demands and compensate for reductions in central grants. As well as finding savings on revenue spending, the real terms reductions will mean that the County Council has no scope to contribute any additional funding towards infrastructure investment. The 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 previous or proposed significant RSG reductions. Financing this borrowing is a substantial drain on the council's revenue budget and we have had to introduce a self-imposed limit on borrowing to fund infrastructure in order to protect essential front-line services. This is likely to mean if we cannot raise external funding some planned infrastructure investment will now have to be curtailed or abandoned altogether.

The council is concerned that the additional infrastructure investment outlined in the Spending Review and Autumn Statement is back-loaded into the later years and is targeted at strategic infrastructure rather than local infrastructure. Since we will be unable to provide any additional funding from the council's revenue budget this will inevitably mean that if the capital grants from 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 Chancellor will review the allocation of capital resources between strategic and local infrastructure at the earliest opportunity (we have suggested possible source of additional funding for local infrastructure later in this submission). 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.

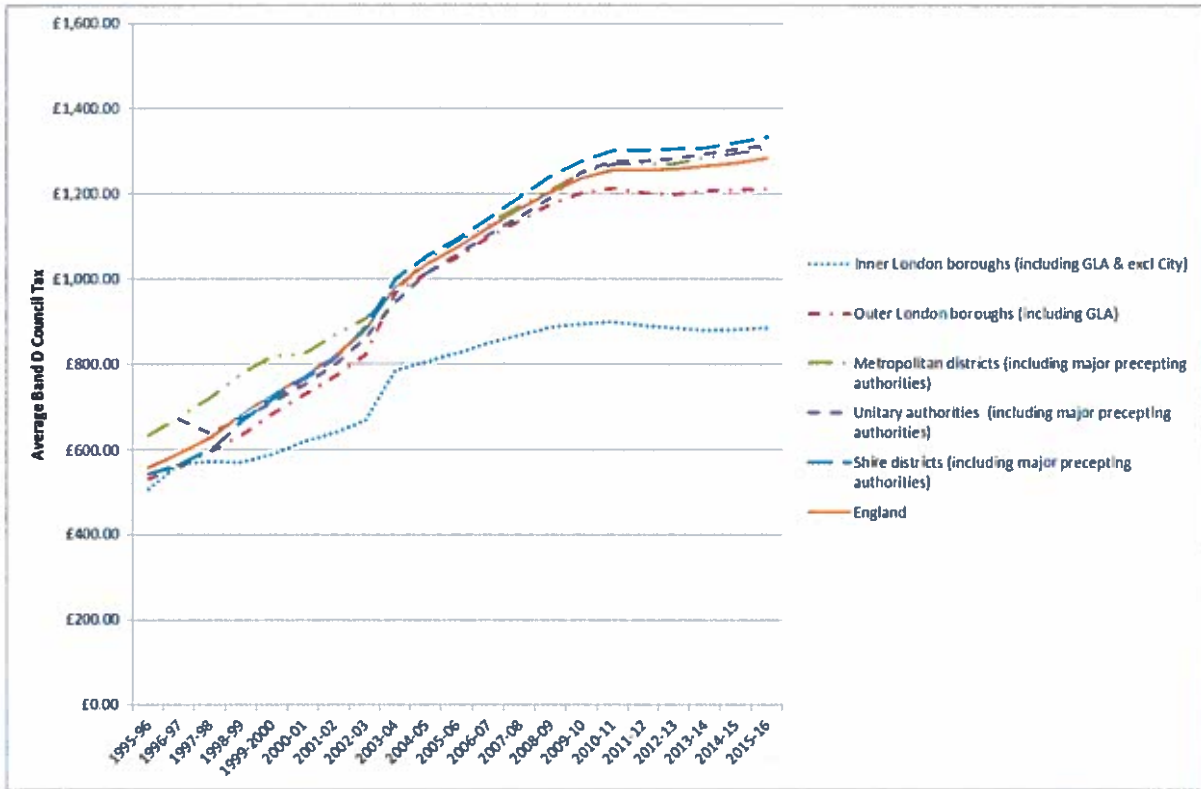
## **Distribution of Centrally Funded Resource DEL**

When we received the provisional local government finance settlement in December we were dismayed 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 appreciate that this redistribution was not implicit within the Spending Review but it is of a much greater magnitude than we could reasonably predicted following the November announcement. This additional reduction came far too late in our budget setting process with no prior notification or consultation. We appreciate it was subject to short post announcement consultation and we have responded separately to the Department for Communities and Local Government. However, we believe the London issue is worth further examination as part of the Spending review and we contend presents a significant opportunity to increase the funds available for the national redistribution for local government (which we have already indicated needs urgent and fundamental review).

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 types of authority. This has been compounded as London boroughs have become more affluent and can raise more income from other sources e.g. car parking charges, which are also not recognised in the redistribution formula. We contend that the effect of both of these deficiencies means London boroughs (particularly Inner London) have been able to charge 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.

## **Increasing the Locally Financed Contribution**

We have previously submitted evidence of the yawning gap which has developed between the council tax band rates in Inner London and the rest of the country. We have reproduced this evidence in the form of the graph below. We accept this gap is not of the current government's making and over the last 20 years we have consistently challenged the distribution of RSG and specific grant allocations which we contend unjustifiably favoured Inner London authorities. We believe this is the root cause that has resulted in the wide variation in council tax charges compared to the rest of the country. We propose that the Government should carry out an urgent and fundamental review of central funding distributions to address this. This would have the inevitable consequence that council tax band rates in Inner London would have to rise (and therefore referendum requirements would have to be amended in London). Over time we estimate that if council tax charges in London were comparable to the charges in the rest of the country this would raise an additional £0.7bn to £0.8bn towards the total spending for local government. This would not only provide the additional resources within the overall local government spending totals which we believe is desperately needed (since flat cash is not good enough) but also ensure the local contribution in London is consistent with the rest of the country.



We suggest that the council tax premium on long-term empty properties should be much higher. This would allow local authorities where there are substantial numbers of properties purchased by investors speculating on rising property values to charge significantly more council tax. The additional council tax raised could be earmarked for infrastructure investment (it would be difficult for a speculator to complain about paying additional council tax for infrastructure which would add value to their asset), and more importantly may encourage more empty properties to be let out, thus helping to address the housing supply issue. This in turn could release central funds which wouldn't be needed for other housing initiatives to help improve upon flat cash for local authority services.

We would also welcome further flexibilities on other council tax discounts e.g. single occupancy. This would provide another substantial source of income to increase the locally financed contribution to local government spending. This would help to deliver a better than flat cash settlement for local government, which we believe is needed, without compromising the Treasury's fiscal consolidation. We are not convinced by the argument that single occupants consume fewer services and thus should receive a discount. Council tax is a contribution towards a wide array of local services some available to all and some specifically targeted to support the most vulnerable. It is impossible and inappropriate to tot up all the services each household pays and the services they receive due to the high proportion of council spend supporting the most vulnerable. Furthermore, if the single person argument is founded then surely local authorities should have the flexibility to charge a council tax premium on properties in multiple occupation with more than 2 adults in residence.

## **Conclusions on Improving on Flat Cash Settlement**

We urge the chancellor to look again at all the options to improve the flat cash settlement, even if this means a greater locally financed contribution if there is no money to improve the centrally funded share without compromising fiscal consolidation. We believe the needs led review to the existing distribution of central funding addressing the unjustifiably low Council Tax charges in London and greater flexibility to increase locally financed share meets both local government spending needs and the country's fiscal consolidation requirement.

## **Additional Spending Demands**

We have previously said we will return to evidence to support the need for additional funding to meet rising spending demands. These demands are largely unavoidable and over the last 5 years across the whole authority have amounted to recurring additional spending of £40m to £50m each year, most of which is outside our control. If anything these pressures to rise even further to £60m to £70m over the period of the spending review due to a combination of government policy e.g. introduction of the living wage, demographic factors e.g. rising population and economic factors e.g. inflation forecasts.

It is reasonable to expect local authorities to manage some of this additional spending through efficiencies but it is intolerable to expect local authorities to fully absorb the impact which flat cash implies. These spending pressures have been completely ignored in the last two Spending Reviews and if they continue to be ignored we will have no option other than to reduce front line services. We will drive out all the efficiency savings we can and transform services to deliver the outcomes we require at lower cost but this will not be enough to manage all of the spending demands within flat cash.

In particular, upper tier authorities and especially county councils are experiencing particularly acute pressures on adult social care services. In Kent for 2016-17 these pressures include £10m to meet the cost of higher than budgeted activity & cost in the current year, and £29m of forecast new additional pressures for next year. These forecast pressures include demographic demand (particularly acute in Kent is the increasing number and complexity of adults with learning disabilities), market prices for social care (which will be affected by the introduction of the National Living Wage as many providers in Kent only pay the minimum wage and will not be able to fully absorb the increase in hourly pay from April) and the transfer of funding for the Care Act 2014 from a separate S31 grant into RSG. If we do not find money to fund these pressures, particularly the market prices, there is a real danger of the social care market collapsing in parts of the county which would have a significant impact on health services. None of us want that situation and we need to make sure there is adequate funding for vital social care preventative services so we do not pass additional burdens onto more expensive health services. In total this means we need to increase the adult social care budget by £39m for 2016-17.

The central funding from government is reducing by £56.6m. This is the figure published for KCC in the spending power. Over 1/3 of KCC's net budget is spent on adult social care, so effectively approximately £20m of this is a reduction in adult social funding. The additional 2% adult social care council tax precept (if agreed by county council) would raise an additional £11m. The overall increase in the council tax base for next year and the proposed increase for all services up to the referendum threshold (once again if agreed) raises an additional £22.5m, on the same basis as central funding if over 1/3 relates to adult social care this amounts to £8m.

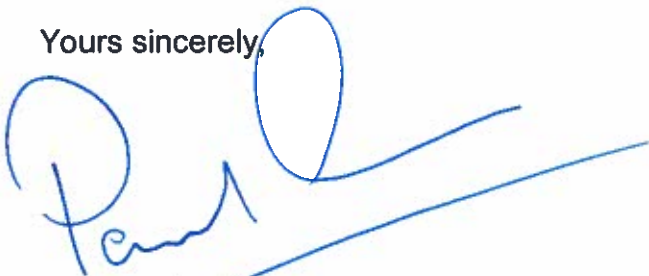
So the equation is:

- Social Care spending up by £39m
- Social Care central funding down by £20m
- Social Care share of council tax increase up by £19m (£11m plus £8m)

This leaves KCC with a gap of £40m to find on social care in 2016-17. Whilst we welcome the additional flexibility through the additional 2% council tax precept for social care (and we are confident the majority of residents will accept paying more to protect social care) it is nowhere near enough. We will continue to transform social care services but finding £40m to balance this equation isn't feasible. This means other council services will suffer to subsidise social care. We will find a way to manage in 2016-17 but in light of the significant imbalance we urge the Chancellor to bring forward the introduction of the improved Better Care Fund with more available in 2017-18. The social care pressures are particularly acute in county areas and are exacerbated by historically low levels of funding for social care which we have previously highlighted disproportionately favour London authorities. This needs to be addressed and the formula used to allocate improved Better Care Fund based on appropriate measures of need and use up to date information on client numbers/need. The proposed allocations in the spending power calculation do not take adequate account of either and we are more than willing to work with government to develop an appropriate methodology which accurately reflects the needs for county areas and metropolitan areas without unjustifiably favouring London authorities (particularly Inner London).

I hope the Chancellor and Treasury officials find this submission helpful, drawing attention to the deficiencies we see in the Spending Review and suggesting positive ways these can be addressed without compromising fiscal consolidation.

Yours sincerely,



**Paul Carter, CBE**  
**Leader of Kent County Council**