Response to the Provisional Local Government Finance Settlement

MHCLG is encouraging responses via an on-line survey. This does not leave scope to comment on the business rate retention pilot approvals. However, we can submit additional supporting evidence (provided after the consultation response below) and we plan to include evidence of the unique challenges Kent faces as the main border with the EU in 2019-20 to support our case that the pilot should be approved for another year as way of helping to manage some of the unique challenge.

Question 1: Do you agree with the methodology for allocating Revenue Support Grant in 2019-20?

Yes

No ✓

No Comment

Additional Comments

Although KCC has accepted the four year funding deal we have consistently voiced our very strong reservations about it. Firstly, we have consistently challenged the flat cash outcome of the 2015 Spending Review as being "not good enough", failing to recognise the rising spending demands which all authorities face both in terms of the rising cost of services and goods which we need to buy in (not least the impact of NLW wage on our supply chain), and rising demand from an increasing population with ever increasing complexity of need. Whilst we recognise that this flat cash equation has subsequently improved, particularly with the welcome additional funding for social care through the Improved Better Care Fund and Social Care Support Grant, the Revenue Support Grant has remained unchanged. Furthermore, whilst the additional money for social care means the settlement is now better than flat cash this still represents a reduction in real spending power after taking account of rising costs and demands. It is most unhelpful when the small cash increase is heralded as a real-terms increase when it is nothing of the sort, and leaves councils having to find savings and reduce services in order to balance their budgets. Secondly, we have consistently questioned the changes to the distribution of RSG introduced in 2016/17 with no prior notification or consultation, these changes hit county areas particularly hard compared to inner London councils and we contend has been a significant contributory factor why we are now seeing some county councils in severe financial difficulty.

Question 2: Do you agree with the Government's proposed approach to allocating £410 million un-ringfenced funding for adult and children's social care according to the existing Adult Social Care Relative Needs Formula?

Yes ✓

No

No Comment

Additional Comments

We have previously accepted, albeit reluctantly, that the existing Adult Social Care Relative Needs Formula (RNF) is the only accepted measure of relative spending on social care and is therefore an appropriate mechanism to allocate additional funding to support social care pressures. Nonetheless, we do believe this formula is fundamentally flawed and outdated, and consequently does not adequately reflect spending needs on social care services. In particular we are concerned that the older persons block is based on population aged over 65 when in reality the vast majority of older persons services are provided to a much older age group, and we are seeing many more adults with complex learning disability needs surviving into older age which is not reflected in either the younger adults or older persons RNF. Other major problems with the current RNF is the use of attendance allowance as a proxy measure for social care (even though the criteria for AA and social care are different and consequently the number of clients each has is vastly different) and the measures for income/wealth do not adequately reflect the means testing applied to social care applications. Furthermore, the RNF takes no account of the local market conditions which play a significant factor in the cost of social services. Finally we are unclear why the Adult Social Care RNF has been used to allocate a grant which is to be spent adults and children's social care, this may be to provide as much flexibility as possible or to reflect where the greatest pressures are, but this has not been made explicit.

Question 3: Do you agree with the Government's proposal to fund the New Homes Bonus in 2019-20 with the planned £900 million from Revenue Support Grant, with any additional funding being secured from departmental budgets?

Yes ✓

No

No Comment

Additional Comments

We have previously supported the reforms to reduce the New Homes Bonus from 6 years to 4. We also supported the principle of introducing a baseline so the grant is better targeted to those areas with the largest housing growth. We believe this makes sound financial sense. However, we were critical that the final baseline was set at 0.4% in the 2017/18 settlement when previous consultation had suggested it was set at 0.25%. This change was never adequately explained. We are pleased that the government has made departmental funds available to avoid further changes to this baseline without prior consultation. There are many other, much more significant, aspects of the New Homes Buns which we remain concerned about e.g. the 80/20 split in two tier areas, the previous reductions in the central government funding for the grant, and the inadequate targeting of funding to promote housing growth. We look forward to further reforms to this grant to address these concerns.

Question 4: Do you agree with the Government's proposed approach to paying £81 million Rural Services Delivery Grant in 2019-20 to the upper quartile of local authorities based on the super-sparsity indicator?

Yes ✓

No

No Comment

Additional Comments

We agree with the government that there are additional cost pressures associated with delivering services in sparse rural areas. However, in a county the size of Kent we do not qualify under the super sparsity measure even though we face significant additional costs in rural areas in social care (where travel times/cost are an issue), supporting rural bus services, waste disposal and recycling (again significant travel costs between facilities). Furthermore, as a peninsular county with a long border with no neighbours there are diseconomies of scale as our ability to share services is limited. Should rural services grant continue (or indeed rural issues are better reflected following the Fair Funding review) we believe the approach needs to be tailored to better recognise larger geographic counties with several smaller urban centres.

Question 5: The Government intends to distribute £180m of the levy account surplus. Do you agree with the proposal to make this distribution on the basis of each authority's 2013-14 Settlement Funding Assessment?

Yes ✓

No

No Comment

Additional Comments

We welcome the government returning this money to local authorities and the government should be commended for this. Furthermore, we welcome that funding is being allocated based on the 2013/14 distribution which means it does not penalise county areas which suffered disproportionately from the changes made to the SFA methodology in 2016/17 of which we have been highly critical as these changes were introduced with no prior notification or consultation. Once again government should be commended for listening and responding to these concerns. We would have preferred that a similar approach had been taken with some of the other additional funding which has been made available to improve the flat cash outcome of the 2015 Spending Review

Question 6: What are your views on the council tax referendum principles proposed by the Government for 2019-20?

No Comment

Additional Comments

We have consistently challenged the referendum principles as being undemocratic and no better than the previous capping regime. This remains Kent County Council's position and we think the referendum principles need to be reviewed. This will be particularly important if the Fair Funding review results in changes to the distribution of the business rate baseline (and remaining RSG) which creates winners and losers. We would hope this change will mean that areas which have benefitted from the previous arrangements, notably inner London, will receive a lesser share in future and should have the option of raising council tax to compensate. This would allow either band D rates in inner London (or at the very least average council tax per dwelling) to catch-up with the levels in the rest of the country. We have consistently provided evidence that council tax levels are significantly lower in inner London and this can only arise from disparities in RSG/business rate retention (and the previous formula and specific grant regimes which preceded the current business rate retention) which significantly favoured inner London. It is simply incomprehensible that the differences could be explained by inner London councils being more efficient and there is no evidence of this.

Having outlined our opposition to referendum principles as a mechanism we at least welcome that government has not reduced the threshold from the indicative level announced in the

2018/19 settlement of the social care levy. This at least has allowed authorities to plan for the consequences.

Question 7: What are your views on the Government's approach to tariffs and top-ups in 2019-20?

No Comment

Additional Comments

We have consistently supported adjusting tariffs and to-ups to reset the baseline to reflect the April 2017 revaluation, as far as is practicably possible to ensure authorities do not benefit or suffer from changes due to economic factors outside their control. Therefore, we support this final adjustment to cancel the one-off reconciliation adjustment to the 2018/19 tariffs and top-ups.

Question 8: Do you have any comments on the impact of the 2019-20 local government finance settlement on those who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide supporting evidence.

Yes

No

Submitted as additional supplementary evidence

Maintaining Kent & Medway local authorities financial stability during Brexit

Full Response to the selection of Business Rate Pilots for 2019/20

Kent and Medway was selected as a Business Rate pilot in 2017 for what we assumed would be the period of time up until the Comprehensive Spending Review period. It was subsequently announced that pilot areas would have to re-apply for the year 2019/20 despite the fact that this meant our application would be submitted mid-way through the year to which our pilot related and before the results of the pilot were known and the benefits associated with the pilot assessed.

The Kent and Medway pilot duly submitted our bid which built on our previous bid. The provisional Local Government Finance Settlement did not include Kent and Medway as a Business Rate pilot for 2019/20. We strongly urge government to reconsider this decision and to include Kent and Medway as a pilot for 2019/20 both because we have significant concerns about the process and because the Kent area is facing unprecedented challenges arising from Brexit and its position as the 'front-line county' with Europe.

Details of these two concerns are set out below:

The Process

Kent and Medway's 2018/19 bid to become a Business Rate pilot was repeatedly described by civil servants managing the process as being the best bid they had received. Our new bid (for 2019/20) built on our previous bid and met all the criteria set out in the prospectus.

The fact that just two of the previous 10 pilots (excluding London and the original devolution deal areas) have been continued engenders a strong concern that the driving imperative for the new pilots has been to appease those not selected in the previous round it seems inconceivable that 80 per cent of the previous applicants have failed to submit bids which exceeded the threshold or which surpassed the standard of the newly appointed pilots. It is also extremely interesting that many of the newly appointed pilots are authorities generally recognised as struggling – whether that is those at the lower end of CIPFA's resilience indicators, levels of reserves or reserves to debt ratio. If so whilst financial sustainability was mentioned as a criteria for selection, it wasn't clear that these would be factors taken into consideration for selection. It is also unclear why London boroughs have retained pilot status and that all the initial pilots that commenced in 2017/18 have been allowed to retain their pilot status.

It also seems perverse to require us to re-bid less than half-way through our pilot year. Our pilot still has a quarter of the year to run and it will not be until April 2019 that we will be able to assess the financial impact of the pilot and it will take even longer to assess the extent to which our proposals have been successful given that we have not yet been able to commit the overwhelming proportion of our retained business rates to projects intended to deliver or incentivise growth. In a multi-tier area like Kent and Medway we have to put in significant effort to develop cross council working with districts, county council, unitary authority and Fire and

Rescue authority to make the most of the pilot and to ensure that projects and initiatives deliver the best outcomes for the wider economic area beyond individual boundaries. We cannot make a full assessment of the success of these during the pilot period.

Impact of Brexit

If (as seems apparent) Business Rate pilots were selected on the basis of their financial challenges, there is a strong argument for including Kent because of the impact we are experiencing from Brexit. Whilst all local authorities are suffering because of the uncertainty associated with the UK's impending departure from the European Union, Kent's geographical position as the 'gateway to Europe' puts the county squarely in the front-line of Brexit.

Kent will be affected to a far greater degree by any change to border and customs arrangements than other areas of the country. Specifically, Kent has the largest 'roll-on roll-off' port in the UK at Dover and the Channel Tunnel at Folkestone. This infrastructure alongside Kent's peninsular position means our county's road, rail and port facilities (which are vital to the operation of the national economy) will be disproportionately affected. Kent is also more reliant than other areas of the country on employment associated with trade with the European continent and Kent's local authorities will face additional demands on their infrastructure, communities and businesses if there are any material changes to our trading relationships as a result of the UK leaving the EU.

Assuming that a deal or transitionary measures are agreed, Kent is likely to suffer from a range of issues including:

- A lack of mobility, connection, and access to key resources for the immediate Kent community;
- The potential for civil order and policing challenges locally, as well as a visible reduction in the wide range of key policing, security and judicial tools that Kent Police currently use in collaboration with European partners;
- real challenges to the strategic road network in Kent arising from bottlenecks at the ports, overcapacity of HGVs on Kent roads and increased non-designated parking;
- wholesale shifts in terms of border management at Dover and Folkestone in terms of applying a host of regulatory checks and customs to goods and passengers alike;
- visible, short, medium and long-term impacts to key UK ports.

Potential implications of a no-deal scenario could include:

- Prolonged disruption to passenger and freight networks impacting the strategic road and rail networks and the surrounding local road network;
- Disruption to the importation and exportation of goods, foodstuffs and other consumables, and medicines and other medical supplies due to changes in trading rules and regulations and from traffic congestion;
- Disruption to vulnerable individuals and communities affected by major traffic congestion resulting in an inability to attend schools, hospitals, etc.;
- Disruption to staff travel leading to staff shortages in key services such as health, social care, education and emergency services and an inability to provide local services and individual appointments;
- An increase in the numbers of migrants arriving in Kent, including unaccompanied asylum-seeking children, as a consequence of the change in UK-EU relations.

Specifically, In the event of a no-deal Brexit, it is forecast that Kent may need to cope with holding up to 10,000 HGVs on a routine basis for at least six months. Such congestion would exceed that of previous incidents experienced in Kent, including Operation Stack in 2015, which resulted in almost 7,000 HGVs contained on the M20 in Kent and cost the Kent and Medway economy £1.45m per day.

A no deal scenario would also have direct impacts on the delivery of statutory services which could include administration of GCSEs and SATs, continued operation of Special Education Needs (SEN) transport, impacts on service standards / levels, impacts on service delivery as a result of supply chain difficulties; and the continued effective registration and coroner services and waste management.

Whilst we are working with government to do all we can to mitigate the impacts of various scenarios, any change in customs arrangements will have a substantial financial impact on the county and on local services.

Even in the event that there is no material change to our trading relationship with the EU, Kent has already been severely impacted by Brexit – both because of businesses delaying investment decisions and because of the impact of preparations being made for Brexit (including 'Operation Brock' which has seen severe disruption to the M20 as infrastructure to hold lorries has been installed). Crucially, many of our services and staff that play a significant role in helping with economic development (including highways) have been largely diverted to assist with preparations for Brexit.

. Kent County Council has, and continues to, ask the Government to meet a range of identified capital investment and revenue support costs associated with Brexit. In particular we have been able to secure additional funding in 2018/19 to improve the highways network in anticipation of additional traffic congestion, but we remain concerned that this will only tackle certain pinch points and is insufficient to deal with the wider impact across the geographical area. It is already clear that Brexit is having a significant impact on our local economy and has the potential to continue to do so. For this reason, we urge ministers to reconsider our bid to be included in the list of business rate retention authorities for 2019/20 to provide much needed locally generated resources to local authorities in Kent to maintain their financial stability and mitigate to some degree the impact on Kent.

– The 2018/19 pilot has enabled Kent authorities to retain in excess of £30m additional business rates growth within the local area. 70% of this has been allocated to individual authorities for them to decide how this can help address financial pressures (including those arising from Brexit) and 30% is pooled to support economic growth. Whilst 75% retention would mean we retain less growth we amended the 2019/20 bid so that a greater proportion (80%) was targeted for financial sustainability, and of this a greater share was targeted to the upper-tier which faces the majority of Brexit related pressures.

For further information on issues that Kent will face and identify local responses which will need to be funded appropriately, please refer to;

i) Kent County Council's December report https://democracy.kent.gov.uk/documents/s88112/Item%207%20-%20Brexit.pdf
ii) Canterbury Christ Church University's report https://www.canterbury.ac.uk/social-and-applied-sciences/psychology-politics-and-sociology/cefeus/docs/CEFEUS-Delivering-a-Brexit-Border-2018.pdf