

## **TACFIG AND SDI PROGRESS REPORT**

### **1 PURPOSE OF REPORT**

- 1.1. This report brings Members up to date on the activities of the Town and Country Finance Issues Group (TACFIG) and the Shire District Initiative (SDI). It also seeks Members' views in respect of the SDI submission relating to Revenue Support Grant.

### **2 BACKGROUND**

- 2.1. Rochford is a founder member of a group representing the views of shire districts which are neither sparsely populated or of an urban nature.
- 2.2. The Group was formed in 1997 in order to press for a fairer deal from Government, as it appeared from grant settlements that our type of authority was receiving very low levels of Government funding.
- 2.3. The Council has committed to membership of the Group for three years, culminating at the end of this financial year. The membership fee has been £2,500 per annum.
- 2.4. TACFIG originally made representations on the 1998/99 grant settlement. The Group's views were well received but, as the Government had committed to a three year review of local government finance starting in 1999/2000, they were not prepared to accept any changes to the distribution mechanism.
- 2.5. TACFIG members agreed the Group should take every opportunity to try to influence Government during the three year review. It was for this reason that member authorities were asked to make a long term commitment to the Group.
- 2.6. The Shire District Initiative was launched in 1999/2000 and asked for a commitment for two years at £900 per annum. The SDI also sought to influence the Government review, but it had additional aims of influencing capital expenditure systems, VAT problems and housing finance issues. The Council agreed to join the SDI, primarily because of the additional areas it sought to influence as these are common concerns amongst all shire districts.

**3 PROGRESS TO DATE - TACFIG**

- 3.1. The Government review of finance is being conducted in two strands. Strand one asked for “blue skies” thinking of how future funding should be distributed. Strand two was to look at how the existing system of needs allocation could be made fairer.
- 3.2. TACFIG members have taken the view that it was essential to put a paper forward to the strand one debate. The rationale for this was that, if we were viewed as an organisation with clear ideas and views, we would have a far greater chance of being listened to when discussions take place on strand two, where the vast majority of funding is involved.
- 3.3. The large urban authorities and London Boroughs have always devoted high levels of resources to putting forward their views. Owing to their size, they have always found it possible to directly influence the views of MP's and Ministers.
- 3.4. Shire districts have never achieved anywhere near their level of influence. TACFIG strategy was therefore designed to take the debate on a regular basis to the public and MP's in order to gain a level of influence unprecedented for shire districts such as Rochford.
- 3.5. The strand one submission was submitted last year and has received a favourable response from both DETR and the Minister. The main points of the submission, which has the support of member councils are as follows:-
  - Simplified basic grant system – the system should be fairer and simpler to understand. There should be stability in that an authority would have a reasonable idea of its grant entitlement for a three year period.
  - A basic grant of £250,000 to all authorities to contribute towards the cost of modernisation.
  - A small element of bidding, possibly up to 5% of the grant available based on community plans. Bids should be decided by an independent panel from central and local government with representatives from the private and voluntary sectors.
- 3.6. The submission was one of the first to be received by DETR. As such, it received wide coverage in the local government press.

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- 3.7. Since then TACFIG members and officers have had meetings with the Minister, civil servants of DETR and the Local Government Association (LGA) in order to promote and explain our views.
  - 3.8. In order to escalate the debate an all party group of MP's has been formed and they have agreed to promote TACFIG views in Parliament.
  - 3.9. TACFIG held a fringe meeting at the recent LGA Conference in order to convey our views to local government leaders. It is intended that this will keep the debate current and may attract new members.
  - 3.10. The group has now formulated a "storey board" for use with MP's and the public in order to show how our type of authority is disadvantaged by the current grant distribution mechanism.
  - 3.11. The Treasury is pursuing Public Service Agreements (PSA) with government departments where additional targets are agreed in return for relaxation of perceived constraints and possible additional funding. The LGA is keen for the Treasury to extend the concept to local authorities and is in the process of negotiating a pilot scheme.
  - 3.12. Officers from TACFIG authorities were invited to a meeting with LGA officers in order to explore ways in which our member districts could be included in the initiative.
  - 3.13. Whilst it became clear that it was too late for our member councils to be involved, we have been invited to put forward our views on how the scheme should be structured to benefit small shire districts. As such we may be invited to participate in future pilots and it is encouraging that TACFIG authorities have been invited to put their views forward.
  - 3.14. TACFIG officers are now preparing to make an early response to the Government Green Paper on local authority finance which is expected in the near future. This, again, should ensure that we are seen to be active in the debate on finance.

#### **4. PROGRESS TO DATE – SDI**

- 4.1. The SDI has produced a paper in respect of VAT which illustrates the effect of the 5% exemptions limit for VAT is having on the spending decisions of District Councils. The paper argues for a higher percentage limit.
- 4.2. Briefly, a local authority can reclaim VAT on expenditure incurred in respect of VAT exempt activities provided they do not form more than 5% of standard rated activities. If the 5% is breached, the authority loses the right to claim the full amount, not just the sum in excess of 5%. This is a constant cause for concern when any capital investment decisions are being made.

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- 4.3. The SDI is also having an input into the proposed financing regime for housing. Work is also in progress on producing submissions in respect of the proposed changes to capital financing allocations.
- 4.4. With regard to the allocation of Revenue Support Grant, the SDI has submitted a proposal to DETR. This has not been the subject of formal adoption by member authorities. The consultants working for the SDI have now issued a consultation document seeking Councils' views on the proposals.
- 4.5. The SDI proposals are as follows:-
- Shire districts would be exempted from any plan based bidding
  - There should be a predetermined control total of the grant payable to shire districts fixed five years with annual inflation updates, etc.
  - That sum be distributed to individual shire districts on the basis of service needs, taxable capacities and any special circumstances, principally through a stable simplified formula.
  - The distribution of the control total to individual authorities should be determined by shire districts themselves operating as a self regulating community.
  - There should be a real term increase in the aggregate sum available to shire districts.
- 4.6. As Members will see from the above, the SDI differs from the TACFIG submission principally on the question of an element of plan based funding.
- 4.7. Whilst there may be an attraction in exempting districts from plan based funding, it is likely that a community plan will become a statutory requirement. The TACFIG proposal is only for a modest amount of plan based funding based upon the community plan.
- 4.8. The radical proposal of the SDI is that grant be distributed by shire districts themselves. It must be questionable whether all of the districts would sign up to the concept whereby all of the grant would be distributed by ourselves. Where would be the accountability? How could it be organised to take on board all views? Would those districts likely to lose out on the formula accept that situation?
- 4.9. From informal discussions with SDI consultants DETR is interested in the idea of a self regulating community. If all districts were included they may consider exempting from plan based bidding.

**5 RESOURCE IMPLICATIONS**

- 5.1. None in respect of this report. There are significant sums at stake in the review of local government finance. It is vital that districts take every opportunity to have their voices heard.
- 5.2. The Council's existing commitment to the two groups ceases at the end of the financial year. At present the Corporate Director (Finance & External Services) is involved with the TACFIG steering group in order to ensure the Rochford view is taken into account as and when policies are being formulated.

**6 RECOMMENDATION**

It is proposed that the Working Group **RECOMMENDS**

- (1) that the progress of work undertaken by TACFIG and SDI be noted.
- (2) Members determine their views with regard to the proposals put forward by the SDI. (CD(F&ES))

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**Background Papers:**

None.

For further information please contact Roger Crofts on (01702) 546366