MODERNISING LOCAL GOVERNMENT FINANCE GREEN PAPER

1 SUMMARY

1.1 This report advises Members that the Government is seeking responses by 8 December in respect of the above, which was issued on 19 September.

1.2 This report was considered by the Member Budget Monitoring Group at its meeting on 29 November and the views of the Members of that Group should be taken into account by this Committee

1.3 The major issues are discussed with proposals for a response.

1.4 In preparing the response, officers have taken into account the views of the two pressure groups to which Rochford belongs, namely Town and Country Finance Issues Group (TACFIG) and the Shire District Initiative (SDI).

1.5 Members will be aware that the Corporate Director (Finance and External Services) is a member of the TACFIG management group and has assisted, albeit in an advisory capacity, in that organisation's response.

2 THE GREEN PAPER

2.1 A copy of the Green Paper is on deposit in the Members Rooms at both Rochford and Rayleigh.

2.2 The Green Paper represents the first strand of the Government's review of the local authority finance system. The Government initially planned a three-year review of the local government finance system from 1999/2000 to 2001/2002.

2.3 The review has been delayed and it is now unlikely that any new system will be introduced before 2003/2004. During the review period, the Government introduced a three-year freeze to changes in SSA formulae. In the Green Paper the possibility of extending the freeze is identified.

2.4 The key elements to the Green Paper are contained in the following chapters:

3 – Reforming the Grants System
4 – Capital Investment and Borrowing
5 – Taxes and Charges
6 – Different Services and Authorities

2.5 Throughout the Green Paper specific questions are asked to which the Government is seeking a response.

3 REFORMING THE GRANT SYSTEM

3.1 The Case for Reform

3.2 The Green Paper sets out the reasons for reforming the grant system which this Council can certainly relate to. The chapter then goes on to examine various options and alternatives of a new system.

3.3 Predictability and Stability

3.4 One possible attribute of a new system is that there should be predictability and stability. Rochford has suffered dramatic reductions in its Standard Spending Assessment (SSA) and resultant Revenue Support Grant (RSG). This makes budgeting extremely difficult, particularly in a District like Rochford where it is necessary to manage budget changes over a number of years.

3.5 We should, therefore, welcome predictability and stability, but with a very strong caveat that the amount of resources allocated in the first instance must be adequate to meet our needs.

3.6 Floor and Ceilings

3.7 Another aspect is whether there should be “Floors and Ceilings”. This concept protects authorities from significant grant losses owing to changes in formulae, etc. Conversely, because the overall funding is fixed, it would be necessary to fix limits should an authority receive a major benefit in the event of SSA changes.

3.8 “Floors and Ceilings” would assist with predictability and stability. Again, the overriding concern must be for an equitable starting settlement.

3.9 Formulae

3.10 There is no doubt that the majority of any grant distribution mechanism will be dependent upon a formula basis.

3.11 TACFIG has successfully demonstrated that the current formula works against shire districts like Rochford by placing too much emphasis on socio-economic indicators which have no major bearing on the type of services we provide.

3.12 Any new formulae should essentially be population driven. Any deviations from that basis must be capable of easy explanation to the residents of the District.

3.13 TACFIG has vigorously argued that the Government should recognise that there is an element of fixed cost within all authorities, regardless of size. There should, therefore, be a lump sum element of grant of £250,000 payable to all authorities, regardless of size, to recognise the work being undertaken on the Government's modernising agenda.

3.14 Safety Valves

3.15 This concept would allow authorities which could clearly demonstrate to Ministers that they were underfunded the opportunity to receive additional resources. This would only operate in exceptional circumstances.

3.16 Whilst this concept is welcomed, with a system which clearly delivered adequate resources, it should not be necessary.

3.17 Specific and other forms of Grant

3.18 It is clear the Government intends to continue to use specific grants outside the mainstream of grant allocation, eg., schools grants, asylum seekers, etc.

3.19 It should be accepted that this is necessary on occasions, but the main objective should be to keep these to a minimum. General funding should be the prime focus as this allows Councils to allocate resources in accordance with local needs and priorities.

3.20 Local Public Service Agreements (PSA's)

3.21 Local Public Service Agreements are designed to give local authorities financial incentives to achieve stretching targets on a range of outcomes that matter to local people. This concept is being piloted with 20 authorities in 2001/2002. Unfortunately, Districts have been omitted from this first pilot, but TACFIG has been invited to future discussions on this subject with the Local Government Association.

3.22 Our response should mirror the TACFIG view in that we are disappointed that Districts were not involved in the early pilots as we have an important role to play. We would suggest that any grant for PSA should be additional and up to 2.5% of the authority's budget over a three-year period.

3.23 Local Authority Plans

3.24 The TACFIG response to the first strand of the debate on restructuring local government finance advocated and element of plan based funding. The proposal argued for funding up to a maximum 5% of the SSA total being available on the basis of community plans. The funding should be for a fixed period of 3 or 4 years. The decisions for funding should be made by and independent board.

3.25 The TACFIG view was not supported by any of the other local authority groups. It was, however, a very powerful message and was probably responsible for TACFIG being taken seriously by both DETR officers and politicians.

3.26 There is now reason to believe that Government ministers may be moving away from the plan proposals, particularly for District councils. This is because there would be logistical difficulties in evaluating over 200 individual plans.

3.27 TACFIG has, therefore, taken a slightly different stance in that it welcomes the fact that authorities now have to make community plans. If there is no independent assessment of plans, then there should be no element of plan based funding. The Government should, therefore, concentrate on providing additional funding through PSA's.

3.28 The Council's response could now easily reflect that of TACFIG.

4 CAPITAL INVESTMENT AND BORROWING

4.1 The Government is considering moving away from the current capital control system which is based on setting the scope and limits for financial capital expenditure by issuing borrowing approvals and providing support for the revenue effects of borrowing through the SSA system. The proposed prudential system would have three key elements:-

- There would be a limit set on the rate of increase of individual authorities' debts. This may only be a temporary control to avoid any initial surge in aggregate spending as local government adjusts to the new system.

- There would be a core set of prudential indicators for which local authorities would set their own ratios within a centrally agreed framework, eg., debt to total net revenue expenditure.

- The regime would be backed up by the fundamental principle of a balanced budget requirement. This is already enshrined in legislation and accounting codes of practice.

4.2 The new single capital pot would end as an allocation mechanism, although the underlying approach would continue including the need to produce capital strategies and asset management plans. The Government also emphasises the continuing importance of partnership and private finance in the new system. The Government intends to reserve the power to bring back borrowing limits for poor performing authorities. The Government recognises that, because revenue support may change over time, authorities do not know for certain what the total value of the government's contribution to a particular capital project or programme will be. To address this concern, the

Government is considering replacing revenue grant funding with up-front capital grants.

4.3 It is suggested we welcome the move away from the restrictive regime under which we currently operate. We will need to see how the Government intends to judge and allocate funds for up-front capital grants. Concerns need to be expressed with regard to the concept the transitional arrangement to limit additional borrowing to a percentage of existing debt. This could work very much against small shire districts as capital expenditure requirements do not flow evenly. There are normally quite large fluctuations and too restrictive a regime would mirror the existing situation where small districts can find it almost impossible to maintain existing assets.

5 TAXES AND CHARGES

5.1 Council Tax

5.2 This Green Paper identifies a number of proposals for council tax, including whether the County Council should raise and collect the council tax. The County Council's proportion of the council tax is by far the largest proportion and the Government believes that accountability for changes in the overall charge may be improved if County Councils raised and collected the council tax. Other proposals include putting the revaluation cycle on a statutory basis and linking it to the business rate revaluation cycle.

5.3 There can be arguments made to pass council tax collection to County Councils, mainly on the basis of economies of scale. There would, however, be significant up-front costs of merging all of the various systems, setting up new administrations, etc. Counties would probably seek the assistance of the private sector, but it is doubted they would have the capacity to meet all of the possible demands at one time.

5.4 There would also be the need to look at benefits administration. In some authorities, there is total generic working between benefits and council tax. In authorities like Rochford, whilst there is not generic working, there nevertheless have to be very close links between the divisions. It was mainly to improve this type of link that benefit administration was transferred to district councils in the 1970's.

5.5 Whilst it is acknowledged that counties are responsible for the largest element of council tax, transferring billing and collection would not, in itself, enhance accountability; it would merely transfer focus for questions to the counties. This could be achieved through increased clarity and information about the billing process.

5.6 The proposal for regular revaluations for council tax purposes is to be welcomed. Failure to revalue will discredit the system in the same way that lack of revaluation discredited the former rating system. It is

suggested that council tax revaluations take place in the middle of the business rate revaluation cycle.

5.7 Business Rate

5.8 The Government has reaffirmed its interest in promoting a scheme to allow authorities to impose a 1% supplemental rate rising to a maximum of 5%, subject to agreement with the business community. There are also suggestions for additional reliefs for small businesses in rural areas.

5.9 Local government as a whole is arguing that control of business rate should be returned to individual local authorities. Whilst support for this concept is understandable, it would result in a worsening of Rochford's resource base. There is a strong lobby from business for the rate to remain in Government control. It is the officers' view that it is unlikely for control to be handed back to local authorities.

5.10 The ability to levy a supplemental rate is welcomed, but the procedures that would be put in place would deter small districts with relatively small business communities from pursuing this course of action as the income generated would be extremely small.

5.11 Extension of rate reliefs is welcomed.

5.12 Fees and Charges

5.13 Proposals include the need for each authority to develop a corporate charging policy. Further regulations are proposed under Section 150 of the Local Government and Housing Act 1989 to enable authorities to charge for discretionary services provided under statutory powers. In the longer term the Government intends to review the policy on charges for mandatory services. Congestion charging is referred to as an example of charges being used as an instrument of policy. It is proposed that local authorities be given the option of introducing road user charges and a levy on workplace parking where new charges can help tackle congestion as part of the Local Transport Plan. The net proceeds would be retained locally and ring-fenced for improving transport for at least 10 years.

5.14 Any proposals that would allow greater flexibility to levy charges should be welcomed. It gives authorities the opportunity to charge service users, thereby reducing the general burden of taxation on the local community.

6 DIFFERENT SERVICES AND AUTHORITIES

6.1 Shire District Councils

6.2 The Government makes the point that shire district councils represent 50% of all local authorities, but account for less than 5% of local

government expenditure, excluding housing. They are smaller than upper tier authorities, with less staff resources to devote to corporate management planning. To the extent that it is meaningful to distinguish between local and national issues, the work of district councils tends to have a more local focus. In respect of the grant system based on plans, the Government questions whether it is feasible for Ministers to give personal attention to proposals from all 238 shire district councils. The Government also questions the cost and benefits of shire district councils being involved in safety valve and local PSA schemes. The proposal is made for a separate funding formula for the particular needs and circumstances of district councils and, more radically, a system which shire districts administer themselves.

6.3 It is pleasing to note that the Government accepts the argument that, owing to low staff numbers, shire districts do have problems in resourcing the corporate initiatives which are being placed upon them by central Government. The TACFIG proposal for a flat sum grant of £250,000 for each authority would go some way to address this issue.

6.4 The difficulty of judging 238 individual plans is recognised, but the TACFIG proposal was to have an independent body to carry out this function. If local PSA's are to be used to allocate additional funds, it is surely equitable to have a similar system for district councils.

6.5 The suggestion that shire districts be allowed to allocate grant among themselves was put forward by the Shire District Initiative. When this was considered by Council there was a strong view expressed against the idea.

6.6 Originally the DETR view on this proposal was that it should not be compulsory and all districts must agree. It is now understood that DETR may be prepared to change these conditions. This would indicate that this proposal is now being considered as a serious proposition.

6.7 It is presumed Members would still not support this proposal.

6.8 <u>Parish and Town Councils</u>

6.9 The Government has concerns about whether the existing financial regime for local councils gives adequate freedoms to the larger councils or provides adequate protection for their taxpayers. The future role of parish councils in contributing to the effective local governance in rural communities will be considered further in a forthcoming rural White Paper.

7 SPECIFIC QUESTIONS

7.1 The above report has attempted to highlight the main themes emanating from the Green Paper. There were a number of minor

issues which will be picked up in the response to specific questions posed throughout the Green Paper. These questions are set out below, together with a suggested response:-

1. Q. Under future approaches to grant distribution, what can be done to explain the system and the decisions it produces to authorities and other stakeholders?

   A. If the aim of a simple grant system is achieved, there should be no problem explaining the system and the decisions it produces. Council Tax Benefit Subsidy Limitation (CTBSL) is a complicated scheme which is widely misunderstood and should, therefore, be abolished.

2. Q. How do we strike the right balance between predictability and stability of funding and the need to take account of changes in local authorities' circumstances? In particular, how should floors and ceilings be set?

   A. Rochford believes the current grant distribution system is grossly unfair. In principle, increasing predictability and stability of funding are to be welcomed, but the unfairness in the current system needs to be redressed before the clear benefits of floors and ceilings can be realised.

   Our main concern would be the initial level at which the floors are set. The present arrangements for Central Support Protection Grant provided a basis for floors within the grant system. We would like to see this system improved so that the floor would provide a minimum increase in external support.

3. Q. What can local authorities do to extend the benefits of predictability and stability to schools and other budget holders to community partners and to council tax payers?

   A. No comment.

4. Q. Should we extend the moratorium on SSA formula changes, to allow time to put a new grant distribution system in place?

   A. The overriding objective is to provide a fair system which works. If a delay is required to achieve this, then the Council gives its support.

   Rochford is a member of TACFIG and in 1998 the Group suggested a multi-block approach to address the severe imbalance in the current system. These proposals have

been put on hold due to the freeze in methodology changes. If the freeze is extended beyond the three years, there should be some interim grant until the system problems are addressed.

5. Q. Should we introduce more judgement into the formulae used to distribute revenue grant?

   A. A system of distribution needs to be fair, simple and easily explainable to the public. For a small plan-based proportion of the grant distribution system, the element of judgement would need to comply with these criteria and would need to be assessed by an independent body. There should be no judgement needed in a simple formulaic approach. If we have locally elected Members, responsive to their local communities, there is no place for excessive ministerial judgement in grant distribution.

6. Q. Should we introduce "safety valves"? How should they work?

   A. "Safety valves" should be an important feature in any new system as it would provide a facility for underfunded authorities to be financially compensated. Such a system of compensation should only be needed at the margins if the grant system is effective.

7. Q. Should the grant distribution system take account of local authorities' own plans?

   A. The Green Paper recognises the value of plans and PSA's and there is therefore logic in using these in allocating additional resources.

   If plans are to be used to allocate an element of grant that is not additional, it should be through an independent body.

8. Q. If plans are taken into account, what more can Government do to reassure authorities that it will give due weight to national and local priorities?

   A. An independent body assessing plans could address this issue. The reassurance needed will be provided by receipt of appropriate funding from the Government for such plans.

9. Q. Should we abolish the requirement that local authorities need Government permission to borrow?

   A. Yes.

10. Q. Are the safeguards that we have proposed sufficient to protect national and local tax payers and to promote private finance deals and partnership working?

    A. Yes – the safeguards proposed are more than suffcient.

11. Q. How can we ensure that local people are properly consulted about investment plans and understand their long term financial implications?

    A. There is already sufficient consultation initiatives in place such as Community Plans, Asset Management Plans and Best Value Performance Plans to ensure that local people are properly consulted and informed.

12. Q. How should we allocate revenue grant to support capital investment?

    A. We would support the use of commuted up-front capital grant which has the virtue of certainty for the recipient authority. Where PFI or other such approaches to procurement are employed, revenue support would be profiled in line with the contract costs/savings arising.

13. Q. Should there be a statutory revaluation cycle for council tax?

    A. Yes, there should be a statutory revaluation on the same basis as business rates. The council tax revaluation could take place mid way between the period of the business rate revaluation.

14. Q. How can council tax bills be made clearer?

    A. The statutory supplementary information which is currently required to be included in council tax bills should be reduced. Local authorities have other vehicles by which they can communicate the substance of the supplementary information.

15. Q. Do our proposals for implementing the supplementary rate provide adequate safeguards for local business, whilst being reasonably simple to operate?

A. The safeguards are more than adequate. In fact, they act as a positive discouragement for councils to levy a supplementary rate.

The Government will need to decide on how the ratepayers "vote" for the supplementary rate and its subsequent spending. Will each business have one vote or will the votes be weighted according to the business rateable value?

The handing over of monies to a pool reduces accountability and should be avoided at all costs.

16. Q. What are the merits of the specific suggestions for business rate reliefs and for a local tax reinvestment programme? Do they risk making the tax too complicated?

A. There is little benefit in the Local Tax Reinvestment Programme as the amounts raised at district level could be very small.

17. Q. Do our proposals on business rate revaluation secure greater predictability and stability for the stakeholders? Are they fair? Are they workable?

A. The early announcement of revaluation changes is to be welcomed as is the proposal to re-align the revaluations with those for council tax. Both will assist in making the system more predictable and stable.

It is suggested that the cycle of revaluations be every 6 years. This would give more scope for transitional reliefs to work their way through so that each business at some time paid their correct amount of business rate. This is not the case at present. If council tax was on a similar 6-year cycle, this would easily be managed by the Valuation Office in that revaluation work would be scheduled every three years.

8 RESOURCE IMPLICATIONS

8.1. None at present, other than officer time in preparing a response. Officer time will be required during the period of formulating a new grant regime, particularly if Members agree to continuing membership of TACFIG and maintaining officer involvement in the management group.

8.2. The outcome of the grant review will have a fundamental impact on the Council for the foreseeable future. Rochford at present receives very poor support, it is vital that all possible efforts are made to, hopefully, secure a better deal, but, at the very least, ensure our position is not worsened.

9 PARISH IMPLICATIONS

9.1. The finance review will affect all tiers of councils throughout the country.

10 RECOMMENDATION

10.1 It is proposed that the Committee **RESOLVES**

To recommend that Finance & General Purposes Committee respond to the Green Paper on the basis of the views set out in the report.

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Background Papers:

Green Paper "Modernising Local Government Finance".

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