Policy and Finance Committee

2 July 2015

Revenue Support Grant

Report by Director of Finance

Purpose

To update the Committee on the work being undertaken to achieve greater financial independence for Kingston and to ensure that the economic rewards of growth within the borough are retained for local benefit.

Recommendations of the Lead Member for Treasurer, Finance and HR

To **Resolve** that the Committee -

1. Endorses the principle of financial independence for Kingston
2. Notes the work undertaken on this issue to date
3. Endorses the future work programme and continued contribution to South London and London-wide work on devolution

Key Points

A. The Council's financial position continues to be extremely challenging due to reductions in the funding received by Central Government as part of the national deficit reduction strategy.

B. RBK is one of the authorities that have been engaged in dialogue with Central Government on the subject of devolution, specifically exploring the possibility of changes to the way in which the local government funding system applies to Kingston.

C. The Government's response to our proposals prior to the recent General Election was positive. The new Ministerial team at the Department for Communities and Local Government have given confidence that devolution and fiscal reform are priorities for the new Government. Early indications are that the conditions are favourable for constructive and productive further discussions on proposals relating to Kingston: RBK is well positioned to take advantage of the prevailing national agenda in favour of localism and devolution.

D. RBK is also at the forefront of work at a sub-regional (South London) and regional (London) level on devolution and growth. The South London Partnership recently publish a prospectus for growth which outlined its position as a Joint Committee and the opportunities for driving growth in Kingston and neighbouring boroughs.

E. Achieving a different balance of financial settlement could have a very favourable impact on our medium term financial position. It is also fundamentally linked to our aims for local democratic renewal: the freedom to make meaningful local decisions including those relating to fiscal matters is an intrinsic part of a vibrant local democracy.

F. Our proposition to Government will be based on:

- Retaining a greater share of tax raised in Kingston for the benefit of the borough
- Removing our current reliance on central government funding
- Piloting a model of self sufficient and autonomous local government

G. We will continue to work with other boroughs in London and South London to advance wider devolution of powers and public service reform. This will include exploration of a Business Rate Pool for South London, which may of itself increase the amount of business rates retained in Kingston.

Background

1. The Coalition Government that came to power in 2010 committed to revamping the funding system for local government. A clear policy intention was to reduce the traditional links between funding and 'need' in favour of an emphasis on incentivisation: instead of authorities being funded based on the levels of deprivation or population growth they would be rewarded for tackling them. Key initiatives introduced as a result of this policy included the New Homes Bonus, which redirected mainstream funding according to new homes added to the Council Tax list, and Business Rates Retention, which linked some funding to local business rates growth or contraction. It did not restore local control over the rate itself, and indeed the policy around Council Tax 'Freeze' and referendum limits significantly reduced the local discretion exercised by councils over their resource levels.

2. Perhaps as a result of the acceptance that there was a continued need to balance an element of need and resource redistribution (from more affluent areas that generate resource above their funding levels to poorer areas), the Business Rates Retention model has failed to deliver the local autonomy and clear financial incentives that were promised.

3. Towards the end of the Coalition Government's period in office there were a number of examples of a willingness to strike bilateral and specific deals with individual authorities that introduced local amendments to the funding system.

4. The Leader of the Council initiated conversations with the Department of Communities and Local Government (DCLG) and maintained a dialogue throughout 2014/15. A number of meetings were held with the then Minister for Local Government Kris Hopkins MP, whilst officers entered into correspondence and met with the senior civil servant responsible for funding issues.

5. The result of the General Election gives an opportunity to continue these discussions with Government, albeit with a change in ministerial personnel. The appointment of Greg Clark as Secretary of State for Communities and Local Government gives confidence in the likelihood of DCLG continuing to retain a passion for localism and devolution and to be interested in agreeing bilateral deals with individual authorities.

Work to Date

6. The Leader of the Council has been clear in his ambition of moving the Royal Borough towards financial self sufficiency. By embracing the growth in population that the borough faces over the next ten years we can ensure that not only is it managed in the best way for the borough in terms of character and infrastructure, but that it also contributes to our future revenue streams through increased council tax and business rates. The ambition of self sufficiency is directly linked to this work: ensuring that as much as possible of the benefit generated is retained within the borough for the good of residents.

7. It is also self evident that all things being equal, the element of our funding that relates to business rates will perform much better over the medium term than the Revenue Support Grant (RSG) provided by government. The assumptions used in the Medium Term Financial Plan (MTFP) presented to Council in March 2015 indicate an overall reduction in resources excluding Council Tax of £11.75m (31%) by 2019/20. This consists of a small increase in Business Rates of £1.9m (+9.7%) and a significant reduction in RSG of £13.7m (-74%).

8. It therefore follows that the lower our reliance on RSG, the less exposed we are to the changes the Government will make to local government funding as part of its deficit reduction strategy. If the Government were to allow us to exchange RSG for additional Business Rates at a neutral point in 2016/17 (ie a £1 for £1 swap), and the trends applied as above, then we would be around £10m better off by 2019/20.

9. There are three broad categories of tailored agreement that have been seen within local government over the past eighteen months: retention of business rates for infrastructure funding on specific projects (ie Brent Cross), adjustments to the mechanism for sharing growth in business rates (Oxfordshire and others) and wider ranging devolution of service accountabilities and responsibilities alongside fiscal reform (Greater Manchester). It is of note that each of these deals has been struck with the Treasury rather than DCLG. Our future engagement with the Government will be broadened to include HM Treasury as well as DCLG.

10. Our work in Kingston aligns with wider devolution work in London. Following the London Finance Commission, which was jointly sponsored by London Councils and the GLA, work is now being refocused on wider public service reform rather than purely fiscal devolution. Similarly the work of the South London Partnership of which we are a part. Additionally, national work such as the report of the Local Government Finance Commission is of relevance and interest.

11. Any solution for RBK needs to based on a full understanding of the underlying risks and opportunities. It also needs to take account of the perceived costs and benefits to central government. We should seek to make sure that any changes address some of the fundamental weaknesses of the current arrangements: the lack of local discretion about resource levels that means there are very limited

mechanisms for releasing pressure as it builds in the system. This contrasts with high levels of volatility in financial risks faced by authorities.

12. We have commissioned work from London Councils to investigate the possibility of a Business Rate Pool for South London. We will also now engage some external support to model how we address some of the issues raised by DCLG in discussions to date. these issues include:

Issue	**Description**
Equalisation	The paper highlighted that any change to the level of Business Rate retained by Kingston would have an adverse impact on funding for other authorities or the DCLG. It is straightforward to adjust for this impact in year 1, but an impact would still emerge in subsequent years.
Volatility and Risk	Retaining a greater share of business rates would increase the level of risk carried by the local authority, as well as increasing the potential reward. Consideration will need to be given to our local potential for growth and our relatively low level of available reserves to manage any potential downside.
Levy and Safety Net	The paper raises the point that authorities are protected against significant reductions via the collective self insurance mechanism of the levy and safety net. A change to this arrangement would both reduce protection locally and the funds available nationally to protect others.
Growth	The obvious point is made that any growth allowed to be retained locally in excess of the current arrangements will be an equivalent cost to the Government. This may not apply if the local retention drives greater performance than would otherwise have been the case.
Reset of BRR	The as yet unidentified approach to resetting the system is broached, and the risk of an adverse impact is raised.

Options

13. Rather than the proposed approach the Council could choose to drop its own work on this matter and to either accept the current system or to work for change exclusively through representative bodies such as the South London Partnership, London Councils and the Local Government Association.

Resource Implications

14. If successful the work set out in this report could have a significant impact on Kingston's future resource position. The only direct implications from the recommendations in this report is the proposal to engage some additional external support to model options. This is expected to be in the low thousands of pounds and will be provided for from existing budgets.

Legal Implications

15. None at this stage. The legal implications of any future change in funding arrangements will be considered as work is progressed.

Risk Assessment

16. The risks associated with the move towards financial independence are discussed within the body of this report.

Equalities Impact Assessment

17. An equalities impact assessment is not required in relation to this report as it considers only a potential change in funding arrangements and not a change to existing policy.

Network Implications

18. There are no network implications arising from this report.

Environmental Implications

19. There are no environmental implications arising from this report.

Background papers - None

Author of report - Leigh Whitehouse, Director of Finance,
leigh.whitehouse@kingston.gov.uk/ Tel 020 8547 5570