The majority of local authorities prepare a medium term financial plan over a forward planning horizon of between three and five years. This enables the Council to determine:

- The revenue and capital investment needs for the delivery of the priority outcomes contained within its Strategic Plan.
- The level of resources available to finance investment need.
- Any shortfalls between investment needs and resources available. The investment need includes the important role of place shaping and in certain instances assisting where other sectors and services are facing difficult challenges such as the High Street.
- Alternative strategies for addressing shortfalls that enable the delivery of the priority outcomes contained within the Strategic Plan.

The Council produces and implements a 4 year strategic plan and this vision together with a rolling three to five year forward financial planning horizon enables a strategic approach to be implemented resulting in sustainable solutions that are independent of the political cycle.

This approach can be contrasted with the approach taken at a national level that is entirely focused with Spending Reviews on the lifecycle of a Parliament. Therefore at the start of a new Parliament, a Spending Review is often undertaken and this is used to set a forward looking financial plan for the Government. At this stage this provides some financial planning certainty and direction to all elements of Government including Local Government. However, as Parliamentary time elapses the financial planning horizon reduces and therefore the uncertainty increases.

The Government helpfully in December 2015 announced an offer to local authorities of a four year provisional finance settlement for 2016/17 to 2019/20 conditional on authorities publishing an Efficiency Plan. This approach initially enabled a degree of certainty for financial planning over a four year horizon. However as the period covered by the finance settlement elapsed the financial planning certainty reduced to the point where we are faced with a significant degree of financial planning uncertainty from 2020/21 onwards.

However even during this period there have been iterative changes that have had impacts on the degree of stability provided by the four year settlement:

- The risk of annual changes to the New Homes Bonus ‘deadweight’ level initially set at 0.4% to ensure the cost of the scheme remains within the nationally set target.
- The risk of further changes to the New Homes Bonus regime such as measures that were muted to improve ‘planning effectively’ that have never been introduced.
- The introduction of Negative Revenue Support Grant from 2017/18 (although the initial two years 2017/18 and 2018/19 were abated). This Negative Revenue Support Grant was £453,000 for this Council and was based on a change in methodology to use actual rather than notional Council Tax income in the needs and resources calculations. The £453,000 accounted for 35% of the Council’s projected Revenue Funding Gap for 2019/20. The Council began identifying options to close this projected Funding Gap (including increasing the level of Council Tax by the maximum allowable level) during 2018/19 by identifying savings and income options. However following a consultation the removal of Negative
Revenue Support Grant was confirmed in the Provisional Local Government Finance Settlement for 2019/20.

The financial planning uncertainty has been exacerbated within our Medium Term Financial Strategy because in addition the Government has decided to also undertake major reviews of key aspects of the Local Government Finance System in 2020/21:

- Business Rates with the move to a 75% retention.
- New Homes Bonus.
- The Fair Funding Review.

These reviews impact a significant proportion of funding from Government as demonstrated using the Core Spending Power figures for 2019/20:

<table>
<thead>
<tr>
<th>Review for</th>
<th>2019-20 £ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Settlement Funding Assessment</td>
<td>Yes</td>
</tr>
<tr>
<td>Compensation for under-indexing the business rates multiplier</td>
<td>Yes</td>
</tr>
<tr>
<td>Council Tax</td>
<td>No</td>
</tr>
<tr>
<td>New Homes Bonus</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Core Spending Power</strong></td>
<td></td>
</tr>
</tbody>
</table>

Proportion Subject to Review in 2020/21

These reviews are in addition to other iterative changes taking place that impact on Local Government Funding Streams:

- The move to a Check, Challenge and Appeal process.
- Changes to the Business Rates revaluation cycle.
- Short term changes to Business Rate Reliefs with reimbursement from Section 31 Grant.

The financial planning approach is also inconsistent with other aspects of Government Planning such as Local Planning where a Local Planning Authority will articulate its aspirations for growth (housing and economic) including the strategic infrastructure necessary to support delivery in a Local Plan. The Local Plan will as a minimum cover a period of 15 years with 5 year reviews.
The efficiency, fitness for purpose and sustainability of the current system for funding local government (central government funding, council tax, business rates retention and other income); how it could be improved, including options for widening the available sources of funding; and what lessons can be learned from other jurisdictions.

The current system for funding local government is based on a very short term funding horizon and even during this short term period further significant changes take place that have real impacts on policy development and service delivery. The planning horizon needs to be much longer (with suitable caveats) providing indicative figures based on a financial ‘direction of travel’ together with known demographic and policy changes articulated in Government projections such as those produced by the Office of Budget Responsibility in relation to the financial impact of policy changes announced by the Government in the Budget.

The relationship between Central and Local Government is still characterised by a lack of policy or fiscal devolution to a local level. This approach is evident with:

- The services and standards that have to be provided by the law.
- Council Tax capping, mandatory reliefs and discounts.
- Business Rates Rateable Values, multiplier setting and mandatory reliefs.
- The iterative changes to the New Homes Bonus regime.

There are a number of approaches that could be also be considered to improve local financial sustainability:

- There needs to be a debate over the services that are provided by local authorities by law including where service levels are prescribed by Central Government and how these are funded. This should include a review of how National Baseline Funding is calculated and sustained.
- The role of prevention needs to be reflected in funding need including the links and financial benefits to other public services such as the National Heath Service.
- The ability of Councils to set Council Tax increases at the level necessary without capping to deliver the services required by law and those that the local community has determined are a priority.
- Consideration should be given to enabling mandatory discounts and reliefs to be determined on a discretionary basis at the local level.
- In recognition of the Council’s wide ranging and strategic place shaping role, consideration should be given to enabling local authorities to widen and diversify their income streams including retention of some or all of national taxes generated within their area that are influenced by local policy choices such as stamp duty land tax or a tourism tax.
How funding needs of local government are assessed. The current and forecast funding needs of local government and how these needs can be better understood at both a national and local level.

The funding quantum provided to Local Government must be based on a set of robust information that reflects:

- The long term nature of services provided by Local Government to some of the most vulnerable members of society.
- Less short term often departmental specific funding. This is characterised by New Homes Bonus to reflect a National Policy choice to incentivise more homes being built. The majority of funding was ‘top sliced’ from existing Local Government funding that was previously distributed based on need and then allocated based on housing completions. This meant that not only was there less money to fund need that was increasing in Adult Social Care and Children’s Services it had a significant redistribution impact within the sector of the funding available. The National Policy choice should have resulted in additional funding being identified for implementation rather than simply being funded from existing sources.
- The services required to be provided by Local Government and where applicable the minimum level of service that is required by law.
- A comprehensive understanding of the contribution discretionary services make to wider Government policy and the impact that reducing or stopping delivery of these services has on other areas of Government activity in both the short and longer term.
- Key trend and demand based changes in areas such as demographics including population and housing growth, people living longer and the additional impact on the service provided.
- The level of funding that is available from local sources such as Council Tax and the different policy choices that are available.
- The overall funding envelope needs to be verified independently in a similar way that the OBR produces forecasts based on Government policy set by the Treasury.
The approach the Government should take to local government funding as part of the 2019 Spending Review, what the key features of that settlement should be, and what the potential merits are of new or alternative approaches to the provision of funding within the review.

We are in support of the approach to reviewing needs and resources however the outcome will only be successful if the quantum of funding being distributed by the new approach reflects a realistic policy framework based on a robust evidence based approach.

The overall quantum must reflect:

- The long term nature of services provided by Local Government to some of the most vulnerable members of society.
- The services required to be provided by Local Government and where applicable the minimum level of service that is required by law.
- A comprehensive understanding of the contribution discretionary services make to wider Government policy and the impact that reducing or stopping delivery of these services has on other areas of public and voluntary sector activity in both the short and longer term.
- Key trend based changes in areas such as demographics such as more people living longer and the additional impact on the service provided.
- The level of funding that is available from local sources such as Council Tax and the different policy choices that are available.
- The overall funding envelope needs to be verified independently in a similar way that the OBR produces forecasts based on Government policy set by the Treasury.

It is vital that the overall quantum is based on a policy based approach such as that applied to the National Health Service rather than the funding available set through a ‘top down’ approach.

The ‘top down’ approach is not reflective of need and is leading to a serious of incoherent and inconsistent policy choices at a local level such as:

- The introduction of higher risk commercial activities that are being used to fund demand led statutory services.
- Very short term and often parochial decisions characterised by ‘cost shunting’ from one area of the public sector to another. This is evident through the reduction of discretionary leisure provision that leads to less activity and then places additional burdens on the National Health Service amongst others.
- The use of distribution methodologies that are ‘fit for purpose’ and reflect current or future need such as the basis used for the distribution of Disabled Facilities Grant. This is grant is currently distributed based on pre 2013 data and therefore does not reflect current or future levels of need. This results in areas where need is high having to introduce triage based systems (with potential consequences for the National Health Service) in some areas where in other areas resources exceed identified need.

April 2019