

**Revenue Support Grant Settlement—2011/12 & 2012/13
Consultation Process by the Secretary of State (CLG).
Representations on behalf of Watford Borough Council**

General Issues

The settlement is incredibly harsh and imposes upon Watford a 27.73% grant loss over the two year period. This actually represents a 33% grant loss when inflation is applied.

The grant loss is actually greater than this due to the discounting of the costs of concessionary fares—a nationally imposed service that was never fully funded. Local authorities also have the uncertainty of further grant losses in 2013/15 which, based upon the Comprehensive Spending Review, suggest another 10% (in cash terms) reduction in government grant as a minimum.

At the same time as grant has been cut local authorities will still have to manage unavoidable growth in their budgets. For example, the cost of housing and council tax benefits continue to rise; the historically low levels of interest rates has severely affected investment income; the recession has affected businesses which has reduced levels of commercial rent income (vacancy levels have increased); trade refuse receipts are down; public use of facilities such as leisure facilities are down; and land charge income has now to be returned to commercial operations with councils effectively having to provide a free service.

Specific Issues for Watford

Watford had put in place a Medium Term Financial Strategy (MTFS) which had assumed a 30% cash reduction over a four year period and no increase in council tax during that time. This was a recognition that Watford's Council Tax was high although, as a regional centre with state of the art leisure and cultural facilities and a very high number of 'day visitors', costs inevitably would be higher than many rural authorities.

The council tax at Watford had reduced progressively compared to the district 'family' and the intention was that this should continue.

In order to achieve a freeze on council tax whilst meeting a 30% grant reduction the MTFS had identified the need to make £3.8m of efficiency savings which represents a 23% reduction to the current net budget for 2010/2011.

The effect of the front loaded nature of the grant reductions combined with an assumption that further reductions will be imposed in 2013/2015 has increased the necessary efficiency savings to £5m (a 30% reduction to the current net revenue budget). This level of reduction must inevitably have a significant effect upon levels of service.

Representations to the Secretary of State

1. That there needs to be a recognition that local authorities (and particularly district councils) cannot be expected to meet a disproportionate proportion of public expenditure reductions. The front loading of grant reductions should not be followed by further savage cuts in succeeding years. There also needs to be some stability within the process and notification from the LGA that....'a second two year settlement is expected to follow for which the Government intend to adopt a new distributional system'....will not assist local authorities in planning for the future. This leads on to Watford's second representation.

2. The flaws in the newly introduced floor protection.

The previous system provided a safety net for Watford of circa £800k per annum and to some extent reflected the extra costs falling upon Watford of being a regional centre for the surrounding area. (We collect circa £65m in business rates and are due to get back £4.6m from the NNDR Pool next year which is of course another anomaly). But at least the Formula Grant reflected our additional costs and provided £800k floor protection. The new system has essentially thrown this out, and is now only being used to equalise sources of funding across all local authorities. The way it is doing this is inequitable however.

It looks at the amount each authority has raised in the current year from Council Tax (for Watford £8m) and compares this to the amount received by way of Formula Grant/ NNDR (again £8m). So Watford finishes up in Band 4 (the most prosperous band !) and suffers the greatest loss of grant in 2011/2012 (16.77%, and contributes to the Floor Protection pool (£79k).

But the council tax income of £8m is made up of two components

- * the council tax base (number of residential properties/ banding of those properties)
- * the actual council tax levied in the area (Watford is the 18th highest in the country at £249.84).

As referred to earlier, Watford has been making progress in moving down the table (for example, it set a minus 1.4% council tax reduction in 2010/2011. Its Medium Term Financial Strategy had assumed no increase in council tax throughout the period 2011/ 2015 (a four year period) and this would have been achieved by identifying £3.8m of service cuts (a 23% reduction).

The Government has now totally changed the floor protection system which has disadvantaged Watford by £1.823m over the two year period of the Settlement (from £800k receipt of protection to being a £79k contributor--the contribution rises to £144k in 2012/2013).

This 'support to other authorities' now means that Watford will have to increase council tax in 2012/2013 onwards by in excess of 2.5% annually to finance the shortfall as it is highly unlikely that we can make further expenditure cuts of this scale without decimating services.

So our council tax payers will have to pay a higher council tax because the Government is giving money to other parts of the country.

So let's look at the most extreme example: Breckland. It has the 4th lowest district council tax in 2010/2011 of £121.42 (half the council tax paid by Watford residents). Under the new floor protection they are due to get a subsidy of £1.221m (not just for next year but the year after).

So we have an inequitable system where Watford are effectively condemned to being a high tax authority and others such as Breckland (and many others) will continue to enjoy a low tax---at our expense.

This must be changed by changing the 'tapers' within the settlement to compensate for such inequity of treatment.

3. Concessionary Fares

By common consent this has been a real mess.

The system has never been fully funded and this has been exacerbated by the vastly differing impact faced by neighbouring Districts. The net cost of the scheme has been determined by where a 'trip' starts from (and the return journey has also been attributed to the starting point).

Watford, apart from being a regional centre is also a transport hub and we have experienced many residents of neighbouring Three Rivers and Hertsmere councils commencing their journeys from Watford.

The latest settlement brings this in stark relief. Watford has had circa £822k of Formula Grant taken off it (to be passed to the County Council); whereas Three Rivers has suffered a loss of £54k and Hertsmere a loss of £409k in formula grant. This cannot be logical when relevant statistics show that the number of bus passes in circulation are Watford 10,279; Three Rivers 11,955; and Hertsmere 14,373. In this instance it is clear that Watford Council Tax payers have been subsidising concessionary fares for the two neighbouring councils. We are not talking of small amounts of subsidy. £822k off our formula grant equates to 5% of our net budget requirement. There must be a recognition in the settlement of the disproportionate effect this has had on some councils and the 'adjusted grant' figure for 2010/2011 should reflect this inequity. Any adjustment would only need to be minor in the greater scheme of things--but can mean so much to a struggling district council (and it would of course need to be discounted through the subsequent floor protection mechanism).

Conclusion

There has to be a recognition that further grant reductions after 2012/2013 are not sustainable. Further, that radical changes to distribution methodology will inevitably introduce an element of subjectivity and increased unfairness.

This inequity is reflected within the revised Floor Protection arrangements where Watford Council Tax payers are subsidising other authorities even though their council tax is considerably lower than ours.

Finally Watford Council tax payers have been directly subsidising neighbouring authorities and this will be enshrined for the foreseeable future through the excessive reduction in formula grant for concessionary fares.

What is Watford hoping to Achieve

The settlement has been far worse than could have been anticipated.

The change in the floor protection methodology has had a massive impact and it might have been hoped that its implementation might have been introduced on a phased basis. A 25% taper geared to previous levels of floor protection each year over a four year period would have had a degree of fairness (a necessary counter to the inequity of the new system). It is however unrealistic to expect additional grant of circa £600k but a figure of additional grant of £200k would certainly assist Watford in meeting its council tax aspirations.

Similarly the net cost of concessionary fares has impacted disproportionately upon a transport hub such as Watford. Even on a very conservative estimate it is highly probable that council tax payers in Watford have subsidised their neighbouring councils by at least £200k per annum. There is a very good case therefore that Watford's reduction in Formula Grant should be reduced from the £822k within the settlement to a more equitable £622k and this could be achieved with little impact to the overall Settlement for local government.

Footnote: Use of Reserves

All councils complete a statutory return to CLG called the Revenue Account Budget 2010/2011. Within that return local authorities have to complete a position statement on Financial Reserves. For Watford the data included:

Earmarked Financial Reserves	£8.055m
Unallocated Financial Reserves	£1.346m

There is a significant difference between these two types of reserves. Earmarked reserves include:

- where a third party has contributed to that reserve and the money is for a specific purpose. For example Watford has £0.892m received from Charter

Place tenants (a retail shopping centre) which can only be spent on keeping the Centre in good condition.

- where there is a statutory limitation on the use of that reserve. For example the Council has a Car Parking Zone reserve of £0.858m which is not available for general use.
- where there is an expectation that the reserve will be drawn down for a specific purpose. For example the Council has £1m set aside to meet the costs of redundancy that will be consequent upon the severe reductions in its expenditure.

It is therefore a fallacy to assume that these earmarked reserves are freely available to make good budget shortfalls. For Watford, it has been estimated (and reported to members of the council) that only circa £2.5m is 'freely available'.

Further as the LGA has already pointed out, the use of reserves is only a temporary expedient and ultimately needs to be replaced by permanent adjustments/ savings to Base Budgets.

21st December 2010.