COUNTY COUNCILS NETWORK	Consultation Response Local Government Finance Settlement 2017/18 Consultation January 2017

Summary Points

- Local government has been subject to an estimated real-terms reduction in government funding of 37% between 2010-11 and 2015-16. As a result of this reduction, demographic pressures, increased costs, and more complex conditions, local government is at a significant crossroads that will determine the future sustainability of core statutory services. It is imperative that Government identify genuine new sources of funding to invest in adult social care in order to place it on a sustainable footing in the short, medium, and long-term.

- CCN welcome additional funding for adult social care through the support grant in 2017/18. The reprioritisation of funding from the New Homes Bonus for the purpose of social care, although not ideal, recognises the immediate and significant pressures facing adult social care counties. If Government decide to provide transitional funding, then this must be new funding and seek to minimise any negative impact on upper-tier authorities as a result of the reprioritisation to safeguard frontline services.

- CCN support the establishment of a cross-party review of health and social care. Local government leaders, including county representatives, must play a full and active role in the review and must also seek to empower upper-tier local authorities to play a leading role in health and social care integration.

- Government should not alter the methodology for allocating Transition Grant Payments for 2017-18. This funding was provided to those councils that faced disproportionate reductions to Revenue Support Grant (RSG), particularly in the first two years of the settlement, and was allocated on a proportional basis in order to protect life critical frontline services from becoming unsustainable.

- The current distributional formula for the Rural Services Delivery Grant (RSDG), a non-ringfenced grant that recognises the extra costs of delivering public services in rural authorities, is inequitable as it excludes county councils who provide care, transport, and other services in these sparse localities. Government should consider altering the distribution methodology for rural funding in a fair and equitable manner to more accurately reflect the impact of sparsity on service delivery in county areas.

- CCN are calling for Government to accelerate the timetable for the completion of the Needs-Based Review so that it can genuinely inform the design of the new business rates system as originally intended.

Introduction

1. The County Councils Network (CCN) represents 37 English local authorities that serve counties. CCN's membership includes both upper tier and unitary authorities who together have over 2,500 councillors and serve over 25m people (47% of the population) across 86% of England. CCN develops policy, shares best practice and makes representations to government on behalf of this significant proportion of the country outside of the big conurbations.

2. CCN is a member-led organisation which works on an inclusive and all party basis and seeks to make representations to Government which can be supported by all member authorities. This submission has been developed in close consultation with member councils and is presented on behalf of CCN's cross-party management committee.

3. CCN welcomes the opportunity to submit evidence to the Department for Communities and Local Government's consultation on the *Provisional Local Government Finance Settlement 2017-18: Confirming the Offer to Councils*. This submission provides responses and detailed evidence to key parts and questions of the consultation document. CCN has worked closely with the Society of County Treasurers (SCT) in developing this response.

Overarching Points

4. Local government is at a significant crossroads which will determine the future sustainability of core statutory services, in particular children's and adult social care. Counties have transformed services and made extraordinary efficiency savings to safeguard frontline services, this in the face of an estimated 37% real-terms reduction in government funding since 2010 and facing a 93% reduction in RSG from 2015/16-2019/20.[1]

5. The offer of multi-year settlements, although welcome, only provides limited certainty over the levels of funding local authorities can expect to receive prior to this end of this Parliament. However, the take-up of this offer by the majority of counties should not be seen as endorsement to Government that the proposed funding levels are sufficient to meet increasing service demand and costs pressures. Instead it should be seen as a move by CCN member councils to lock-in minimum levels of funding and to remove the turbulence of the annual Local Government Finance Settlement (LGFS) process.

6. It is clear that there is a fundamental mismatch between the level of funding available to county areas and levels of demand. Counties remain underfunded in comparison to other local authority groups, most significantly in the remit of adult social care, and this gap is exceedingly being met by county tax payers.

7. The introduction of the Adult Social Care Precept in 2015/16 has done little to reduce the funding gap facing local authorities. In reality, if all local authorities utilise this council tax flexibility in 2017/18 it will raise approximately £200m in extra revenue against a funding gap nationally of £2.6bn by the end of the Parliament.

8. Government policy has meant that county areas have had to raise a larger proportion of their funding from council tax to meet greater care pressures, leading to higher bills for the similar levels of service provision. Research from the SCT shows that on average county residents now

[1] Local Public Service Reform, National Audit Office, September 2016.

pay £455 per head – this is 9% higher than the national average, 8% higher than the average for London, and 35% higher than those residents in metropolitan districts.

9. A large number of CCN member councils may take-up the option of the additional council tax flexibility offered by the social care precept due to the immediate pressures outlined above. However, the option of frontloading the precept with a 3% increase in 2017/18 and 2018/19 will only have a nominal effect. Councils may reluctantly choose to draw down on reserves to minimise the impact on local council tax payer, although these can only be used once and are by no means a long-term solution to the pressures facing social care.

10. Clarification is also required from Government as to the impact of frontloading the precept in this way will have on improved Better Care Fund allocations. This formula, in part at least, uses the ability to raise council tax in determining levels of distribution.

11. The provision of the adult social care support grant in the settlement is welcomed. However, the current Government practice of reprioritising funding within the existing budget envelope will not solve the underlying financial and demand issues facing adult social care, at the detriment to some of the most vulnerable people in our communities. These issues are most acute in county areas, who are faced with the highest levels of demand, the fastest growing elderly population and rapidly diminishing funding. This situation has only been further exacerbated by new burdens such as the National Living Wage (NLW) which have only been partially funded through increases in local taxation.

12. The reprioritisation of funding from the New Homes Bonus for the purpose of the social care support grant, although not ideal, recognises the immediate and significant pressures facing adult social care in counties. In the event that government identifies transitional funding this must be prioritised to compensate those upper-tier authorities, such as some county unitaries, who are worse-off financially as a result of reprioritisation. Any such funding must be genuinely new money and must not impact upon the ability of upper-tier authorities to deliver life critical services such as adult social care.

13. Government must work with local government and other key stakeholders to develop a plan to place adult social care on a sustainable footing in the short, medium and long-term. There is no doubt that any new approach will require genuinely new funding to be invested in the system in the short-term to make the system sustainable and in the medium to long-term to deliver true transformational change. CCN support the proposal from Select Committee Chairs for a cross-party review of health and social care and would be keen to engage with Government.[2] Any such review must seek to empower upper-tier local authorities to play a leading role in health and social care integration.

14. As the Secretary of State, Sajid Javid, rightly acknowledged the long-term solution must include the needs-based funding review to address the inequities in funding already within the system. The previous Secretary of State, Greg Clark, set out in 2015 that this review would be used to '*determine the transition to 100% business rates retention*'.[3] In light of this CCN are calling for the timetable for the completion of the Needs-Based Review to be accelerated so that it can genuinely inform the design of the new business rates system as originally intended.

[2] Letter- Select Committee Chairs to the Prime Minster on Health and Social Care, 6 January 2017
[3] Oral Statement to Parliament- Final local government finance settlement 2016 to 2017, 8 February 2016

15. We urge government to publish the final Local Government Finance Settlement at the earliest point possible to allow local authorities adequate time to debate and finalise their budgets for the forthcoming year and beyond.

Consultation Question Responses

Question 1: Do you agree with the methodology of Revenue Support Grant in 2017-18?

16. CCN disagree with the distributional methodology of Revenue Support Grant (RSG). The phasing out of RSG, the Government's Needs Based Review, and the move to Business Rates Retention as the main source of funding of local government are a clear acknowledgment that the current distributional formula does not deliver funding to those areas facing the most acute pressures.

17. As set out in our response to the 2016/17 provisional local government finance settlement consultation, the pace and scale of reductions to RSG would have challenged the viability and continuation of statutory services in county areas, in particular for demand-led life critical services such as adult social care.[4] The subsequent decision by Government to provide transitional funding to ease the pace of funding reductions as part of the final settlement was welcomed by CCN member councils.

18. The acceptance of the multi-year settlement by the majority of our member councils means that funding levels through RSG will remain as proposed in the 2016-17 settlement, providing some stability and certainty. However, this should not be seen as endorsement to Government that the proposed funding levels are sufficient to meet increasing service demand and costs pressures, particularly for adults and children's social care. Instead this wide-spread acceptance should be seen as a move by CCN member councils to lock-in minimum levels of funding and to remove the turbulence of the annual LGFS process.

Question 2: Do you think the Government should consider transitional measures to limit the impact of reforms to the New Homes Bonus?

Question 4: Do you agree with the proposal to provide £240 million in 2017-18 from additional savings resulting from New Homes Bonus reforms to authorities with adult social care responsibilities allocated using the Relative Needs Formula?

19. CCN welcome the provision of additional funding specifically for the purposes of adult social care.

20. We have been clear that Government must deliver genuinely new funding to ensure that social care is placed on a sustainable footing in the short, medium and long-term in order to protect and support the most vulnerable people in our society. Without this, upper-tier authorities will be forced into the unenviable position whereby the type and level of care provided has to be reviewed and in some cases restricted as a result of the growing social care funding gap.

21. However, it is important to recognise that the reprioritisation of funding from New Homes Bonus for the Adult Social Care Support Grant is neither an ideal or sustainable solution to the funding

[4] Consultation Response- Local Government Finance Settlement 2016/17, County Councils Network, January 2016

crisis facing the sector. This funding is also still significantly less than is required to meet the financial and demand challenges facing upper-tier authorities in county areas.

22. The severe financial pressures facing local government coupled with the need to build more homes leaves Government with a difficult decision to make about how to best prioritise the limited funding available within the existing budget envelope.

23. In December 2015 Government clearly set out in the *New Homes Bonus: Sharpening the Incentive* consultation its preferred option of a move to future allocations of 5 years in 2017/18 and 4 years from 2018/19. This is the option that should now be implemented as intended.

24. DCLG's own evaluation of NHB found that it has not delivered on its policy objectives such as funding being spent on '*local community priorities*'. Instead the evaluation showed that NHB receipts had been allocated for general council services (60%), keeping council tax low (6.5%) and more worryingly only 10% of receipts were invested in infrastructure for new housing. The stark reality is that NHB is becoming an increasing proportion of some council revenue budgets. It will increase as a proportion of district councils' funding assessment to a high of 72.8% in 2017/18, before reducing to 55.5% by the end of the Parliament.[5]

25. In addition to this, the 80:20 spilt of NHB in two-tier areas, in favour of district councils, meant that a number of county councils were facing a negative net financial impact. DCLG's evaluation of NHB found that by 2014/15 shire counties without fire responsibilities were £45m worse off, with counties with fire responsibilities £25m worse off.[6] This level of disparity is inexplicable given that county councils are responsible for the delivery of infrastructure and transport that are vital to facilitate housing construction and a key factor in ensuring communities accept housing development.

26. It is clear from recent announcements on housing that there has been a shift in Government thinking on how to best incentivise an increase in the rate of construction away from the NHB.[7] CCN will continue to work with county unitary and district partners to secure sufficient levels of funding to deliver Government's housing ambitions in county areas.

27. Therefore it is right that Government have chosen to reprioritise funding for the life critical service of adult social care to ease, to a small extent, the immediate funding pressures facing upper-tier authorities. In the event that Government utilise transitional measures to limit the impact of NHB reforms, then these must be prioritised for those upper-tier authorities, such as some county unitaries, that stand to lose in relative terms as a result of the reprioritisation of funding from NHB to social care.

28. CCN agree with the use of RNF to distribute the adult social care support grant. However, to ensure that funding truly follows need Government should use an updated RNF in order to better reflect demographic growth, such as the formula currently being developed by the Department of Health.[8] Such an approach would be prudent as a transitional step towards a funding system that is more aligned to need, such as that being proposed by Government as part of Business Rates Retention.

---

[5] Independent Analysis of Governance Scenarios and Public Service Reform in County Areas, EY, September 2016

[6] Evaluation of New Homes Bonus, Department for Communities and Local Government, December 2014

[7] New money for affordable homes released, Department for Communities and Local Government, 6 January 2017

[8] The 2017/18 Local Government Finance Settlement- Summary of responses to the Technical Consultation, December 2016

29. The use of the RNF, frozen in 2013/14, to distribute funding means that CCN member councils do not receive an annual uplift in their share of national funding based on demographic growth. Independent research by LG Futures found that CCN member councils have the largest and fastest growing over 65 population of any local authority type in England, rising at an average annual rate of 2.0% over the next five years.[9] As a result per capita funding levels for counties will continue to fall relative to other local authority types.

Question 3: Do you agree with the Government's proposal to fund the New Homes Bonus in 2017-18 with £1.16 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.5.8?

30. In the event that there is surplus funding from that withheld by Government for the purposes of NHB, then this should be redistributed to local authorities through the RNF in recognition of the ongoing and increasing pressures facing adult social care.

31. CCN welcome the decision to delay proposals to withhold payments for areas without Local Plans and where homes are built following appeal in 2017/18, as previously set out in our response to Government's *New Homes Bonus: Sharpening the Incentive* consultation. Any such approach would wrongly penalise county councils in two-tier areas, who while they are statutory consultees, are not the planning authority and at present are not the responsible authority for submitting Local Plans.

32. A county council should not be held accountable, nor penalised for deliverables that are not within its control. Regardless of the status of a Local Plan, county councils have ongoing obligations and financial commitments to provide infrastructure and services to support the delivery of new homes. Therefore, county councils should receive their proportion of NHB regardless of whether a Local Plan is in place or the process by which planning approval is granted.

33. In the case of CCN unitary councils, it is imperative that they are not penalised financially for external factors outside of their control that contribute to a delay in delivering their Local Plan or where homes are built following appeal.

Question 5: Do you agree with the Government's proposal to hold back £25 million to fund the business rates safety net in 2017-18, on the basis of the methodology described in paragraph 2.8.2?

34. The transition grant for 2016/17 and 2017/18 was funded through the money previously allocated for the business rates safety net. Therefore, holding back funds to re-create the safety net points to some serious shortfalls in the local government finance system as a whole. Reprioritising funding in this manner will do little to nothing to provide CCN member councils, along with all council types, with new funding to close the projected funding gap of £2.6bn by the end of the Parliament for adult social care.

[9] Social Care and Health: Funding and Cost Pressure Analysis, LG Futures, January 2016

Question 6: Do you agree with the methodology for allocating Transition Grant payments in 2017-18?

35. CCN agree with the methodology for allocating Transition Grant Payments for 2017-18.

36. In response to the 2016-17 provisional local government finance settlement CCN set out the need for transitional funding to smooth out the pace of proposed Revenue Support Grant (RSG) reductions for county areas, particularly in the first two years of the settlement. The decision by Government to provide transitional funding in the final settlement was welcomed by CCN member councils. However, it should be noted that some member councils felt that the distributional formula for this grant did not go far enough in providing sufficient funding to address the scale and pace of reductions in their local authority area.

37. Table 1 clearly shows counties face the most significant reduction in RSG over the course of this Parliament. Without the introduction of the transition grant payments, the pace and scale of the proposed RSG reductions would have challenged the viability and continuation of statutory services in county areas.

Table 1- Reduction in RSG 2015/16-2019/20

	% Reduction
CCN	-93%
London	-71%
Mets	-69%
Unitaries	-81%
England	-78%

38. Any change to the formula for distributing transitional funding would have a detrimental impact on the level of service provision in county areas, particularly at a time when CCN member councils are faced with the most acute pressures on adult social care services. These services cannot be switched off overnight – to change the formulas at this late stage would negatively impact upon the level of service provision available to some of the most vulnerable people in our communities.

Question 7: Do you agree with the Government's proposed approach in paragraph 2.10.1of paying £65 million in 2017-18 to the upper quartile of local authorities based on the super-sparsity indicator?

39. CCN agree with the principle of paying RSDG to local authorities based on the super-sparsity indicator. However, the continued exclusion of county authorities from accessing this funding stream in two-tier areas is inequitable, in particular as counties are 70% rural on average.

40. In some two-tier areas there are currently districts that are eligible for RSDG, without the county being eligible. In these areas the county must still provide care, transport, and other services in these sparse localities, without any remuneration. Research by LG Futures on behalf of DCLG and DEFRA found that there is a 'general tendency for more rural authorities to have greater

costs associated with travel claims and for more rural areas of authorities to have greater associated travel downtime'.[10]

41. Government should consider altering the distribution methodology of rural funding to more accurately reflect the impact of sparsity on service delivery in county areas, in particular adult and children's social care.

42. Members propose that in two-tier areas where a district council is currently ranked in the upper quartile, additional rural funding should also be allocated to the upper-tier authority, reflecting the services provided by the county council to that same area. This would put the services in those areas on a more equitable funding basis with unitary councils.

43. Government should also consider broadening the super-sparsity indicator to ensure that a greater number of authorities are remunerated appropriately for the additional costs of delivering rural services, reflecting that in two-tier county areas the county council delivers approximately 90% of services. Longer-term it is imperative that the Government's Needs-Based review fully recognises sparsity as a key cost driver impacting upon service delivery and that this is funded accordingly.

Question 8: Do you have any comments on the impact of the 2017-18 local government finance settlement on those who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide supporting evidence.

44. As highlighted in our answer to Question 7, inequity in funding exists for those people who share a protected characteristic that live in rural areas served by a two-tier local government structure when compared to those served by unitary authorities.

[10] DCLG/DEFRA- Research into Drivers of Service Costs in Rural Areas, LG Futures, December 2014