CCN COUNTY COUNCILS NETWORK | COUNTIES LEADING RECOVERY DELIVERING RENEWAL

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CCN Consultation Response

Provisional Local Government Settlement 2022/23

Introduction

1. The CCN represents 36 English local authorities that serve counties. The 23 county and 13 county unitary authorities that make up CCN are the largest part of the local government family. They represent all four corners of England, from Cumbria to Cornwall, Durham to Kent, North Yorkshire to Suffolk, Derbyshire to Essex.

2. The essential services our members provide touch on the everyday lives of residents and businesses across 86% of England's landmass and 47% of its population. The areas represented by our members constitute 38% of local government expenditure; 44% of total public expenditure (£201bn); and generate just under half of all tax revenues (£255bn). The economies of our areas contribute 39% of Gross Value Added (GVA) and 42% of all employment.

3. CCN welcome this opportunity to respond to the consultation on the provisional local government settlement 2022/23. Below we set out detailed responses to the consultation questions. Before this, we set out our overview response to the settlement, including on the continuing financial challenges and impending reforms to the local government finance system in 2023/24.

Overview

Settlement Length & Timing

4. CCN broadly supports the proposals in the provisional local government finance settlement for 2022-23. We recognise the importance of giving local government a stable settlement this year, ahead of more fundamental reforms to the local government finance system that CCN has long argued for. Therefore, we accept the need for a one-year settlement rather a three-year settlement, although it would have been preferable if the settlement had been announced earlier. Once reforms are in place, a multi-year settlement should then be provided to the sector.

Remaining Funding Gap

5. In the lead up to the Spending Review, CCN outlined in a detailed submission[1] that our member councils faced a collective budget gap of £920m in 2022/23, and a cumulative deficit of £2.78bn by 2024/25, even after implementing annual council tax rises of 2%. The funding gap for 2022/23 rises to £1.18bn when council tax rises are excluded. CCN welcomed the Government recognising these pressures by providing an annual increase of £1.6bn of additional funding over the next three years for all councils.

6. Despite welcoming the overall increase in resources, CCN have been clear that our councils would nonetheless continue to face a significant funding shortfall regardless of how the funding announced at the Spending Review was distributed at the provisional settlement.

[1] http://www.countycouncilsnetwork.org.uk/download/3871/

7. Although Core Spending Power (CSP) will increase by £1.3m (7.3%) in 2022-23, some 50% of this is funded on expected council tax rises and this will not be sufficient to meet the spending pressures in county authorities. Following the settlement, CCN outlined that while the additional funding was welcome, it remains the case that CCN member councils still faced a *pre*-council tax rise funding gap of almost £700m next year, with a large proportion of this new money offsetting councils' extra costs from the National Living Wage and National Insurance rises. Therefore, the funding announcements still fall short of providing sufficient resources to meet on-going pressures.

8. This funding gap is exacerbated by the pressures on adult social care that continue to be experienced as a result of the on-going pandemic. County and unitary authorities experienced considerable pressures on adult social care during the early part of the pandemic, and are again under considerable pressure resulting from a combination of staffing challenges, provider market stability and risks associated with implementing the new reforms. These challenges need to be addressed to ensure the on-going stability of the local government sector.

9. **Unless further funding is made available at the final settlement, or on-going support is forthcoming in relation to continuing additional Covid-19 spending pressures, our councils will need to make further difficult decisions to reduce services and balance their budgets next year.**

10. The funding challenges facing our member councils are also compounded by the uncertainty on the following grants which sit outside the consultation on this settlement:

    - **Roads Maintenance Funding;** last year CCN outlined its severe concerns that the Government had reduced capital funding for road maintenance by almost £400m in 2021/22, despite a Government manifest commitment to invest an additional £500m in roads maintenance each year of this Parliament.[2] Councils are still awaiting further details on the allocation of roads maintenance funding for the coming year, but in the Spending Review the Government indicated that only £2.7bn will be allocated to local authorities not receiving Regional Transport Settlements over the next three years. The details published to date would suggest that funding for areas outside Regional Transport Settlements could therefore be further reduced in the coming year. CCN is seeking urgent clarification from the Department for Transport on this issue. CCN urge the Government to not only ensure no further reductions in capital funding for roads maintenance, but that the £400m reduction is reversed to ensure the Government fulfils its manifesto commitment.

    - **Public Health Funding**; at the time of the settlement no further details have been published on allocations for the Public Health Grant in 2022/23. CCN urge the Government to publish details of the grant as soon as possible and ensure a real-terms increase in funding over the course of the Parliament. In light of the recent escalation in the Covid-19 response due to the Omicron variant, clarity is needed on future support through the Contain Management Outbreak Fund (COMF). Whilst the announcement on rolling over underspent COMF was welcome, COMF funding is still needed to help deal with significant additional pressures across the system.

11. In addition, it is important for this consultation to note CCN's concerns regarding the adequacy of funding to support the implementation of adult social care funding reform, and

[2] https://www.countycouncilsnetwork.org.uk/local-road-maintenance-and-pothole-filling-funding-2021-22-ccn-response/

in particular, the introduction of a fair price for care and extension of duties for local authorities to arrange care on behalf of self-funders.

12. While we respond below to the question on the distribution of the £200m provided in 2022/23, we remain concerned that the funding committed to fund a 'fair price for care' – £1.4bn for the whole country over the next three years – will not be sufficient. LaingBuission have previously estimated for CCN that the move to allow more private care users to access lower local authority rates is likely to cost up to £761m per year in county areas alone, excluding homecare.

13. The cost and implementation challenges of moving towards an equalised price for care cannot be underestimated. County areas are home to a higher proportion of people who arrange and pay for their own care, and those areas' care markets will be particularly vulnerable to changes. CCN has recently re-commissioned LaingBuisson to undertake an independent impact assessment of the policy, including its likely financial cost, and will engage the Department in its findings.

Distributional Impact of the Settlement

14. While we welcome the broad structure of the settlement in the short-term, CCN also have concerns about elements of the settlement and its distribution. Some decisions made by ministers in the settlement have disadvantaged county authorities and reduced their share of funding.

15. Firstly, the share of additional funding allocated to social care is too low. We had expected at least 50% to be used to meet social care pressures, and for it to fall below this benchmark is very disappointing. CCN member councils receive only 26.6% of the 2022-23 Services Grant – but would receive 42% if this funding was distributed using the Adult RNF. Funding should be directed to where it is needed most, and we believe that the greatest pressures on local government at the moment are in adult social care as a result of staffing pressures, ensuring the stability of local market provision, and uncertainty associated with the new reforms.

16. Secondly, in our view, too a high a share of the available funding has been distributed via a range of different grant streams such as the lower tier services grants and New Homes Bonus (NHB) – thus reducing the effectiveness of the available resources and meaning that additional funding has been directed into some funding streams where county authorities receive relatively low shares. This approach can be justified in a roll over one year settlement, but greater coherence and consistency will be required when more significant reforms are implemented in 2023-24.

17. CCN supports distributing funding wherever possible using the main needs-based funding formulas (Settlement Funding Assessment (SFA) and Adult RNF), which would more fairly benefit both our county and unitary member councils and wider parts of the sector. However, the distributional impact of the one-off Services Grant, where our councils receive only 26.6%, demonstrates that the distribution can only be fair when based on a more up-to-date needs assessment.

18. The choice of 2013-14 SFA has not been justified within the provisional settlement proposals. There is an argument for using a more-recent SFA distribution, but we recognise that there are technical difficulties in doing this (e.g. the impact of "negative RSG"). That

ministers have had to use an SFA distribution that is almost ten years old underlines just how pressing it is to deliver the Fair Funding Review in 2023-24.

Funding Reforms

19. As a result of this, CCN supports ministers' re-commitment to introducing funding reforms in the near term, possibly as early as 2023-24. The age of the funding formulas used in the settlement is now really starting to show, in both the Adult RNF and in the SFA. We would expect most of our concerns about funding distribution that we have raised in this consultation response to be addressed in the forthcoming funding reforms.

20. It is vital that that reforms recognise the higher demand and service delivery costs in county areas, while not penalising county authorities for historically lower funding that has led to higher rates of council tax. Moreover, as outlined further on, these reforms must also consider reforms to the broader range of different grants within the system, such as NHB and lower tier services grants, alongside a business rates baseline reset.

21. CCN has always maintained that councils of all shapes, sizes and political colours could benefit from a fairer distribution of resources. Easing the historic imbalances in the distribution of local government finances is a key plank of progressing the levelling up agenda.

22. In considering the approach to reforms, CCN broadly welcomed the direction of travel set out in *The Review of Relative Needs and Resources* by Ministers in early 2020, and we would encourage them to build on these proposals. CCN has previously undertaken detailed research and modelling on the proposals set out by previous Ministers, which showed that they had the potential help to reduce the inequalities in funding that have become entrenched between local authorities in London and authorities across the rest of the country.

23. In early 2020, CCN commissioned Pixel to model the potential impact of the FFR for different classes of authorities based on the latest information on government proposals and available data at the time. The modelling took into account all the proposals that the government made within the-then Review of Relative Needs and Resources, including council tax equalisation, the creation of the foundation formula and the latest Area Cost Adjustment (ACA) factors. The modelling also included the possible impact of the new adult social care formula based on the proposals from the Personal Social Services Research Unit (PSSRU). CCN has published a briefing on the initial findings of the research, that provided an overview of the assumptions applied.[8]

24. Based on this research, The table below shows the potential change in settlement funding assessment for different types of upper tier councils. It shows metropolitan authorities are likely to be overall gainers from the proposals set out in early 2020, as are CCN member councils. Counties would see the largest cash gains but would remain significantly lower funded on a per head basis compared to other parts of local government. The most significant losers are still likely to be inner London boroughs.

Table 1: Overall change in Settlement Funding Assessment (SFA)	Current SFA (£/m)	Revised SFA (£/m)	Change (£/m)	Change (%)	Revised RNF per head (£)
Metropolitan districts	3,902	4,151	249	6.4%	342
CCN authorities	3,541	3,867	326	9.2%	149
Non-CCN authorities	2,299	2,387	89	3.9%	254

Inner London boroughs	1,269	953	-316	-24.9%	287
Outer London boroughs	1,356	1,252	-104	-7.7%	215

25. While the full report on the modelling was paused in March 2020 due to the Covid-19 pandemic, the initial results of our independent modelling, based on a number of evidence-based assumptions, show that the Review of Relative Needs and Resources has the potential to deliver a fairer settlement for CCN member councils, metropolitan and unitary boroughs, benefiting councils in the midlands, the north, and south, towns, cities, rural areas and coastal communities, and therefore aiding the levelling up agenda.

26. CCN and its member councils will continue to engage with the government as funding reforms are progressed over the course of the year. Over the coming weeks, we will be revisiting the research and modelling with Pixel outlined above, and will seek to engage the Department on its findings.

Question 1: Do you agree with the government's proposed methodology for the distribution of Revenue Support Grant in 2022/23, including the rolling in of two New Burdens grants?

27. CCN supports the broad approach of distributing the available grant increases in line with Settlement Funding Assessment (SFA), but CCN would have preferred a larger proportion of the funding increases to have been distributed using the Adult Relative Needs (RNF). Any discussion of the methodology used for the uplift in RSG should be considered alongside the proposals for the 2022-23 Services Grant.

28. There are some technical shortcomings in the approach that has been adopted in the provisional settlement. A simpler approach would have been to give local authorities the additional funding through SFA increases rather than through RSG (£72m) and Services Grant (£822m). However, "negative RSG" makes this approach technically difficult. We understand that it is very difficult for this issue to be reopened at this stage, and it will be resolved in the FFR.

Question 2: Do you agree with the proposed package of council tax referendum principles for 2022/23?

29. Council tax remains an increasingly important part of the local government funding system. In 2022-23, council tax will represent around 59% of overall CSP. For many county authorities, this is even greater: council tax now represents over 70% of CSP for some CCN members. County authorities will be able to increase their core Band D by 1.99% and a further 1% for the ASC precept (in addition to any increases that have been deferred from 2021-22). Most authorities will therefore only have below-inflation increases in Band D in 2022-23.

30. In the lead up to the Spending Review, CCN were clear that it would require a council tax increase of over 8% each of the next three years to almost eliminate the £2.7bn funding gap faced by our member councils. At the time, CCN said that rises on this scale would unacceptable and unfair to residents, and that additional funding should be provided to lower the need to levy such high council tax increases as a result. Despite the additional funding provided, it remains the case that the current reliance on council tax to fund services, in the absence of sufficient long-term funding is neither fair nor sustainable. This is

particularly the case in county areas, where due to historically lower funding, average council tax rates are significantly higher than other parts of the country.

31. However, given the remaining funding shortfall for our member councils resulting from this settlement – almost £700m before council tax rises – CCN believe that additional flexibilities could have been provided to councils to raise local income and meet their funding shortfall as an alternative to reductions in local services. CCN continues to stress our long-held position that we do not support the referendum policy and call on the Government to provide full council tax flexibilities for local government. This includes power to determine the rate of the tax of increase and local discretionary discounts.

32. Decisions about the maximum increases in council tax have significant implications for overall local government funding. If the maximum adult social care precept increase had been 2% instead of 1%, then local government could have generated an additional £280m in council tax income. Of course, our member councils would prefer not to have to increase Band D any more than necessary, but an above-inflation increase are necessary in the majority of areas due to their growing service demands and spending pressures.

Question 3: Do you agree with the government's proposals for the Social Care Grant in 2022/23?

33. The methodology that has been used to distribute the additional £636m social care is the same as has been used for Improved Better Care Fund (IBCF) and social care grants in previous years.

34. CCN recognises the need to equalise part of the ASC precept, although we strongly support only equalising a part of it. In 2022-23, only £80m of the additional ASC precept will be equalised, out of a potential precept increase of around £280m. CCN supports the decision to limit the amount of precept that has been equalised, although in 2022-23 the impact of equalising a higher amount would have been less significant than it was in 2021-22.

35. Our main concern about the methodology used in 2022-23 is the that Adult RNF is out-of-date. Data used in the allocations are now over a decade old, and the formula itself is nearly 20 years old. An updated formula is likely to give CCN member councils a much fairer share of the funding for social care, based on a more up-to-date needs assessment. CCN are looking for changes in the Adult RNF to be implemented as part of the forthcoming funding reforms, and importantly the implementation of adult social care funding reform (see below). This would help to address the under-funding of county authorities from 2023-24 onwards.

36. CCN is also concerned with the quantum of funding that has been distributed through the social care grant. We had expected that more than 50% of the £1.5bn additional grant funding in 2022-23 would have been distributed through social care grants. Only 47% of the £1.5bn increase in grant funding has been allocated to social care.

37. The increase in social care grants in 2022-23 is actually lower than in some recent years (in both 2020-21 and 2017-18, social care grants increased by £1bn or more). The lower-than-expected increase in social care funding in 2022-23 is doubly concerning because there is no further increase in grant funding in the Spending Review 2021 for either 2023-24 or 2024-25. The increase in social care funding will not even fund inflation in 2022-23 (5% inflation is equivalent to £555m in 2022-23), and local authorities will have to find further funding to meet demand-led pressures in both 2022-23 and future years.

Question 4: Do you agree with the government's proposals for IBCF in 2022/23?

38. CCN supports the proposal to increase IBCF in line with inflation. This is a reasonable approach in the short term until the FFR can be implemented. However, the existing allocations within IBCF need to be reviewed. As we have outlined in our response to Q.3, the Adult RNF is now out-of-date. Assumptions for equalising the ASC precept also need to be reviewed (in IBCF, the full precept increase was equalised). From 2023-24 onwards, county authorities would expect to receive a higher share of IBCF (or its successor) than it currently does.

Question 5: Do you agree with the government's proposals for distributing the Market Sustainability and Fair Cost of Care Fund in 2022/23?

39. Using Adult RNF to distribute this funding is reasonable only for the very short term. A new Adult RNF needs to be developed and adopted very quickly. We are aware that research has been done, at the time of the previous introduction of the Care Act, that would update the formula and allow allocations to more accurately reflect the financial impact of the government's social care reforms.

40. The new Adult funding formula needs to take self-funders into account, which will be higher in county areas than most of the rest of the country. County authorities will have a greater burden to prepare for the reforms because they have more self-funders. As a result, using the current Adult RNF will under-fund the additional costs of the social care reforms for many county authorities. The impact will not be as significant in 2022-23, when only £200m is being distributed, but the new formula has to be in place in 2023-24 and beyond, when amounts are much higher.

Question 6: Do you agree with the government's proposals for a one-off 2022/23 Services Grant distributed using 2013/14 shares of the Settlement Funding Assessment?

41. CCN can broadly support the proposals to allocate funding through the new Services Grant as a short-term measure. County authorities receive only 26.6% of the 2022-23 Services Grant – but would receive 42% if this funding was distributed using the Adult RNF.

42. As we have outlined already in this response, our concerns are that too much of the £1.5bn funding available has been allocated using SFA rather than through social care grants.

43. The choice of 2013-14 SFA has not been justified within the provisional settlement proposals. There is an argument for using a more-recent SFA distribution, but we recognise that there are technical difficulties in doing this (e.g. the impact of "negative RSG"). That ministers have had to use an SFA distribution that is almost ten years old underlines just how pressing it is to deliver the Fair Funding Review in 2023-24.

44. CCN does not have a strong view either way about whether the 2022-23 Services Grant forms part of the transitional support (damping) baseline for 2023-24. No rationale has been given in the consultation about why this grant will be excluded but not others (e.g. New Homes Bonus or Lower Tier Services Grant). Consistency will be important in determining the damping baselines for 2023-24. Authorities will also need to know much more – and as soon as possible – about how transitional support will work. A piecemeal approach will make it very difficult to authorities to plan effectively for 2023-24 and subsequent years.

Question 7: Do you agree with the government's proposals for New Homes Bonus in 2022/23?

45. New Homes Bonus (NHB) is out-of-date and needs to be phased-out as soon as possible as part of the Government's commitment to reform the policy. CCN is looking forward to the next consultation outlining a replacement for NHB, which we hope will give a higher share of any funding to county councils. These resources (£333m) would be much better used on social care and other key spending pressures within local government. There is no evidence that NHB has incentivised materially higher housebuilding.

46. CCN does not in principle support the proposal for an additional one-off allocation in 2022-23 (Year 12), however we recognise that this is a roll over settlement ahead of wider reforms. Looking ahead we urge the Government to consider the proposals put forward by CCN for the reforms to NHB made in our consultation response last year.[3]

Question 8: Do you agree with the government's proposals for Rural Services Delivery Grant in 2022/23?

47. CCN supports the case for higher funding in rural areas. RSDG was introduced in response to decision to damp increases in sparsity weighting in 2013-14, which would have resulted in an estimated £250m increase in funding for rural authorities. £85m only partially offsets lost funding for rural areas, and we would have expected the RSDG to be increased in line with inflation in 2022-23 at the very least. There remain serious flaws in the way that RSDG is distributed but we would expect these concerns to be addressed in the forthcoming FFR.

Question 9: Do you agree with the government's proposal for the Lower Tier Services Grant, with a new minimum funding floor in 2022/23 so that no authority sees an annual reduction in Core Spending Power?

48. CCN supports distributing funding wherever possible using the main needs-based funding formulas (Settlement Funding Assessment (SFA) and Adult RNF), which would more fairly benefit both our county and unitary member councils and wider parts of the sector. CCN accepts the need to continue the Lower Tier Services Grant (LTSG) as part of the roll-over of the settlement, but does not in principle support allocation of funding using this grant.

49. Firstly, the damping element of the grant (£20.5m out of £111m) is essentially paid to authorities who are losing New Homes Bonus payments. NHB is an incentive-based grant and authorities should not have built these allocations into their budgets. As a result, no damping support should be required by these authorities. NHB itself was largely funded from a top-slice from overall local government funding (of which, county authorities paid a very large share).

50. Secondly, no justification has been given as to why only lower-tier authorities should receive an allocation from the other part of the LTSG (£90.5m). Most service pressures – particularly around adult and children's social care – are in upper tier services. LTSG appears to be entirely designed to "manage" the settlement rather than to use scarce resources effectively.

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[3] http://www.countycouncilsnetwork.org.uk/download/3542/

51. In our view, too a high a share of the available funding has been distributed via a range of different grant streams such as the LTSG – thus reducing the effectiveness of the available resources and meaning that additional funding has been directed into some funding streams where county authorities receive relatively low shares. This approach can be justified in a roll over one year settlement, but greater coherence and consistency will be required when more significant reforms are implemented in 2023-24.