

# Consultation Response

## **Technical Consultation Paper for Local Government Finance Settlement 2020-21**

### **Executive Summary**

- Since this consultation was launched a General Election has been called, dissolving parliament on November 6<sup>th</sup>. We urge the department to communicate to councils via their representative groups the likely timescales for providing the provisional local government settlement following the election.
- Upon taking office the new administration should provide immediate confirmation of the provisional local government settlement 2020/21. The minimum baseline for allocations should be based on the proposals contained in this consultation to allow councils to plan effectively over the election period.
- The welcome announcements made in the Spending Round and confirmed in this settlement will help to significantly reduce the funding shortfall facing local government, allowing councils to preserve many frontline social care services and invest in local priorities. Our initial estimates suggest these proposals could reduce the 2020/21 funding shortfall to £2.928bn if all councils implemented a 3.99% council tax rise.
- While the announcements are very welcome, councils will still need to make efficiency savings and take difficult decisions over service provision next year, alongside council tax rises. Upon entering office, the new administration will be required to deliver a budget before the end of March. This provides a further opportunity to deliver funding that can reduce the funding gap facing local government and help support non-social care services. We would urge the Government to consider announcing the continuation of the Local Highways Maintenance Funding (£420m) for the coming financial year.
- As we lead up to the expected Spending Review in early 2020, CCN is committed to working with the incoming Government to deliver a sustainable funding settlement that can help bridge the remaining funding gap that PwC estimated up to 2025.
- CCN were disappointed by the inevitable delay to the Fair Funding Review, but we are pleased that with the Government's commitment to progress the reforms. CCN are concerned that the momentum behind the reforms has slowed given the focus on the Spending Round and we are eager to see further progress over the coming months. As part of the provisional settlement, we would ask Ministers to consider publishing further details on both the adults and children's social care formulas.
- CCN wishes to continue to work with Government and sector stakeholders with a view to implementing greater business rates retention. Given the delay in implementation, the Government should use this time to fully engage the sector on the future of the policy, seeking to address some enduring concerns.

- The government's proposals for social care funding in 2020-21 are welcome. The additional funding that was made available for social care in 2020-21 is particularly welcome and was towards the top end of our expectations. As a result of that increase in funding, local government will have its largest increase in spending power in a decade.
- CCN are disappointed that the new adult social care formula could not be used to distribute resources for the next financial year. CCN's preferred option would have been to use only the Adult RNF to allocate the additional funding, particularly given the fair funding review has not been implemented. However, given the scale of the funding increase and continuation of the social care precept, we recognise that there was an argument to equalise a part of the £1bn. The methodology used is a reasonable compromise, and as such has our qualified support.
- New Homes Bonus should be either reformed or abolished, and this process should have begun at this settlement, if the Spending Review had taken place. We recognise however that given the roll forward nature of the settlement it is unlikely changes can be made for the 2020/21 settlement.
- The Spending Review in 2020/21 should provide full council tax flexibilities for local government. This includes power to determine the rate of the tax of increase and local discretionary discounts. CCN recognise that the Government has provided additional council tax flexibilities through the continuation of the 2% adult social care precept, which will help meet growing pressures. Nonetheless, going forward, it is unsustainable to meet demand pressures from this source of funding; and reiterate our calls for the Government to publish their proposals for the long-term funding of social care.
- CCN supports the continued funding of Negative RSG in 2020-21, as well as the use of foregone business rates receipts to fund the cost of Negative RSG. Many of our member authorities benefit from the funding arrangements that are being proposed for Negative RSG.

## **Introduction**

1. The County Councils Network (CCN) represents 36 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 26m people (47% of the population) across 86% of England. CCN develops policy, shares best practice and makes representations to government. CCN is a member-led organisation which works on an inclusive and all-party basis.
2. We welcome the consultation on the principles that will govern the provisional settlement later this year. CCN set out in July our view that the Government needed to provide clarity as soon as possible on the funding for local government services next year, and we accept the circumstances in which the one-year Spending Round was undertaken instead of a long-planned three-year Spending Review.
3. Since this consultation was launched a General Election has been called, dissolving parliament on November 6<sup>th</sup>. We urge the department to communicate to councils directly and via representative groups the likely timescales for providing the provisional local government settlement following the election.
4. Upon taking office the new administration should provide immediate confirmation of the provisional local government settlement 2020/21. The minimum baseline for allocations

should be based on the proposals contained in this consultation to allow councils to plan effectively over the election period.

5. As we outline below, while the Government provided both clarity and a significant injection of resources for 2020-21, the medium to long-term financial picture remains extremely uncertain. We urge the department to publish the provisional settlement as early as possible in December, with many of our councils finalising their budgetary plans during December.
6. Before addressing the technical questions, we provide some important overview points in relation to the medium-term financial challenges to be considered in the 2020 Spending Review and wider reforms to local government finance.

### **Funding Overview**

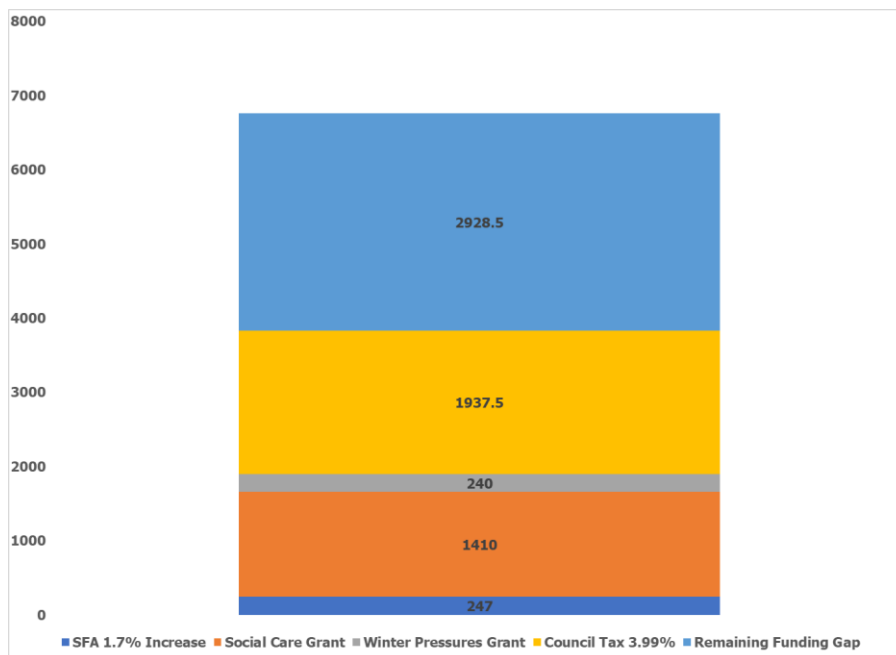
7. In the lead up to this Spending Round, CCN published extensive research on the financial challenges facing local government. This included the most comprehensive assessment to date of local government spending need and funding for the period 2015-25 by Pricewaterhousecoopers (PwC).<sup>1</sup> We also published further research shortly before the Spending Round on adult social care funding.<sup>2</sup> CCN have also provided detailed analysis of the rising pressures and overspends in relation to special educational needs and disabilities (SEND).<sup>3</sup>
8. CCN are pleased that the Government have engaged in the detail of our recent research and now recognise the need to increase funding for local government to meet rising demand and cost pressures.
9. The welcome announcements made in the Spending Round - which are covered in this technical consultation - to roll forward all adult social care grants and increase their value by £1bn, alongside the uplift in Settlement Funding Assessment (SFA) and council tax thresholds, will help to significantly reduce the funding shortfall facing local government. Moreover, the additional £700m funding for SEND and commitment to uplift funding for public health services will help meet the escalating financial challenges in these specific areas.
10. Our report with PwC showed that between 2019 and 2025, local government faced a cumulative funding gap of £51.2bn, including a funding shortfall in 2020/21 of £6.763bn. This base-case scenario presumed no council tax rises, a 'flat cash' roll over of baseline funding, and continuation of only the Improved Better Care Fund (iBCF) and New Homes Bonus.
11. CCN is currently working to update our funding gap estimates for the next financial year and up to 2025 for local government and each council type. However, based on the proposals contained in this consultation, our initial estimates suggest these proposals could reduce the 2020/21 funding shortfall to £2.928bn if all councils implemented a 3.99% council tax rise. The chart below demonstrates the impact of these proposals in aggregate for local government.

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1 PwC - Independent Review of Local Government Spending Need and Funding (Technical Report)  
<https://www.countycouncilsnetwork.org.uk/download/2262/>

2 Adult social care and the Spending Review <https://www.countycouncilsnetwork.org.uk/download/2397/>

3 CCN Analysis - Special Educational Needs & Disabilities: The Challenge Facing Counties  
<https://www.countycouncilsnetwork.org.uk/download/2314/>



12. It clear that the resources provided in this consultation have made a significant contribution to easing the financial challenges facing local government, allowing councils to preserve many frontline social care services, invest in local priorities and continue to innovate service delivery to improve outcomes for out residents.
13. However, there still remains a funding shortfall of almost £3bn. Moreover, almost half the reduction is due to locally raised revenue through council tax rather than increased central government funding. This means that despite the positive progress, CCN member councils will still need to make efficiency savings and take difficult decision over service provision next year, alongside council tax rises for residents.
14. In particular, the Spending Round announcement did not include the continuation of the Local Highways Maintenance Funding (£420m). This fund, announced at the budget in 2018, made a significant positive impact to road maintenance in our areas.
15. Upon entering office, the new administration will be required to deliver a budget before the end of March. This provides a further opportunity to deliver funding that can reduce the funding gap facing local government and help support non-social care services. We would urge the Government to consider announcing the continuation of the Local Highways Maintenance Funding (£420m) for the coming financial year.
16. Most importantly, there remains a significant funding challenge beyond the next financial year. As we lead up to the expected Spending Review in early 2020, CCN is committed to working with Government to deliver a funding settlement that can helps councils to sustain, enhance and improve local services, invest in growth, support housing delivery and continue to innovate service delivery with public sector partners. This could be achieved through forthcoming proposals for the long-term funding of social care, the fair funding review, reforms to business rates retention, and New Homes Bonus, alongside wider government policies on devolution and public service reform.
17. We ask the incoming Government to work quickly to begin dialogue with the sector and clarity on several issues to aid future planning for 2021/22 in anticipation of the 2020 Spending Review; including the clarity on whether the winter pressures and social care grants have been 'baselined' in council funding for beyond 2021.

## **Review of relative needs and resources**

18. The review of relative needs and resources has made considerable progress under the previous administration, with CCN responding to the consultation earlier this year setting out our support for the direction of travel.
19. In August 33 county leaders wrote an open letter to the Prime Minister outlining the need for the Government to provide a 'cast iron commitment' to the fair funding review as part of their plan to 'level up' funding for public services.<sup>4</sup> In our Five Point Plan, published in July, CCN set out that it was willing to accept a one-year delay to the implementation of the review in exchange for funding clarity next year and a commitment to finalise proposals as soon as practically possible.
20. CCN were disappointed by the inevitable delay to implementation, but we are pleased that the consultation document sets out the Government's commitment to progress the reforms. This follows reassurances to the sector by the Secretary of State that the Government would continue with these 'important reforms' following the Spending Round.<sup>5</sup>
21. Now that the Government has committed to the review, we are eager to see further progress over the coming months. CCN are concerned that the momentum behind the reforms has slowed in recent weeks given the focus on the Spending Round. While this is understandable, CCN want to work with Ministers to progress dialogue across the sector and finalise the reforms so that there is enough time for them to be implemented in 2021/22.
22. Although the delay provides further time to develop proposals, much of the underlying framework for the new formula was already in place and commanded widespread support from all parts of the sector. Rather than revisiting these areas, the additional time should be used to finalise the proposals in consultation with the sector and provide indicative allocations to local authorities further in advance of implementation earlier than was previously expected. This would help aid financial planning and give councils a clear indication of their minimum baseline funding ahead of the Spending Review.
23. As part of the provisional settlement, we would ask Ministers to consider publishing further details on both the adults and children's social care formulas. This should be followed quickly by further details of the services and final indicators to be included in the foundation formula, and their weightings.

## **Business Rates Retention**

24. The consultation confirms the Government's intention to continue with reforms to increase the proportion of business rates retained by the sector, currently 75%. It also commits to introducing reforms to the business rates retention system that increase stability and certainty.
25. In our consultation response earlier this year, CCN expressed its support for the reforms, including the Government's intention to review key areas such as tier splits and the initial proposals for the simplification of the system.
26. CCN wishes to continue to work with Government and sector stakeholders with a view to implementing greater business rates retention. However, there are concerns over whether there is a correlation between business rates income, growth expenditure, and service need, questioning the extent of the growth 'incentive' it provides councils and whether it is a fair

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4 <https://www.countycouncilsnetwork.org.uk/county-leaders-seek-fairer-funding-commitment-from-new-pm-for-underfunded-and-overburdened-councils/>

5 <https://www.countycouncilsnetwork.org.uk/county-authorities-urge-clarity-over-funding-for-councils-next-year-in-new-five-point-plan-for-the-government/>

way of funding different type of councils. Moreover, we have also raised long-term concerns over the sustainability and suitability of the tax in funding local government in the face of pressure from business groups to reduce the tax given the nature of high-street and online retailing.

27. Given the delay in implementation, the Government should use this time to fully engage the sector on the future of the policy, seeking to address these concerns and potentially exploring whether there are alternative fiscal devolution proposals and policies to incentivise councils to promote economic growth.

### **Public Health Funding**

28. One area this technical consultation does not provide details on is the increase in the public health grant for 2020/21, which falls under the responsibility of the Department of Health & Social Care. Following the Spending Round, Government indicated that the grant will rise in line with inflation plus 1%. We strongly welcome this move as a step towards ensuring Local Government can continue to play a strong role in delivering on our shared ambitions for a healthier population.
29. Since the announcement concerns have been raised that there is the possibility that the increase could be absorbed up by additional funding pressures for either the NHS Agenda for Change (AfC) uplifts for staff in public health provider NHS agencies, or Pre-exposure prophylaxis (PrEP) for HIV.
30. Expecting local authorities to fund a pay rise for NHS staff after the recent generous NHS settlement and public commitments to pay the salary uplifts, will be received with anger and a sense of injustice and would essentially render the increase publicly announced as at best flat cash.
31. We urge the department to work with the Department of Health to ensure there is a genuine real-terms increase in public health grant for local authorities.

### **Question 1: Do you agree with the Government's proposed methodology for the distribution of Revenue Support Grant in 2020-21?**

32. CCN supports the government's proposals for uplifting the Settlement Funding Assessment (SFA) in line with the increase in the small business rate multiplier. Both Revenue Support Grant (RSG) and Baseline Funding Level (BFL) will be increased by the same factor. By applying the same uplift to both RSG and BFL, it ensures that every authority receives the same percentage increase in its core funding from government. This is fair and equitable.
33. Most of the increase in funding in 2020-21 will be through the two specific grants for social care (the Social Care Support Grant and the Winter Pressures Grant). Before last month's spending round, CCN had argued in favour of any additional funding being allocated through these grants rather than through SFA, and we welcome the government's proposal to put around 80% of the additional funding through social care grants rather than SFA.<sup>6</sup>
34. There is a discrepancy between the proposal in the Technical Consultation and the letter to local authorities from the Secretary of State following the 2019 Spending Round (4 September 2019). The letter said that SFA would increase by £300m, which would be equivalent to a 2% increase in SFA. However, the Technical Consultation is proposing an increase in line with the multiplier. The increase in CPI inflation in September 2019 (on which the increase in the multiplier will be based) is only 1.7%, resulting in an increase in

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<sup>6</sup> £300m increase in SFA; £1bn increase in social care grants.

SFA of only £247m. We would welcome clarity on what the government is proposing to do with the difference between £300m and a lower increase in SFA.

**Question 2: Should central government eliminate negative RSG in full through forgone business rates receipts?**

35. CCN supports the continued funding of Negative RSG in 2020-21, as well as the use of foregone business rates receipts to fund the cost of Negative RSG. Many – although not all – of our member authorities benefit from the funding arrangements that are being proposed for Negative RSG.
36. Those authorities who are most affected by Negative RSG are those authorities who have had the most severe cuts in SFA since 2015-16. Many of our member authorities have suffered very significant cuts in SFA as a result of a methodology that was introduced in the 2016-17 settlement. CCN challenged this methodology very strongly at the time and asked for adjustments to funding that offset these excessively large cuts in funding for some of our members. Initially, we asked for the Transition Grant (2016-17 and 2017-18) and have supported the funding of Negative RSG (2019-20 and 2020-21).

**Question 3: Do you think that there should be a separate council tax referendum principle of 2% or £5, whichever is greater, for shire district councils in 2020-21?**

**Question 4: Do you have views on the proposed package of council tax referendum principles for 2020-21?**

37. CCN recognise that the Government has provided additional council tax flexibilities through the continuation of the 2% adult social care precept. Although local council tax-payers have shouldered large increases in council tax in recent years – particularly in under-funded county areas – our member authorities are acutely aware that council tax plays an important role in funding social care services. Nonetheless, going forward, it is unsustainable to meet demand pressures from this source of funding; and reiterate our calls for the Government to publish their proposals for the long term funding of social care.
38. We would continue to stress our long-held position that we do not support the referendum policy and therefore would call for the Spending Review in 2020/21 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.
39. CCN's view is that the 2% threshold for the "core" increase in council tax is too low. An additional 1% on the "core" council tax increase (i.e. maximum "core" increase of 3%) would help to fund the continued pressure on local authority services.
40. CCN would highlight in relation to the precept, the ability to generate additional yield from the adult social care precept is limited in county areas. In single tier areas – including London, Metropolitan districts, and unitaries – authorities can apply a maximum 3.99% to their entire Band D. In two-tier areas, the 3.99% maximum only applies to the county element of the Band D. This imbalance means that county areas can generate less in council tax income to support vital services.

**Question 5: Do you agree with the Government's proposals for social care funding in 2020-21?**

**Question 6: Do you agree with the Government's proposals for iBCF in 2020-21?**

41. Overall, CCN supports the government's proposals for social care funding in 2020-21. Our minimum expectation was that the existing social care grants would be rolled-over into 2020-21. Our member authorities are already reliant on these grants and their continued continuation is vital to the provision of social care in county areas. CCN are pleased that Government listened to our calls, including the added flexibility provided for the winter pressures grant and also ensuring that the social care grant can be used across both adults and children's social care.
42. The additional funding that was made available for social care in 2020-21 is particularly welcome and was towards the top end of our expectations. We are grateful to the government for listening to our concerns – and those of the wider local government sector – by putting in such large amounts of additional funding into social care. As a result of that increase in funding, local government will have its largest increase in spending power in a decade.
43. As previously stated, this is not the end of local government's financial challenges: CCN's own modelling shows that the funding gap is still very significant. But it does show that the sector's funding position is now moving in the right direction, which we want to see continued in the Spending Review next year.
44. Before addressing specific distribution of each grant, CCN would like to reiterate that due to the delay in the fair funding review, we are disappointed that the new adult social care formula could not be used to distribute resources for the next financial year. While CCN awaits further details of the precise distributional impact of the formula, we believe the formula has the potential to provide a fair distribution of resources (particularly for older adults). However, in the absence of this, we continue to believe the fairest way to distribute additional resources remains through the Adult Relative Needs Formulae (RNF).

### ***Improved Better Care Fund***

45. In line with the principle that the settlement is a 'roll forward', we accept the 2019-20 iBCF allocations because this provides stability and certainty. However, CCN reiterates its disagreement with the original methodology used to distribute this funding, which equalises all the adult social care precept, which unfairly penalises CCN authorities
46. We recognise that some progress has been made by the government on ringfencing, particularly winter pressures, which gives our authorities greater scope and flexibility to direct resources to where they are most needed. We would ask the government to increase the flexibility over the use of the iBCF. We welcome the additional flexibility applied to the Winter Pressures Grant and confirmation that, despite being included in the iBCF, it will continue to be distributed using the RNF.

### ***Social Care Grant***

47. CCN are pleased that the Government has continued to allocate the £410m in line with the Adult RNF only. CCN's preferred option would have been to use only the Adult RNF to allocate the additional funding, particularly given the fair funding review has not been implemented. However, given the scale of the funding increase and continuation of the social care precept, we recognise that there was an argument to equalise a part of the £1bn. The methodology used is a reasonable compromise, and as such has our qualified support.
48. The proposed distribution is not as beneficial to CCN authorities as Adult RNF alone would have been. It should also be noted that some of our member authorities do not benefit from



the proposed distribution of the £150m equalisation. Some of the other major beneficiaries from the proposed methodology are some inner London boroughs. These boroughs receive an inflated share of the new grant because they have very low Band D rather than low taxbases. It is unfair to provide such a large subsidy for authorities with low Band D council tax when taxpayers in county areas have to pay higher council tax.

49. The use of equalisation for this grant, although relatively small, raises important questions regarding wider resource equalisation in the fair funding review. This is an important point that we want to develop further: full equalisation of council tax is unfair to some county authorities and we want to explore options that mitigate its effect, in the same way that the government has done in the distribution of the £1bn social care grant.

**Question 7: Do you agree that there should be a new round of 2020-21 New Homes Bonus allocations for 2020-21, or would you prefer to see this funding allocated for a different purpose, and if so how should the funding be allocated?**

50. CCN has long argued for reform to New Homes Bonus (NHB) and, at a time of reduced resources for the sector, has continually questioned whether it does represent the best use of resources for the sector. In previous responses to consultations CCN has outlined at length the very serious deficiencies of the policy, which can be summarised as follows:
- (i) It takes too much funding away from hugely important spending pressures, such as social care, as well as others such as special educational needs and homelessness. £900m would go a long way to funding these pressures.
  - (ii) Too much of the NHB allocations goes to district councils – over 80%. There is no evidence to support this distribution given that service areas in greatest need are upper tier authorities.
  - (iii) There is little evidence that NHB incentivises house-building. And if it does, it is certainly a very expensive way of doing so. Furthermore, councils already get a financial incentive to build houses: growth in the council tax base.
51. For these reasons, CCN believe that NHB should be either reformed or abolished, and this process should have begun at this settlement, if the Spending Review had taken place. We recognise, however, that given the roll forward nature of the settlement that the funding it is unlikely the Government would be in a position to make changes for the 2020/21 settlement.
52. Nonetheless, if the Government were minded to implement changes it could consider no new incentive payments added (i.e. no payments for Year 10), and the removal of one year (i.e. Year 6). NHB payments would then be reduced to about £625m in 2020-21 on this basis, leaving a further £375m to distribute to needs-based services or support the continuation of other specific grants not included in the Spending Round, such as the Local Highways Maintenance Funding.
53. Looking towards the 2020 Spending Review CCN will engage with its members on providing proposals for the reform of NHB, including the establishment of a new incentive payment for areas that rewards the role of upper-tier councils in vital infrastructure provision that enables sustainable housing development.

**Question 8: Do you agree with the Government's proposed approach to paying £81 million Rural Services Delivery Grant in 2020-21 to the upper quartile of local authorities, based on the super-sparsity indicator?**

54. CCN supports the continuation of the Rural Services Delivery Grant (RSDG) into 2020-21. The grant reflects the higher costs incurred by authorities in rural areas. Further work has been undertaken to demonstrate the additional costs associated with some services in rural areas, particularly waste collection. If anything, the allocation of £81m understates the additional cost of service delivery in rural areas.
55. We have concerns about the methodology used to distribute the grant – as we have done since its inception earlier in the decade. The grant focusses funding on those authorities with the very highest levels of sparsity (which we support) but does so using an arbitrary cut-off (which we do not support). The effect of the methodology is that sparsely-populated areas are not funded consistently. Some of our members benefit from this methodology; others do not. We recognise that it is too late to rectify these problems but look forward to a more logical and rational approach in the Fair Funding Review.