CCN
COUNTY COUNCILS NETWORK
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Consultation Response #countiesmatter

Summary

- CCN member councils continue to face significant reductions in funding over the next two years, coupled with significantly increasing demand-led pressures. **We have estimated that county and county unitary authorities in England face unfunded cost-pressures of £2.54bn by 2020/21**, excluding inflation. Research has found that there is a £670m funding gap in the adult social care provider market at a time when the older population of counties is expected to increase by 2% year on year, and we forecast that costs associated with delivering children's services will increase by 159% between 2016-17 and 2020.

- There were a number of features of the announcement that the CCN welcomed, including the extension in council tax flexibility and 100% business rates pilots. **Overall, however, CCN members were disappointed by the funding settlement, which did little to ease the specific pressures faced by CCN member**s.

- The failure of the Government to extend transitional funding and the adult social care support grant for the 2019/20 means that **CCN member councils face a reduction in funding amounting to £1.059bn**, significantly higher than other parts of the local government. Counties will see their core grant funding reduced the most of any upper-tier class of authority, with a 43% reduction between 2015/16 and 2019/20.

- In the lead up to the final settlement, we continue to believe that the department must instead continue to **press HM Treasury to provide additional resources, with a focus on extending transitional grants for those authorities witnessing the sharpest reduction in local government funding and disproportionate council tax burdens**.

- **CCN have long argued for the council tax referendum to be abolished, and while the Government have maintained the policy, we do welcome the additional 1% flexibility**. However, if councils were to implement the additional rise locally over the next two years, it would raise only 20% of the funding being reduced by 2019/20. We also address further concerns over council tax inequalities.

- **CCN strongly welcome Government's plans to consult on proposals to take steps to remove negative RSG and the publication of the long-awaited Fair Funding Review consultation**. Both of these will bring greater fairness to the financial situation facing county authorities over the longer-term and we look forward to continuing to engage Ministers on proposals.

- **The confirmation that Government will move towards 75% business rates retention (BRR) by 2020/21 is strongly welcomed**, as is the announced that eight of the ten additional 100% business rate retention pilots for 2018-19 were counties. CCN outline some concerns they have with regards to the future course of reform and the pilot process.

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 26m 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.

3. CCN welcomes the opportunity to submit evidence to the Ministry of Housing, Communities and Local Government's consultation on the Provisional Local Government Finance Settlement 2018/19. CCN has worked closely with the Society of County Treasurers (SCT) in developing this response and it has also been informed by financial data provided by Pixel Financial Management for CCN.

Settlement Overview

4. There were a number of features of the announcement that the CCN welcomed. We support the additional council tax flexibility, the continued extension of the capital receipts flexibility programme and small uplift that has been provided to the Rural Services Delivery Grant (RSDG). Moreover, we are pleased to see that there is a commitment to address the issue of negative Revenue Support Grant (RSG) through the 2019/20 settlement. It was also welcome that some greater certainty was provided to councils on steps towards 75% business rates retention and the fair funding review.

5. **Overall, however, CCN members were disappointed by the funding settlement, which did little to ease the specific pressures faced by county authorities**.

6. Below, we outline our concerns in relation to the settlement, in particular the failure to extend transitional grants, alongside our response to areas not specifically addressed in the consultation questions, which we believe must be considered by the department.

Resource Funding

7. As a result of the settlement announcement, our member councils continue to face the most significant reductions in funding over the next two years, coupled with significantly increasing demand-led pressures. We are deeply concerned by the lack of additional resource for children's services, and a failure to renew either the adult social care support grant or the £300m transitional funding that was first made available in 2016, which will hit counties particularly hard.

8. The Society of County Treasurers (SCT) recently surveyed county authorities across England on their budgetary position and we have used the results of this survey to estimate that county and county unitary authorities in England face unfunded cost-

pressures of £2.54bn by 2020/21, excluding inflation.[1] In addition, county and county unitary authorities face a growing funding crisis in the adult social care provider market. Recent research by Laing Buisson, on behalf of CCN, showed that there remains a £670m funding gap in the provider market, over and above core budget pressures

9. Counties are being exposed to particularly acute funding and demand-led pressures. For example, CCN members have some of the largest and fastest growing older populations, of both over 65s and over 85s. The older population of counties is expected to increase by 2% year on year until 2020, and CCN members are seeing a significant rise in referrals to social care, in comparison to overall reductions in other types of authority.[2]

Cost Pressure	Average County	Total CCN
National Living Wage	£22m	£813m
NI Contributions	£3m	£93m
Adult Social Care	£26m	£949m
Children's Services	£9m	£316m
Highways	£4m	£138m
Pension liabilities'	£2m	£66m
Education (inc. SEND)	£5m	£167m
Total Cost Pressure - 2020/21	**£69m**	**£2.54bn**
NB: Columns may not sum due to rounding.		

10. CCN members forecast that costs associated with delivering children's services will increase by 159% between 2016-17 and 2020-21. Consequently members believe that funding of preventative services should be a priority to stop the number of families relying on the support of children's social care from continuing to grow.

11. We regret that the government did not use the opportunity provided by settlement to deliver additional resource to adult social care or start to move the sector towards a sustainable solution. The Better Care Fund has frequently been cited as a way of improving the interaction between adult social care and healthcare, but in the absence of a long-term fix, the impact of winter on the NHS shows that at best it is merely maintaining the status quo.

12. CCN welcomes the ongoing work of the Fair Funding Review, 75% Business rates Retention and the publication of the Adult Social Care Green Paper by summer 2018. Local government urgently requires a long-term solution to the funding of services, particularly for social care, and we welcome a continued dialogue with central government about how this can be achieved through these reforms.

13. **In the short-term our submission ahead of the Settlement outlined that Government must provide additional resources to ease the pace of funding reductions to all councils and help upper-tier councils meet the growing demand-pressures for life critical services outlined above**.

[1] https://www.countycouncilsnetwork.org.uk/download/1185/
[2] https://www.countycouncilsnetwork.org.uk/health-social-care-in-counties-funding-demand-cost-pressures/

14. In particular, due to a number of factors, including the RSG distributional changes introduced in 2016/17 which unfairly increased the pace of funding reductions up to 2020, CCN argued that Government should seek to extend and increase **transitional grants** for those authorities witnessing the sharpest reductions.

15. Following the settlement Pixel Financial Management, on behalf of CCN, have calculated that, counties will see their core grant funding reduced the most of any upper-tier class of authority, with a 43% reduction in Settlement Funding Assessment (SFA) between 2015/16 and 2019/20. As outlined in the table below, county areas[3] will also see their per head allocations falling at faster pace than other parts of the country, further entrenching historic inequalities in funding allocations.

Council type	4 Year change in SFA to 2019/20	SFA per head		Per Head Percentage change - /+ 2018/20
		2019/20	2019/20	
London	-22.16%	£481.89	£459.78	-4.6%
Metropolitan Districts	-27.91%	£350.69	£327.92	-6.5%
English Unitary	-35.75%	£251.49	£230.13	-8.5%
Counties	-42.82%	£182.11	£160.87	-11.7%

16. Even when considering the Government's preferred measure of Core Spending Power (CSP), per head of population, county areas continue to receive the second lowest funding allocations. It is critical to note that to achieve lower reductions in CSP figures, CCN authorities have to increase their council tax and rely on income from council tax payers to compensate for central government falling more quickly in CCN authorities than in any other class.

Council type	CSP per head	
	2018/19	2019/20
London	1,042.27	1,063.49
Metropolitan Districts	£788.03	£796.27
English Unitary	£748.90	£758.79
Counties	£754.03	£766.28

17. With the failure of the Government to extend transitional and the adult social care support grant for the 2019/20, **CCN member councils face a reduction in funding amounting to £1.059bn**. This is significantly higher than other parts of the local government, as demonstrated in the table below.

[3] Including district councils allocations

Council type	SFA, Transitional Grant, ASC Grant Reduction 2018-20 (£m)
London	£396.570
Metropolitan Districts	£579.569
English Unitary	£269.027
Counties	£1,059.565

18. Taking into account that councils in London will have their funding cut by 22%, and urban, city and metropolitan districts will have their funding reduced by 28%, counties have again been unfairly penalised.

19. CCN have long argued for the council tax referendum to be abolished, and while the Government have maintained the policy, we do welcome the additional 1% flexibility. However, if councils were to implement the additional rise locally over the next two years, it would raise only 20% of the funding being reduced by 2019/20. We address further concerns over council tax below.

20. As stated elsewhere in this response, CCN strongly welcome Government's plans to consult on proposals to take steps to remove negative RSG and the publication of the long-awaited Fair Funding Review consultation. Both of these will bring greater fairness to the financial situation facing county authorities over the longer-term and we look forward to continuing to engage Ministers on proposals.

21. **However, in responding to this consultation, CCN believe that ahead of the final settlement announcement the department must continue to press HM Treasury to provide additional resources, with a focus on extending transitional grants for those authorities witnessing the sharpest reduction in local government funding and disproportionate council tax burdens (see below).**

22. The rationale for the extension of transitional grants outlined in our technical submission to the department have not altered and has arguably strengthened since the publication of the provisional settlement. Alongside the above analysis on the severe funding reductions for county authorities and demand-led pressures, it is critical the department consider the below;

    - **Delay in Finance Reforms**: On introduction of the transitional grant, the then Secretary of State explained that the grant was to ensure that *"the move to 100% business rate retention will be accompanied by a fundamental review of the needs-based formula; and transition funding to smooth the long-overdue journey from our over-centralised state to a future where all money that is spent locally is generated locally*." Moreover, it was stated that the purpose of transitional grant was to *"ease the change from a system based on central Government grant to one in which local sources determine a council's revenue".* The settlement confirmed that the fair funding review will not be implemented until at least 2020/21 and movement towards 75% rather 100% business rates retention. Therefore, given these delays and alterations to Government policy, transitional grants should continue for the remainder of the four year settlement.

- **Council Tax Measure**: The deduction for council tax from SFA in this four-year settlement was particularly unfair. The Government decided to adjust using actual council tax rather than notional council tax. This worked against authorities – like counties – who have had to increase their Band D council taxes, and those authorities – like inner London authorities – whose Band D council taxes are very low. Using actual rather than notional council taxes in this way is not something that has been supported by local government finance experts. It is technically very questionable and has never been used in a previous settlement to our knowledge. The Government has effectively acknowledged the unfairness of this decision was in two ways. Firstly by making the Transition Grant available for the first two-years of the settlement. Secondly, officials have already decided the notional council tax will be used in the Fair Funding Review from 2020-21. For the final two-years of the settlement, county authorities will continue to see disproportionate reductions to SFA funding as a result of this decision.

- **Relative Needs Formula**: We believe the uneven way the cuts have been applied is in part attributable to the distribution of RSG through the Relative Needs Formula, which has consistently underfunded CCN members. In particular, the decision to freeze the Social Care Relative Needs Formula (SCRNF) in 2013/14 has meant that counties do not receive an annual uplift in their share of national funding based on demographic growth. As shown previously, counties have experienced significantly higher growth in over 65s compared to other areas. As a result, per capita funding levels for counties will continue to fall relative to other local authority types. Although the Fair Funding Review is seeking to address these concerns, up until the point of implementation, CCN member councils funding will unfairly not keep pace with increasing demographic pressures in county areas.

23. In considering the case for the extension of transitional grants it is also important to consider how the two-tier system presents further challenges to upper-tier councils in delivering saving requirements and safeguarding frontline services for the most vulnerable in society;

- County councils deliver a smaller range of largely statutory demand-led, services such as adult social care, children's services, and transport. County councils have less scope to deliver savings in services with high-levels of back-office and administrative spend, with 6.8% of county council expenditure spent on management and support costs compared to 11.2% in an English Unitary and 62.5% in district councils. Therefore, more savings resulting from funding reductions have been required in adult and children social care services at the same time that these services are facing the most acute demand-led pressures.

- County councils have fewer fee paying or discretionary services to raise additional local income to offset funding reductions. In two-tier areas, districts administer discretionary income raising services such as parking, licensing, planning and building control and for instance county councils will not benefit from recent 20% increase in planning fees.

- Current Government policies on growth and incentive-based funding, such as Business Rate Retention, the New Homes Bonus (NHB) and Community Infrastructure Levy (CIL), do not adequately reward the contribution of county council services to promoting growth. Local funding shares, such as the 80/20 split in NHB payments, are disproportionately weighted towards district councils, whilst a unitary authority would receive 100% of local payments.

Business Rates Retention

24. CCN welcome confirmation that Government will move towards 75% business rates retention (BRR) by 2020/21. CCN have continuously called for clarity over the direction of reforms following the General Election. Our post-election statement outlined this, alongside our concerns relating to the moves to 100% BRR; with a recommendation that a combination of higher retention, alongside grant funding, may offer a more sustainable solution for county areas.[4]

25. SCT and the CCN do have some concerns that the move towards 75% BRR announced at the settlement is only being achieved by combining existing grants into the current business rate retention, including Revenue Support Grant and the Public Health Grant. We are concerned that the move to 75% may not be achieved in a transparent way: the public health grant is ring-fenced, and its devolution does not therefore give councils greater discretionary control over their income.

26. We also note that the 2018/19 settlement announced that eight of the ten additional 100% BBR pilots were counties. We welcome the their inclusion, as it means that the government and the wider local government sector will be able to properly assess the impact of 100% retention on a broader group of local authorities than the urban areas that have so far been allowed to proceed with the pilots.

27. Due to the large number of pilot applications for 2018/19 the Secretary of State confirmed that the Government will continue to pilot the BRR programme in 2019/20. We understand that details of the process and therefore the timeline are yet to be determined but urge an early indication for all classes of local authority. This, alongside early confirmation of whether 2018/19 will continue into 2019/20, is fundamental to longer-term financial planning across local government and ensuring more areas are able to benefit from the pilot of reforms.

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[4] https://www.countycouncilsnetwork.org.uk/download/1149/

28. CCN welcome confirmation that all pilots will include a 'no detriment clause' as a result of our dialogue with the department. We also note that the average tier share for the pilots is 50/50 between district and county councils, with tier share as high as 70% for one county council but as low as 20% for another.

29. CCN has previously written to the Secretary of State regarding tier shares and the implications of the pilots. In approaching the pilot schemes from next year, testing sustainability, and considering the implications for the future design of the system, one issue CCN have would stressed is need to ensure that key decisions, such as tier shares, are not predetermined by the proposals now agreed with local areas.

30. In putting forward proposals, a significant degree of compromise has taken place with district councils regarding tier shares within a very limited time for negotiations. Moreover, it must also be acknowledged that with only RSG and Rural Service Delivery Grant (RSDG) included in the second phase of pilots, it is likely the tier share for county councils will be lower in these pilots than if a wider range of grants, such as public health and iBCF, were included.

31. CCN has previously outlined that independent evidence on 100% Business Rates Retention has shown that the share for county councils will be significantly higher than under the current system. Findings from Pixel Financial Management show the potential divergence in business rates growth and growing service needs in counties – which could leave counties facing an additional funding gap of £700m by 2029 - and the need to ensure a higher share of locally retained rates for upper-tier councils to better balance risk, rewards and sustainable funding for councils.

32. As we consider the confirmed move towards 75% BRR, it important that the pilots are used to test, not pre-determine, how tier shares and other aspects of system design that may or may not go-head under the new policy. We recognise that the alterations to the policy 75% BRR may alter the tier share approach and CCN is current working to update its modelling by Pixel to reflect the change in policy and will share the outcome with the department when completed.

33. Following dialogue with North Yorkshire County Council, we are nonetheless concerned by developments with the Leeds City Region pilot and the involvement of Harrogate Borough Council. The county council has raised deep concerns with the Department over the pilot and does not support the involvement of a single district council within a neighbouring City Region pilot. In particular, we agree with North Yorkshire that this fails to meet the criteria set out in the prospectus outlining that a district AND their county authority must support the involvement of authority in a pilot and agree a tier share for locally retained rates. North Yorkshire has not agreed to the involvement of Harrogate and no tier share has been agreed regarding the estimated £1.5m additional income Harrogate will receive as a result of the pilot.

34. Moreover, the guidance clearly set out that government expected proposals that covered ALL district and county authorities within a two-tier area. This was with a view to county-wide arrangements, as agreed in Suffolk, Derbyshire, Devon & Gloucestershire or pan-county arrangements including neighbouring unitary authorities, such Kent & Medway and Greater Lincolnshire. CCN believe that this approach would

ensure a sustainable approach to service delivery, coherent growth strategies and reduced complexity.

35. It is CCN's view that the arrangement agreed with the Leeds City Region does not meet this criteria and by weakening the integrity of the county area, will also not fulfil the prospectus criteria to promote a 'sustainable' approach to the funding of local government services. For instance, the county council have no direction over the estimated £1.5m additional income Harrogate will receive as a result of the pilot, therefore meaning services facing the most acute finance and demand-led pressures are unlikely to receive any additional resource.

36. CCN ask that the department engage with the concerns of North Yorkshire and closely monitor the implications of the pilot if Harrogate were to continue to be part of the arrangement. More widely, CCN looks forward to engaging with the government about the outcome of these pilots over the next couple of years to ensure that the move to 100% retention works for all types of local authorities.

Timing

37. Finally, it is again disappointing that this process has again been run so close to Christmas and the end of the financial year. Whilst the four-year settlement has helped to bring some much-needed predictability, local government would clearly welcome a longer lead in time to plan for the following financial year.

Question 1: Do you agree with the methodology for allocating Revenue Support Grant in 2018-19?

38. 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. 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.

39. CCN continues to disagree with the distributional methodology of RSG. The phasing out of RSG, the Government's Fair Funding 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.

40. Core funding for local authorities provided by RSG and Baseline Funding (for example retained business rates) is falling rapidly in every local authority class. The average cumulative cut over the four-year period is 32.2%. CCN's cut is £42.8% in cumulative terms.

41. This cut is particularly large in CCN authorities because of the expectation that these authorities can generate more income from their relatively large tax bases. However,

CCN members have taken issue with the scale on which county councils and county unitaries are expected to rely on their local taxpayers, and the deductions that were made to CCN authorities' to reflect council tax income.

42. The deduction for council tax from core spending in this four-year settlement was particularly unfair, with the adjustment made using actual council tax rather than notional council tax. This worked against authorities – like counties – who have had to increase their Band D council taxes, and those authorities – like inner London authorities – whose Band D council taxes are very low.

43. As set out in our response to the 2016/17 and 2017/18 provisional local government finance settlement consultations, 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, but for the addition of transitional funding.[5]

44. However, 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. As stated above, it is therefore extremely disappointing that the government has not chosen to continue with transitional funding.

Question 2: Do you agree with the Government's proposal to fund the New Homes Bonus in 2018-19 with £900 million from Revenue Support Grant and any additional funding being secured from departmental budgets?

45. Upper tier authorities only receive a small share of the New Homes Bonus: in two-tier areas the district councils receive the vast majority of the NHB payments. We strongly believe that some county councils would benefit either from a higher share of the proceeds of the NHB, or for the £946m to be diverted to adult social care.

46. In line with wider long-term reforms to local government finance, we would therefore recommend that the government explores how the current NHB funds could be shared better with upper-tier authorities rather than engaging in wholesale change of the current methodology.

Question 3: Do you agree with the Government's proposed approach of paying £65million in 2018-19 to the upper quartile of local authorities based on the super-sparsity indicator?

47. Many CCN authorities are rural and, in places, sparsely populated. We therefore support the decision to increase the funding allocated through the RSDG. However, in cash terms the overall increase is very small in relation to county council budgets. The small size of the increase means that the impact on the pressures faced by services in these areas will only be relatively small.

48. We believe that there are some technical anomalies with the way that the RSDG has been calculated. In particular, we believe it is unfair to exclude county councils whose

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

district councils receive this funding. Instead, we agree with the SCT that where a district council is ranked in the upper quartile that funding should be split between the district and county council, with a larger portion allocated to the upper-tier authority.

49. As a result we would like to see other options explored where residents in sparsely-populated areas attract the same level of funding per head as residents in more densely populated parts of the country.

50. Furthermore, we believe that higher weightings for sparsity should be introduced via the Fairer Funding Review and we look forward to engaging with government on this point.

Question 4: Do you agree with the Government's proposal to hold back £35 million to fund the business rates safety net in 2018-19, on the basis of the methodology described in paragraph 2.6.2?

51. CCN believes this to be a reasonable approach and we support this.

Question 5: What are your views on the council tax referendum principles proposed by the Government for 2018-19?

52. CCN supports giving local authorities the ability to generate more revenue from council tax. As we have stated previously, local budgets are under severe pressure, particularly in county areas, and the increase in council tax yield will make a welcome contribution to these pressures.

53. However, the Government is placing unfair pressure on the council tax payers in county areas. Band D council tax is higher than in many other parts of the country, particularly Inner London. The average Band D property bill in 2017/18 is £1,662 in county areas, £312 higher than in London and £132 higher than the national average. By allowing all areas the same percentage increase in Band D, this divergence will only grow over time, placing increasingly greater pressure on residents in county areas.

54. When council tax was introduced it was intended to be a progressive tax, related to wealth. It was therefore based on property values because, at the time, it was felt this was a suitable proxy for wealth. However, almost 30 years since the last revaluation, it is indisputable that residents in shire areas are paying more than any other class of authority for their services. This is not because shire areas are less efficient, but because the proportion of central funding is less, and therefore a larger element of funding has to be met locally. This is inequitable in terms of affordability for the 47% of the population who live in shire areas and contribute to the economy.

55. According to the Annual Survey of Hours and Earnings (ASHE), residents in shire areas, receive average salaries only slightly (£200) above the national average; however in some shire districts average salaries are the lowest in England. Yet residents in counties find themselves paying the highest band D council tax, the highest council tax per head and the highest council tax per household.

56. In the interests of fairness and transparency, the CCN alongside the SCT firmly believes that this issue needs to be openly reviewed as part of the Fair Funding Review. Council

tax makes up a considerable element of local authority budgets and ignoring the current inequality risks undermining the whole process.

Question 6: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.5.1 to 3.5.6?

57. We supports the methodology that the Government is proposing.

Question 7: Do you have any comments on the impact of the 2018-19 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.

58. 3N/A