CCN
COUNTY COUNCILS NETWORK

UNLEASH THE POTENTIAL OF COUNTIES

Consultation Response

Provisional local government finance settlement 2020 to 2021

Executive Summary

- At the time of the 2019 Spending Round CCN said the new funding announced for councils was hugely significant. The confirmation of individual allocations means that government have made real inroads into reducing the funding gap facing councils next year. The funding for social care will help councils meet rising pressures in both adults and children's care, alongside ensuring other resources are freed up to protect frontline services and to invest in local priorities. However, the medium to long-term financial picture remains uncertain and the government must provide more funding and certainty to councils through the forthcoming Budget and Spending Round.

- Due to the measures announced in the 2019 Spending Round, the funding shortfall facing counties next year has reduced but a gap remains. Even if all counties implement a 4% rise in council tax, a £1.3bn funding gap would remain.

- This revised estimate does not include the higher than anticipated increase in the National Living Wage, which is due to rise by 6.72% on the 1st April, and which will add a further burden on county authorities and social care providers.

- While the announcements are welcome, councils will still need to make efficiency savings and take difficult decisions over service provision this year, alongside implementing council tax rises. The Budget due in March 2020 provides a further opportunity to deliver additional resource that can reduce the funding gap facing local government. Ahead of this we would urge the Government to announce capital allocations for the £500m potholes funding and public health allocations as soon as possible.

- As we lead up to the Spending Review that is due to take place this year, CCN is committed to working with the incoming Government to deliver a sustainable funding settlement that can help close bridge the remaining funding gap that we have estimated.

- We welcome the renewed commitment by the Government, as confirmed by Luke Hall at the Local Government Finance Conference in January 2020, to proceed with the Fair Funding Review and has pledged to support the Government in achieving successful implementation.

- 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 part of the £1bn. The methodology used is a reasonable compromise, and as such has our support.

- New Homes Bous 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 provisional local government finance settlement. CCN set out in December 2019 our priority document for the following year and called on the Government to provide clarity as soon as possible on the funding for local government services, and we accept the

circumstances in which the one-year 2019 Spending Round (covering 2020/21) was undertaken instead of a long planned three-year Spending Review.

3. 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 uncertain.

4. Before addressing the 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

5. In the lead up to the 2019 Spending Round, CCN published extensive research on the financial challenges facing local government. This included the Independent Review of Local Government Spending Need and Funding by PricewaterhouseCoopers (PwC) which is the most comprehensive assessment to date of local government spending need and funding for the period 2015-25.[1] We also published further research shortly before the Spending Round on adult social care funding. CCN have also provided detailed analysis of the rising pressures and overspends in relation to special educational needs and disabilities (SEND).[2]

6. CCN are pleased that the Government have engaged in the detail of our recent research and recognise the need to increase funding for local government to meet rising demand and cost pressures.

7. The welcome announcements made in the 2019 Spending Round - which are covered in the provisional settlement - to roll forward all adult social care grants and increase their value by £1bn, alongside an increase 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 increased funding for public health services will help meet the escalating financial challenges in these specific areas.

8. The Independent Review into Local Government Finance by PwC showed that between 2019 and 2025, counties faced a cumulative funding gap of £21.5bn, including a funding shortfall in 2020/21 of £2.85bn. 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.

[1] https://www.countycouncilsnetwork.org.uk/download/2258/
[2] https://www.countycouncilsnetwork.org.uk/download/2314/

9. Our full updated funding gap analysis for all local government will be published shortly and initial findings were shared with the Government; including the underlying methodology deployed with Pixel Financial Management.

10. For CCN member councils, this shows that due to the measures announced in the 2019 Spending Round, the funding shortfall facing counties next year has reduced by 39% compared to the original estimate by PwC, with assumed 4% council tax rise could reduce the gap by a further 16%. However, even if all counties implement 4% rise in council tax in 2020/21, a £1.3bn funding gap would remain.

11. The resources provided in the provisional settlement will make a significant contribution to easing the financial challenges facing counties and wider 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 our residents. However, despite the positive progress, CCN member councils will still need to make efficiency savings and take difficult decision over service provision this year, alongside implementing council tax rises for residents.

12. Most importantly, there remains a significant funding challenge beyond the next financial year. Updated funding forecasts show that despite expected increases in funding over the next five years, county authorities still face a cumulative funding shortfall of £13.2bn. If all CCN member councils implement a 2% rise every year from 2021/22 this would reduce the cumulative gap by 2024/25 to £7.7bn, an average annual shortfall of £1.5bn.

13. Whilst our revised funding gap analysis does include an increase in living wage costs, it does not include the higher than anticipated increase in the National Living Wage, which is due to rise by 6.72% on the 1st April to £8.72 per hour. This will add a further burden on top of the funding gap that we have highlighted.

14. For county authorities and social care providers, this will add to staffing budgets for adult social care and also make retention and recruitment of staff more difficult. As a large part of the additional funding for social care could therefore be used to fund this increase, the settlement may look less generous than it first appears.

15. As we lead up to the Spending Review that is due to take place this year, 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, and reforms to the New Homes Bonus, alongside wider government policies on devolution and public service reform.

16. A 2020 Spending Review should seek to set out a minimum four-year funding settlement for councils, reflecting the spending need requirements of different council types. It should also consider policy and legislative changes in specific areas to recognise new statutory duties and ease legislative burdens. This should seek to provide sufficient Core Spending Power up to 2024/25 to meet the projected spending need requirements set out in the Independent Review recently conducted by PricewaterhouseCoopers (PwC) for CCN.

17. SEND is one key area that will require attention at the Spending Review. CCN research published earlier this year shows that there has been a 47% increase since 2015. In order to continue to meet their statutory duties to children with SEND, councils are having to offset the increased costs elsewhere – such as from the mainstream schools block of the Direct Schools Grant (DSG). This has now reached a crisis point with recent data collated by the Society of County Treasurers (SCT) indicating the vast majority of CCN members having overspent the High Needs Block (HNB) of their DSG during the last year with most expecting to overspend during the coming year.

Roads Maintenance & Pothole Fund

18. We welcome the £2bn pot hole fund which was a commitment in the Government's manifesto, as Shire counties are responsible for 70% of council-maintained roads, with county and rural roads historically not receiving the same level of support as London and City Regions.

19. We eagerly await the confirmation of the methodology of the fund as county local authorities showed themselves able to spend the pothole money made available in the 2018 Budget quickly with significant results – repairing well over 2,000 roads. This significant track-record demonstrates what CCN members could do with a similar level of investment, benefiting motorists, public transport and businesses.

20. CCN research shows that 36 shire counties in the analysis were able to spend £20,885 per mile on road repairs, pothole filling, and constructing new junctions and networks last year. In contrast, the 31 councils in London are able to spend £62,350 per mile.[3]

21. In total, 11,117 miles of road network in shire counties were identified as requiring maintenance last year – this is 9% of the total mileage in counties and over fifteen times higher, in terms of mileage, than the figure in London. We therefore believe the funding should be distributed using the same methodology as 2018/19 which saw the shire counties receiving 74% of the total funding.

[3] https://www.countycouncilsnetwork.org.uk/county-motorists-poor-relation-to-urban-areas-as-new-analysis-reveals-roads-investment-three-times-higher-in-london/

Review of relative needs and resources

22. The review of relative needs and resources has made considerable progress under the previous administration, with CCN responding to the consultation last year, setting out our support for the direction of travel.

23. In August 2019, 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.

24. CCN were disappointed by the delay to implementation, but we are pleased that the provisional settlement document sets out the Government's commitment to progress the reforms. We welcomed the further reassurances made by the Local Government Minister Luke Hall at the Local Government Finance Conference that the government would 'be consulting on further detail of the proposed reforms as soon as we can', including providing councils with exemplifications of potential funding allocations.

25. We stand ready to work with ministers and officials to support the progress and implementation of an evidence-based funding formula that delivers a genuinely new and fair settlement for underfunded councils.

26. The Local Government Minister has urged councils to seek compromise and as much consensus as possible. We support these aims and have already set out a range of compromises for the sector and MHCLG to consider. These include considering the role of deprivation in the new formula, and including funding for services such as home-to-school transport on a 'per head' allocation basis, despite CCN research showing the costs of these services were almost 10 times higher in their areas.

27. However, an aim to achieve full consensus should not be used to avoid difficult decisions which could result in some areas seeing their funding reduced in line with their new needs assessment.

28. 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 issues that have already been discussed, 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.

29. 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. The necessary consultations must be carried out so these formulas can be introduced 2021/22 financial year.

Business Rates Retention

26. The incoming Government has committed to further reducing business rates, alongside a 'fundamental review' of the tax. In the short-term, local government must be fully compensated for any new reliefs and discounts and any fundamental review will need to consider the future of 75% business rates retention.

27. CCN have raised concerns over whether there is a correlation between business rates income, growth expenditure, and service need. These questions the extent of the growth 'incentive' it provides councils and whether it is a fair way of funding different types 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.

28. County councils have benefited the least from business rates retention. Cash gains above baseline for the period 2017/18 to 2019/20 were the largest in London at £914m. District councils retained £555m and county councils retained £412m; just 6.4% of their baseline funding compared to 37% for district councils.

29. 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. We look forward to engaging with the business rates review that was announced in the Queen's Speech in December 2019.

30. Devolution, and the ability for shire counties to access funding and levers currently afforded to urban metro-mayors, will be crucial to the success of the levelling up agenda. Therefore, we welcome this government's re-commitment to publishing a devolution white paper, as confirmed by Luke Hall during the Local Government Finance Conference in January 2020.

31. It is imperative that the proposals provide a clear framework to outline how local discussions can achieve deals, but crucially does not restrict the most ambitious deals being limited to urban metro-mayors, which was mentioned in the Queen's Speech in December 2019. County authorities must be the building blocks of future devolution deals and any supporting structural and institutional reform.

Public Health Funding

34. One area where the provisional settlement does not provide details 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.

35. 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.

36. Expecting local authorities to fund a pay rise for NHS staff, as the Government announcement of a 6.2% increase of National Living Wage and after the recent generous NHS settlement, could mean that the public health uplift is not as generous as it first appears.

37. 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 and publish allocations as soon as possible.

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

38. We accept the Government's proposed methodology for the distribution of RSG in the absence of the Fair Funding Review not being implemented. As stated above, are ready to work with ministers and officials to support the progress and implementation of an evidence-based funding formula that delivers a genuinely new and fair settlement for underfunded councils.

39. CCN supports the government's proposals for increasing 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.

40. 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 the 2019 Spending Round, CCN had argued that additional funding be 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.

<u>Question 2: Do you agree with the Government's proposal to eliminate negative RSG?</u>

41. 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.

42. 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 significant cuts in SFA as a result of a methodology that was introduced in the 2016-17 settlement. CCN challenged this methodology 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).

<u>Question 3: Do you agree with the proposed package of council tax referendum principles for 2020-21?</u>

43. 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.

44. 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.

45. The ability to raise council tax by 4% will help us to address growing demand for care services and meet other rising costs in the short term. We expect most counties will implement the rise ahead of this year's Spending Review.

46. However, looking ahead, we must recognise there are limits to which rises can meet council funding needs going forward. Above inflation increases over the next five years would still leave county authorities facing a £7.7bn funding

shortfall, down from £13.2bn without rate rises. At the same time, there must be a recognition that yearly increases add to the cost of living for families, especially in county areas. Historically lower funding has led to average council tax rates in some counties that are double those in Inner London, at the same time median incomes in counties are below the national average.

Question 4: Do you agree with the Government's proposals for social care funding in 2020-21?

47. 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.

48. As previously stated, significant financial challenges remain, which are driven by and impact on social care. Whilst CCN's own modelling shows that the funding gap is still significant, the sector's funding position is now moving in the right direction, which we want to see continued in the Spending Review this year. Our latest funding forecasts show that even if county authorities receive an inflationary increase in funding, alongside the continuation of all current funding for social care, they still face a cumulative funding shortfall of £13.2bn over the next five years and pressure to raise council tax. This represents an underlying funding gap of £1.8bn in 2020/21 which will increase year on year to £3.6bn in 2024/25.

49. The pressures on upper tier authorities will be particularly acute as adult social care already makes up 47% of annual spending in county areas – and over two-thirds of the total budget (68%) in counties is spent on adult and children's social care combined. As demand for social care continues to increase into the next decade there are less additional services from which counties can offset spending towards social care than in unitary authorities. Furthermore, the 6.2% increase of National Living Wage announced by Government at the end of 2019 will add additional pressures.

50. 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 yet. 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 support.

51. 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 tax bases. 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.

52. 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.

<u>Question 5: Do you agree with the Government's proposals for iBCF in 2020-21?</u>

53. 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.

54. 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.

Question 6: Do you agree with the Government's proposal to fund the New Homes Bonus in 2020-21 with the planned £900 million for Revenue Support Grant, with additional funding being secured from departmental resources, and to allocate the funds in line with previous years but with no legacy payments?

55. 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. If abolished the funding should be redistributed based on need, with any reform focused on reviewing the role of incentives so they better reward upper-tier councils' vital role in providing infrastructure that enables sustainable housing development. We recognise, however, that given the roll forward nature of the settlement that the funding it is unlikely the Government would be a in position to make changes for the 2020/21 settlement.

56. 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:

    - 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.

    - 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.

    - 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.

57. 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.

58. 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 7: 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?

59. 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.

60. 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.

Question 8: Do you have any comments on the impact of the proposals for the 2020-21 settlement outlined in this consultation document on persons who share a protected characteristic, and on the draft equality statement published alongside this consolation document?

N/A