

**Proposed Decision to be taken under the Urgency
Procedure by the Deputy Leader (Finance and Property) on
30 October 2019**

**Warwickshire County Council Response to the Local
Government Finance Settlement 2020-21 Technical
Consultation**

Recommendations

That the Deputy Leader (Finance and Property):

- 1) Approves the County Council's draft response to the Local Government Finance Settlement 2020-21 Technical Consultation attached as an Appendix; and
- 2) Authorises the Strategic Director for Resources to make any amendments in response to later information and insight, providing these are consistent with the content and principles of this draft response, prior to the submission of the response on Thursday 31 October 2019.

1. Purpose of the Report

- 1.1. On 3 October 2019 the Ministry of Housing, Communities and Local Government issued a technical consultation on the Local Government Finance Settlement 2020-21. The consultation is open for four weeks, with a closing date of 31 October 2019.
- 1.2. The purpose of this report is to seek approval for the County Council's response to the consultation. A technical consultation on the Local Government Finance Settlement is issued every year, usually over the summer with the Government's response issued in October. The Government's wish to incorporate consultation questions as a result of the funding changes announced as part of the 2019 Spending Review means the consultation is later than usual.
- 1.3. The short consultation period and the need to work and consult with colleagues across the Authority and other shire counties, via the Society of

County Treasurers, means approval for the response is being sought as an urgent decision.

- 1.4. Once the Government have considered responses from authorities it is aiming to issue the 2020-21 Provisional Local Government Finance Settlement in December. This is consistent with when the provisional Settlement has been announced in recent years.
- 1.5. The report outlines each of the areas covered in the consultation paper, the question and the reason for the Council's proposed response. A copy of the draft response is attached at the **Appendix**.

2. Context

- 2.1. The Government has previously announced an ambitious programme of reforms to the local government finance system. These reforms include:
 - Increasing the proportion of business rates retained by the sector, to ensure local authorities have more control over the money they raise and powerful incentives to grow and reinvest in their local economies;
 - Introducing reforms to the business rates retention system, to increase stability and certainty; and
 - Reviewing the funding formula that determines funding allocations through the annual local government finance settlement, based on a fairer and more up-to-date assessment of councils' relative needs and resources.
- 2.2. Whilst progress has been made, the Government believes it is not yet in a position to properly engage and consult on each area before final decisions are made. Local authorities have also raised concerns about any last minute changes to the system given the need for certainty and stability to enable budget planning for the next financial year. Reflecting this, the one-year Spending Round and the plans for a more substantial Spending Review exercise in time for 2021-22, the Government is proposing to implement a 'roll-forward' settlement for 2020-21, which will provide stability for the majority of funding sources for local government.
- 2.3. In 2020 the Government plans to carry out a multi-year Spending Review, which will lay the groundwork for the reforms, aiming to implement these reforms in 2021-22.
- 2.4. The consultation included a comment that the reforms would include a "full reset of business rates retention baselines". Given that Warwickshire has

achieved above average growth in business rates since the current system was introduced in 2013-14 there is a risk that a full reset will mean we lose potentially all of the historic growth delivered to date and the assumption in the Medium Term Financial Strategy that the changes to the system will be neutral may not hold good.

- 2.5. Therefore, although it is not specifically a consultation question, the draft response includes reference to the view that the introduction of the business rates retention reforms in 2021-22 should not financially penalise those authorities who have invested to drive business rates growth (a key objective when the current system was introduced). There will be other opportunities to make this point when the detailed consultation on the proposed new system is undertaken in 2020.

3. Summary of 2020-21 Settlement Proposals

- 3.1. To reflect the one-year Spending Round and the decision to delay major reform until 2021-22 the Government is proposing to 'roll forward' the 2019-20 Local Government Finance Settlement. There will also be significant extra resource for social care and key local government grants will be protected.
- 3.2. The Government's proposed approach to the 2020-21 settlement includes:
- A new £1.410 billion Social Care Grant for adult and children's services, including £1 billion of new funding;
 - Uprating the 2019-20 Settlement Funding Assessment in line with the change in the small business non-domestic rating multiplier;
 - A core council tax referendum principle of up to 2%; an adult social care precept of 2% on top of the core principle;
 - Committing to retain the top-slice of Revenue Support Grant (RSG) to fund New Homes Bonus (NHB) in 2020-21 at £900 million;
 - Maintaining existing improved Better Care Fund (BCF) funding at 2019-20 levels, as well as rolling the £240 million which was allocated as Winter Pressures Grant this year into the improved Better Care Fund (iBCF), with the same distribution as this year; and
 - Continuing Rural Services Delivery Grant (RSDG) at £81 million, with all recipients receiving the same amount as in 2019-20.
- 3.3. The remainder of the report covers those elements of the proposals where the Government is specifically consulting local authorities.

4. Distribution of Revenue Support Grant

- 4.1. Recognising the need to provide stability, the Government proposes to pay RSG to ensure all local authorities will receive a uniform change in Settlement Funding Assessment in 2020-21, uprated in line with the change in the small business non-domestic rating multiplier. The consultation seeks views of this proposed approach.
- 4.2. The County Council no longer receives RSG and therefore this proposal has no direct impact. However, in the absence of the Settlement Funding Assessment data and methodology being updated (and consulted on) this is the only practical option available that does not introduce an additional layer of ministerial judgement.
- 4.3. Where RSG does impact on the County Council is in relation to how to treat negative RSG. In 2019-20 the Government's approach to the Settlement Funding Assessment included eliminating so-called negative RSG. (Warwickshire's funding would have been circa £0.5m lower in 2019-20 if the Government had not chosen to eliminate negative RSG. We therefore supported this adjustment last year and support the Government's intention to make the same adjustment for 2020-21.
- 4.4. Authorities with high levels of assessed spending need opposed this adjustment last year and will do so again this year. As an authority, along with most shire counties, Warwickshire should continue to strongly rebut any proposals for change as it will mean locally generated resources being used to fund need in authorities outside of the county area.

5. Council Tax Referendum Principles

- 5.1. Following the outcome of the Spending Round, the Government proposes the following package of referendum principles for 2020-21:
 - A core principle of up to 2%, applicable to county councils and unitary authorities, London boroughs and metropolitan districts;
 - An adult social care precept for local authorities with responsibility for adult social care of 2% on top of the core principle; and
 - No referendum principles for Mayoral Combined Authorities or town and parish councils.
- 5.2. The consultation paper does not include the Government's intentions in respect of district/borough councils. The Government is consulting on whether there should be a separate referendum limit in 2020-21 for districts/borough of

2% or £5, whichever is greater or whether districts/boroughs should be limited to a 2% increase in council tax as applied to other authorities. The additional flexibility of a separate referendum limit has been granted in each of the last three years. This question has no direct impact on the County Council and therefore it is proposed that the County Council does not comment on this question.

- 5.3. The consultation paper does however ask for authorities' comments on the overall package of referendum principles. As an authority, along with local government generally, our policy position is that we do not support the use of referendum limits as this undermines the democratic accountability of councils. The draft response restates this position. It also reflects that if the Government is minded to impose a referendum limit then, as a minimum, the limit should be aligned to local government inflation. Without such a minimum alignment the Government is reducing the real terms availability of resources to local authorities at a time when all authorities are facing increasing demand and cost pressures.

6. Social Care Funding

- 6.1. Section 3 outlined the additional funding for social care included in the 2020-21 Spending Review. The consultation paper seeks views on how the funding should be allocated between authorities.

Social Care Support Grant

- 6.2. For 2020-21 the Government is proposing a Social Care Grant of £1,410 million for adult and children's services. The Government is proposing to allocate £1,260 million of this funding between authorities using the existing Adult Social Care Relative Needs Formula and £150m as an equalisation component to reflect authorities differing ability to raise funding from the 2% adult social care levy.
- 6.3. The County Council would receive £9.3 million funding if the whole of the £1,410 million was distributed using the Adult Social Care Relative Needs Formula. But, as we receive no benefit from the equalisation element, the Government's proposals mean our indicative allocation is £1.4 million lower at £7.9 million.
- 6.4. The proposed response welcomes the additional funding as it recognises the financial pressures facing authorities as a result of growing demand and cost pressures of social care provision. We also welcome the proposal that the grant will not be ringfenced and conditions or reporting requirements will not be attached.

6.5. However, the response opposes the equalisation element of the distribution and supports a distribution methodology that would see all of the funding being allocated using the Adult Social Care Relative Needs Formula. As well as resulting in an adverse financial effect on the Council, our opposition to the use of equalisation across all distribution formula has been a long-standing policy. This is based on the position that it is a local democratic decision as to whether to raise the 2% levy and yet by including an equalisation component the Government is assuming we will raise the additional 2% levy and then reduces our grant by £1.4 million as a consequence of the additional income we are expected to raise.

Improved Better Care Fund and Winter Pressures

6.6. The consultation contains two proposals:

- The improved Better Care Fund (iBCF) will: continue at 2019-20 levels (£1,837 million), be distributed using the same methodology as in 2019-20, be paid as a direct grant to local government and must continue to be pooled into the Better Care Fund.
- The Winter Pressures Grant will be allocated on the same basis as in 2019-20 but will be rolled into the iBCF and will therefore no longer be ringfenced for use by local authorities to alleviate winter pressures on the NHS.

6.7. The consultation asks whether these proposals are supported. Our response is to be supportive of the approach being taken. In particular the proposals around use of the winter pressures funding are a reflection of what is happening on the ground, where decisions on the use of funding are already taken in the context of the wider BCF/iBCF spending decisions.

7. New Homes Bonus

7.1. The NHB was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas and is funded from a £900 million top-slice of RSG.

7.2. As part of the roll-forward settlement the Government proposes to retain the £900 million top-slice to fund NHB payments in 2020-21 and update the allocations within the overall top-slice to reflect the most recent data on levels of housing growth. The Government intends to review whether NHB is the most effective way to incentivise housing growth and this will be the subject of a separate consultation in 2020. As a result any NHB allocations will not be guaranteed beyond 2020-21.

- 7.3. Given the one-year nature of the allocation the consultation seeks views on whether the updated data should be used or whether the funding should be allocated for a different purpose. The Council's policy position for a number of years has been to oppose NHB as it top-slices funding that would otherwise be distributed on the basis of need.
- 7.4. Our proposed response is to continue to request that NHB funding is redirected towards proven need and that the use of the funding should reflect:
- Statutory services must be fully funded – it is unreasonable to expect local authorities to provide statutory services at a suitable standard, without fully funding this.
 - The role of upper tier authorities' in economic growth – increased housing should not be a source of additional income for lower tier authorities and a source of extra pressures on upper tier authorities. The role of both tier of authorities should be rightly reflected.

8. Rural Services Delivery Grant

- 8.1. The Government is proposing to roll-forward 2019-20 allocations of RSDG, totalling £81 million. Allocations were distributed to the top quartile of local authorities on the basis of the 'super-sparsity' indicator, which ranks authorities by the proportion of the population which is scattered widely and weighted towards the authorities with the sparsest populations.
- 8.2. As an authority we have consistently argued that it is vitally important that the pressures specifically facing rural authorities are recognised in funding settlements. Our response recognises that, given the methodologies proposed for other parts of this consultation the proposed approach for RSDG is understandable.
- 8.3. However, in making this comment it goes on to state that we are disappointed to see no improvements to the current methodology are being proposed. The current methodology does nothing to support larger authorities with pockets of extreme rurality as this is averaged out by densely populated pockets within the same authority area.

9. Financial Implications

- 9.1. There are no direct financial implications for the authority. The key principle in considering the County Council's responses to the consultation questions is to make sure our responses support the best potential financial outcome for the Council and Warwickshire as a whole. The outcome of the consultation will

form part of the Provisional 2020-21 Local Government Finance Settlement and be published in December and form part of The Council's resource base for the 2020-21 budget and 2020-25 MTFS.

10. Environmental Implications

10.1. No specific environmental implications have been identified in the preparation of this report.

11. Background papers

11.1. None

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The report was circulated to the following members prior to publication:
Cllr Peter Butlin, Cllr Adrian Warwick, Cllr Parminder Singh Birdi, Cllr Maggie O'Rourke, Cllr Sarah Boad, Cllr Jerry Roodhouse, Cllr Richard Chattaway, Cllr Jonathan Chilvers

Warwickshire County Council Response to the Local Government Finance Settlement 2020-21 Technical Consultation

Question 1

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

In the uncertain political and economic climate, the proposal provides for a degree of stability and certainty. Therefore, in the absence of the Settlement Funding Assessment data and methodology being updated (and consulted on) this is the only practical option available. We therefore support the proposed approach.

However, the roll-forward of the current distribution does mean there is a further year of business rates growth being used to support local authorities core services. As an authority that has invested to drive business rates growth (a key objective when the current system was introduced) we remain concerned about the continued risk that the introduction of the business rates retention reforms in 2021-22 will financially penalise us and similar authorities.

Question 2

Should central government eliminate negative RSG in full through forgone business rates receipts?

We support the Government's intention to continue to eliminate negative RSG and the use of the same methodology as in 2019-20. It is fundamental to our role in community and place shaping that locally generated resources are used to invest in local services rather than to fund need elsewhere in the country.

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?

No comment.

Question 4

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

We, along with local government generally, do not support the use of referendum limits believing this undermines the democratic accountability of councils.

Having stated our opposition to referendum limits, if the Government is minded to impose a referendum limits then, as a minimum, the limit should be aligned to realistic assessment of local government inflation. Without such a minimum alignment the Government is reducing

the real terms availability of resources to local authorities at a time when all authorities are facing increasing demand and cost pressures.

We continue to strongly believe that council tax requires significant reform looking forward. It is regressive and unfairly unequal across the country. For example, compared to London boroughs shire areas Band D precepts are 46% higher. This inequity, which goes beyond local decisions, is a product of historic underfunding that must be addressed as part of the wider review of local government funding.

Question 5

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

We welcome the additional social care funding as it recognises the financial pressures facing authorities as a result of growing demand and cost pressures of social care provision. However, as the funding is only one-off it will not have any impact on the longer term sustainability of social care services. An indication at the earliest opportunity as to whether this grant will continue beyond 2020-21 and when the long-awaited green paper on adult social care funding would be helpful. We also welcome the proposal that the grant will not be ringfenced and conditions or reporting requirements will not be attached.

We do not support the inclusion of an equalisation component in the proposed distribution methodology. It is unfair that the method of distribution takes account of the ability to generate council tax. Our opposition to the use of equalisation across all distribution formulae has been a long-standing policy. It is a local democratic decision as to whether to raise the 2% adult social care levy and yet, by including an equalisation component, the Government is assuming we will raise the additional 2% levy and then reduces our grant by £1.4 million as a consequence of the additional income we are expected to raise. Such an assumption reduces our financial flexibility and undermines our democratic decision-making. We support all of the funding being allocated using the Adult Social Care Relative Needs Formula.

Question 6

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

We support the approach outlined in the consultation paper. The proposals on winter pressures funding are a reflection of what is happening on the ground, where decisions on the use of funding are already taken in the context of the wider BCF/iBCF spending decisions. It is important that such funding decisions are prioritised locally and without unnecessary additional administrative burdens.

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?

We support redirecting NHB funding towards proven need. Whatever approach is used it is vitally important that both of the following are reflected:

- Statutory services must be fully funded – it is unreasonable to expect authorities to provide statutory services at a suitable standard, without fully funding this.

- Upper tier authorities' role in economic growth must be reflected – increased housing should not be a source of additional income for lower tier authorities and a source of extra pressures on upper tier authorities. The role of both tier of authorities should be rightly reflected.

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?

We recognise it is vitally important that the pressures specifically facing rural authorities are recognised. Given the methodologies proposed for other parts of core spending power for 2020-21, this proposed approach for rural services delivery grant is understandable.

It is, however, disappointing to see no improvements proposed to the distribution of RSDG. The current methodology does nothing to support larger authorities with pockets of extreme rurality; as this is averaged out by densely populated pockets within the same authority area.

Whilst long-term solutions should be made looking ahead, a simple step in the right direction would be to exclude county councils from the super-sparsity ranking. Instead, where a district council is ranked in the upper quartile, the funding should be split between the district and county council, with a larger proportion allocated to the upper-tier authority, to reflect the increased budgetary impact, particularly relating to social care and passenger transport; both upper tier responsibilities.

Question 9

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?

No comment.