

# The 2020/21 Provisional Local Government Finance Settlement

16 January 2020



1. The Local Government Association (LGA) is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.
2. This response has been agreed by the Chairman, LGA Political Group Leaders and LGA Resources Board Lead Members.

## Key points

3. The Settlement indicates that core spending on local services has the potential to increase by £2.9 billion next year, which is good news for councils and shows that the Government has responded to the financial pressures local authorities face in meeting rising costs and demand for services, such as adult and children's social care, and homelessness support. The further addition of over £780 million to the high needs block of dedicated schools grant to fund the rising costs of meeting special educational needs brings the total of potential additional resources to over £3.5 billion, as announced in the 2019 Spending Round.
4. The Settlement includes an additional £1 billion of central government funding for social care, as announced in the 2019 Spending Round. This will help ensure councils can continue to help older and disabled people live more independently and support our most vulnerable young people. Confirmation that key social care grants will also continue next year provides much-needed stability for local authorities.
5. The ability of councils to increase council tax and levy an adult social care precept next year gives them the potential to raise £1.6 billion. This will help councils to continue to deliver vital services, but it is not a sustainable solution to funding social care because increasing council tax raises different amounts of money in different parts of the country, unrelated to need, and adds an extra financial burden on households. The Government needs to deliver on its pledge to bring forward proposals for long term reform of adult social care and how it is funded. The LGA, as a cross-party organisation, has previously offered to host and facilitate cross-party talks and that offer remains open to the Government.
6. The LGA has consistently opposed nationally set referendum limits. No national tax is subject to a referendum. The council tax referendum limit

# Submission

needs to be abolished so councils and their communities can decide how local services are paid for, with residents able to democratically hold their council to account through the ballot box.

7. Should the Government continue to set referendum limits, we would repeat our call, which we made in our response to the Technical Consultation on the 2020/21 Settlement for the following to be taken into account:
  - Consideration should be given to a 3 per cent core threshold as in previous years, as opposed to a 2 per cent threshold as proposed.
  - We agree that districts should have the extra flexibility of a £5 increase but this should be the higher of 3 per cent or £5 particularly as this is a “rollover” settlement. Fire authorities should also have access to this flexibility.
8. The Government needs to work closely with councils during its review of the New Homes Bonus. It also needs to provide clarity to councils on legacy payments from 2021/22 onwards, as well as the outcome of the review, as soon as possible, to allow them to plan their 2021/22 and future budgets.
9. It is also vital that councils are fully funded for the loss of income due to the business rates reliefs announced in the Queen’s Speech, in line with normal government practice.
10. The rise in the National Living Wage announced on 31<sup>st</sup> December 2019 will add pressures on councils estimated at £220 million more than they will have been forecasting in adult social care alone. The LGA considers that additional funding should be provided to councils for this pressure.
11. It is disappointing that the Government did not provide a progress update on the Fair Funding Review or further business rates retention in the settlement. With implementation scheduled for April 2021, it is crucial for local authority financial planning that the Government consults on proposals for reform and provides certainty to councils as soon as possible and that no authority loses out from the fair funding review.
12. We are pleased that in the 2019 Spending Round the Government announced a real terms increase in the public health budget. We call on government to provide councils with clarity on the funding available in 2020/21 as soon as possible. The current delay to the announcement is making it extremely difficult for councils to plan effectively.
13. The LGA has worked with councils to demonstrate that investing in local government is good for people’s health and wellbeing, can help to tackle inequalities in our communities, build our economy and enhance the nation’s prosperity.
14. We will continue to promote the role councils play in making a huge difference to the lives of our residents and communities. We look

forward to working with the Government as a vital partner to help deliver its commitment to levelling up powers and investment in local areas in the run up to the 2020 Spending Review.

15. The LGA strongly agrees with the recommendation in the Hudson Review that the final settlement should be announced no later than 31 January, and the provisional settlement around 5 December. Clearly it was not possible to meet that timetable for the Provisional Settlement this year. We are pleased that the Government listened to our call for the publication of this Settlement before Christmas. We hope that the final settlement will be published as near to 31 January as possible and that in future years it will be possible to meet the timetable outlined in the Review.

### **Extra resources in the Settlement**

16. The proposals in the settlement are for Settlement Funding Assessment (consisting of the Business Rates Baseline and Revenue Support Grant) to be uprated by inflation. When this is added to the £1 billion increase in the Social Care grant and proposed council tax flexibility this means that core spending on local services has the potential to increase by £2.9 billion next year. This is good news for councils and shows that the Government has responded to the financial pressures local authorities face in meeting rising costs and demand for services, such as adult and children's social care, and homelessness support.
17. However the announcement of the increases to the National Living Wage will add an estimated additional £220 million pressure beyond that already forecast for adult social care alone. We call for this to be separately funded.
18. The additional £1 billion of central government funding for social care, as announced in the 2019 Spending Round will help ensure councils can continue to help older and disabled people live more independently and support our most vulnerable young people. Confirmation that key social care grants will also continue next year provides much-needed stability for local authorities.
19. The further addition of over £780 million to the high needs block of dedicated schools grant to fund the rising costs of meeting special educational needs brings the total of potential additional resources to over £3.5 billion as announced in the Spending Round.

### **Council Tax**

20. We recognise that the Government proposes confirming the basic referendum principle for 2019/20 at 2 per cent, with the exception of all shire district authorities, for which a higher limit of either 2 per cent or £5 (on a Band D bill) applies. Social care authorities will also be able to raise a precept of up to 2 per cent on top of this.
21. This is not a sustainable solution as increasing council tax, or introducing a social care precept, raises different amounts of money in

different parts of the country, unrelated to need. This also adds an extra financial burden on already struggling households.

22. The LGA has consistently opposed nationally set referendum limits. No national tax is subject to a referendum. The council tax referendum limit needs to be abolished so councils and their communities can decide how local services are paid for, with residents able to democratically hold their council to account through the ballot box.

23. Should the Government continue to set referendum limits, we call for the following to be taken into account:

- Consideration should be given to a 3 per cent core threshold as in previous years, as opposed to a 2 per cent threshold as proposed.
- We agree that districts should have the extra flexibility of a £5 increase but this should be the higher of 3 per cent or £5 given that this is a “rollover” settlement. Fire authorities should also have access to this flexibility.

### **New Homes Bonus**

24. The provisional amount of £907 million for the New Homes Bonus (NHB) has been included in Core Spending Power in 2020/21. The bonus will be funded through £7 million in grant with the rest (£900 million) in top-sliced funding.

25. The 2020/21 element of NHB will be paid for one year only. The legacy payments of the bonus in respect of growth in 2019/20 and previous years will continue to be paid in 2020/21 but it is not clear if these will continue to be paid in future years. The threshold over which the bonus is paid will remain at 0.4 per cent. The Government will consult on the future of the housing incentive in the Spring.

26. The NHB makes up a considerable part of funding for some councils, particularly shire district authorities. They will welcome the decision not to increase the threshold in 2020/21 but they will be concerned about the decision to pay the bonus for 2020/21 for one year only, as well over the uncertainty of legacy payments from previous years' housing growth, which they had been led to expect would continue for a period of four years.

27. The LGA has always been of the view that the NHB should be funded outside the settlement. The Government needs to work closely with councils as part of its review of housing incentives in order to ensure that the review results in the delivery of more homes and that the revised scheme works for local government.

28. It is important that clarity about legacy payments from 2021/22 onwards, as well as the outcome of the review, is provided to councils as soon as possible to allow them to plan their 2021/22 and future budgets. Even with the New Homes Bonus, the cost of delivering services to new homes is not met in full. The LGA would welcome the opportunity to continue working with the Government on how we can support housebuilding and looks forward to being involved in the

Review.

## **Business Rates and Fair Funding Review**

29. It is disappointing that the Government did not provide a progress update on the Fair Funding Review or further business rates retention in the 2020/21 Provisional Settlement. With implementation scheduled for April 2021, it is crucial for local authority financial planning that the Government provides early exemplifications and consults on options as soon as possible, preferably by the time of the final 2020/21 local government finance settlement. It is also essential that no authority loses out from the review
30. There are still 55,000 business rates appeals outstanding from the 2010 list, most of these relate to ATMs. We are working with the Government to find a better way to deal with business rates appeals under the Business Rates Retention system. Separately, we call on the Government to ensure that all outstanding appeals from the 2010 rating list are dealt with as soon as possible, through providing resources to the Valuation Office Agency and other relevant organisations. This would free up provisions for local authorities to spend on vital local services. This will be relevant in the run-up to the next revaluation, due in 2021.
31. It is positive that the Government is continuing to fully compensate councils for the loss of income from previously announced centrally determined reliefs, including rural rate relief and the small business rates relief. It is imperative that, in line with normal government practice, this also applies to the reliefs announced in the Queen's Speech on 19 December which include increasing the retail discount from one-third to 50 per cent, extending that discount to cinemas and music venues, extending the duration of the local newspapers discount, and introducing an additional discount for pubs.
32. Any relief reduces the buoyancy of the tax base by impacting upon the amount of business rates income and the growth in business rates. This is one of the issues for the LGA and councils to discuss with the Government as we move to further business rates retention.

## **Negative RSG and Rural Services Delivery Grant**

33. We acknowledge that the Government has provided extra resources to some councils in 2020/21 to cancel the 'negative RSG' adjustment to tariffs and top-ups. The government needs to ensure that the implementation of further business rates retention and the fair funding review consider whether negative allocations could be an outcome and if so how they would be dealt with. The Government has also kept the Rural Services Delivery Grant at £81 million. Councils which receive the extra resources will welcome this.

## **Overall pressures**

34. The 2020/21 Provisional Settlement provided local government with a welcome increase in funding after the reductions in the previous decade. However local government still faces:

- Increases in demand for council services due to demographic change. As population grows and people live longer, this adds pressure on both targeted and universal services.
- Local government and its commissioned services, particularly in social care, have a significant number of lower paid staff, leading to a more significant impact of the National Living Wage than other parts of the public sector, including the requirement to adjust pay scales to accommodate the change. As mentioned above, the recently announced increase to the National Living Wage will increase previously forecast cost pressures in 2020/21 by an estimated £220 million a year for adult social care alone.

35. Over the last decade, local authorities will have seen reductions of nearly £15 billion to core Government funding since 2010. Even with the increases in the 2020/21 settlement, local authorities are continue to be under real strain, with services such as social care and housing under particular pressure. This has effects on both the people that rely on these services and the financial sustainability of other services councils provide. When councils are forced to reduce spending on services, it can have potentially negative longer term consequences on other areas such as prevention. This will increase the burden for the future both for councils and other organisations such as the NHS and the Police. That is why the 2020 Spending Review will be vital for the future of local government and the communities it serves.

### **Children's Services**

36. The additional funding in 2019/20 and 2020/21 for children's services, including the £410 million made available for adults and children's services in 2019/20 and the additional £1 billion for adult and children's social care in 2020/21, is helpful. However, long term sustainable funding and solutions are needed to deal with intense pressures of new demand.

37. Increasing numbers of children are receiving support for special educational needs and disabilities (SEND), including more now being educated in settings other than mainstream schools. Alternative and non-mainstream settings are, by their very nature, more expensive than mainstream provision.

38. The £780 million increase to schools' high needs funding in 2020/21 will go some way towards meeting the funding deficit arising from SEND-related support, however the review and a sustainable long term funding settlement to deal with ongoing pressures must follow hand in hand.

### **Adult Social Care**

39. An additional £1 billion for social care (children's and adults), on top of the continuation of existing social care funding package, is welcome and shows that the Government has listened to our, and our partners', calls for urgent investment to stabilise these vital services. Councils understand their local communities and need maximum discretion to direct this new funding to ensure the best outcomes. It is therefore positive that the Government has clarified that the new funding for social care will be un-ringfenced.
40. Social care authorities will be able to increase their council tax by up to 2 per cent, in addition to a core council tax rise of up to 2%, as an increase to the adult social care precept. While the adult social care council tax flexibility is welcome, it is unfair to shift the burden of tackling a national crisis onto councils and their residents. The adult social care council tax precept policy has a different effect in different areas as authorities with a weaker tax base will not be able to raise as much income through this flexibility as those authorities with a stronger tax base which may be unrelated to need.
41. In the Queen's Speech, the Government committed to building a cross-party consensus on solutions for the long-term funding of adult social care. The funding for social care confirmed in the Settlement is an important foundation from which to build solutions for the long-term. The 2020 Spending Review provides a crucial opportunity to lay the ground for the reforms that are needed and deliver long-term, sustainable funding. The LGA, as a cross-party organisation, has previously offered to host and facilitate cross-party talks and that offer remains open to the Government. Local government is eager to see - and support - meaningful and lasting change for the benefit of all people who use and work in adult social care and support.
42. The issue of relatively low pay in the social care sector is highlighted regularly and this settlement provides resources to begin to address this challenge. In the long term, the low pay issues need to be addressed as part of the arrangements for the future funding of both adult and children's social care.

## **Public Health**

43. In the 2019 Spending Round the Government announced a real terms increase in the public health budget. It will continue to be paid through a ring-fenced grant in 2020/21. However, the settlement includes no information about the national total, or individual council allocations, of the public health grant for 2020/21.
44. We call on government to provide councils with clarity on the funding available in 2020/21. The current delay to the announcement is making it extremely difficult for councils to plan effectively.
45. The promise of a real terms increase for public health as announced in the 2019 Spending Round will be a welcome change of direction. In the long term we will continue to work with the Government to secure sufficient ongoing funding to ensure all local authorities can continue to meet their public health responsibilities beyond 2020/21. This should

include the reversal of reductions in public health grant since 2015.

46. We are disappointed to see continued uncertainty over the future of the public health grant. The Government has previously committed to this grant being rolled into Business Rates Retention and, as such, forming part of the Fair Funding Review.

### **Funding for Fire and Rescue Services**

47. As with councils, Fire and Rescue Authorities will be able to raise their precept by 2 per cent in 2020/21 and will receive an increase in their settlement funding assessment (consisting of the business rates baseline and Revenue Support Grant) in line with inflation. We are disappointed that they have not been given the flexibility of being able to raise their precept to by £5 which has been given to shire districts.

48. After a number of years where there have been reductions in Fire and Rescue Authorities' funding, the inflationary increase in 2020/21 is a helpful reversal.

49. The LGA is seeking more detail on the settlement from the Home Office relating to the changes in the valuation of employers' contributions to fire sector workers' pensions, which could have a significant impact on Fire and Rescue Authority budgets in 2020/21 unless the increased contributions are funded by Government. We need urgent confirmation that the additional pension costs will be covered.

50. We will continue to work with the Home Office and the National Fire Chiefs Council ahead of the 2020 Spending Review. Fire and rescue services need to be funded to take account of the full range of risks, demands and cost pressures they face. This includes new roles as a result of the building and fire safety legislation announced in the Queen's Speech and to invest in associated protection work as well as tackling risks associated with climate change such as flooding and wild fires.

51. Additional funding should also be made available to enable fire and rescue services to drive transformation in the way they deliver their services, and the capital funding issues faced by some services should be addressed.

### **Clarity on funding and predictability**

52. With the roll-forward settlement, the four year deal that ran out in March 2020 has been extended by one year. This means that after March 2021 there is no clarity over funding levels, for both the national pot and local allocations, and any council tax referendum limits. Nor do councils know how they will be affected by the implementation of the review of relative needs and resources alongside further business rates retention. This hampers meaningful financial planning at a time when central government grant funding is the lowest it has been for decades and demand pressures are increasing.

53. The LGA strongly agrees with the recommendation in the Hudson Review that the final settlement should be announced no later than 31 January, and the provisional settlement around 5 December. Clearly it was not possible to meet that timetable for the Provisional Settlement this year. We are pleased that the Government listened to our call for the publication of this Settlement before Christmas. We hope that the final settlement will be published as near to 31 January as possible and that in future years it will be possible to meet the timetable outlined in the Hudson Review.

Local Government Association  
January 2020

## Annex

The responses to the MHCLG questions in the consultation are:

### **Question 1: Do you agree with the methodology for allocating Revenue Support Grant in 2020/21?**

### **Question 2: Do you agree with the Government's proposal to eliminate negative RSG?**

We note that the methodology for allocating Revenue Support Grant (RSG) in 2020/21 is unchanged from 2019/20. The LGA does not take a formal view on distribution, pointing to arguments on both sides.

We recognise that the Government has again decided not to proceed with the negative adjustment to top-ups and tariffs known as 'negative RSG' in 2020/21, paid for from central government resources. The affected authorities will welcome the Government proposal to again cancel the adjustment in the 2020/21 settlement.

However, all councils face huge financial uncertainty over the next few years and into the next decade. We look forward to working with the Government as a vital partner to help deliver its commitment to levelling up powers and investment in local areas in the run up to the 2020 Spending Review.

### **Question 3: Do you agree with the proposed package of council tax referendum principles for 2020-21?**

No national tax is subject to a referendum. The council tax referendum limit needs to be abolished so councils and their communities can decide how under-pressure local services are paid for, with residents able to democratically hold their council to account through the ballot box.

However, increasing council tax is not a sustainable solution to meeting the funding gap facing local government as increasing council tax raises different amounts of money in different parts of the country, unrelated to need. This also adds an extra financial burden on households.

As stated above, should the Government proceed with setting referendum limits, we would repeat our call, which we made in our response to the Technical Consultation on the 2020/21 Settlement for the following to be taken into account:

- Consideration should be given to a 3 per cent core threshold as in previous years, as opposed to a 2 per cent threshold as proposed.
- We agree that shire district councils should have the extra flexibility of a £5 increase but this should be the higher of 3 per cent or £5 as this is a "rollover" settlement. This flexibility should also be extended to fire authorities.

**Question 4: Do you agree with the Government's proposals for the Social Care Grant in 2020-21?**

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

As stated above, we welcome the additional £1 billion for social care (children's and adults), on top of the continuation of existing social care funding package. The total for each council for the Improved Better Care Fund (incorporating the £240 million previously paid in the form of a ring-fenced Winter Pressures Grant) will not change from 2019/20.

Relative Needs Formulae (RNF) are a recognised way of allocating grant resources, although we do not take a position supporting one or another distribution formula. For example, some authorities with high pressures relating to children's services might have preferred the Social Care grant to be allocated at least partly according to the Children's 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 from 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?**

The New Homes Bonus (NHB) makes up a considerable part of funding for some councils, particularly shire district authorities. They will welcome the decision not to increase the threshold in 2020/21 but they will be concerned about the decision to pay the bonus for 2020/21 for one year only as well over the uncertainty of legacy payments from previous years' housing growth.

The LGA has always been of the view that the NHB should be funded from outside the settlement. The Government needs to work closely with councils as part of its review of housing incentives in order to ensure the review results in the delivery of more homes and that the revised scheme works for local government.

It is important that sufficient clarity about legacy payments from 2021/22 onwards, as well as the outcome of the review, is provided to councils as soon as possible to allow them to plan their 2021/22 and future budgets. Even with the New Homes Bonus the cost of delivering services to new homes is not met in full. The LGA would welcome the opportunity to continue working with the Government on how we can support housebuilding.

**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?**

Councils which receive the extra resources will welcome this proposal, which is unchanged from 2019/20.

**Question 8: Do you have any comments on the impact of the 2020/21 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.**

The LGA refers the Government to the response from individual member authorities.