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15 January 2016

Dear Shafi

Worcestershire County Council response – Provisional Local Government Finance Settlement 2016/17

Worcestershire County Council (the Council) welcomes the opportunity to respond to the provisional Local Government Finance Settlement (the settlement) announced on 17 December 2015.

The Council fully accepts the need for Government to make difficult decisions to reduce the size of the national deficit and that Local Government needs to play its part in that. This Council in particular has played its part by delivering in excess of £100 million of savings since 2010/11 and currently has plans, approved in February 2015, to continue to deliver £25 million per year of further savings and efficiencies through to 2019/20. At the same time, the Council is transforming to become more commercial, agile and focused on place shaping supporting a Worcestershire economy that is now the third fastest growing economy in the country.

However, the Council is very concerned with the Settlement and the extent to which significant proposed changes in the way in which the Council is funded has been changed with very little notice and will come into effect before the Council can appropriately plan, consult and design changes to its services.

The response begins by identifying the major issues that the Settlement creates as well as providing specific responses to the consultation questions raised. The Council fully supports the responses provided by the County Council Network and the Society of County Treasurers and this response should be read alongside those.

An overarching significant change in funding for County Councils with little notice

The Settlement sets out significant and immediate reductions in Revenue Support Grant for the Council far in excess of the 2015 Comprehensive Spending Review. The Settlement has used a redistribution methodology that has moved nearly £5 million from the Council's Revenue Support Grant in 2016/17 to other areas of the Country, an amount in excess of the Council's new Adult Social Care precept power. The short period of time for consultation and the immediacy of its significant and detrimental impact on Worcestershire County Council is most unhelpful and challenges our ability to apply appropriate consultation and other due diligence to savings and efficiency proposals that will result.

Timing and Planning

Further to the summary above, a comparison has been made between the funding reductions in the Settlement and those signposted in the Comprehensive Spending Review (CSR) and we are surprised by the significant reductions and difference between the two. The Settlement creates an additional funding gap of £11 million in savings and efficiencies in 2016/17 and £12 million in 2017/18 over and above our forecasts following the CSR.

The Council is disappointed with the timings around the Settlement. Firstly the announcement and brief consultation period, and this coupled with the short

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consultation period over Christmas and New Year makes it challenging when significant and fundamental changes to how funding is distributed are being proposed.

We are at an advanced stage of planning for the 2016/17 financial year and it is impossible to make planned and consulted upon reductions of this scale in this period of time. The risk is that this is insufficient time to fully understand the impact of the proposals and to respond with fully researched and beneficial comments. Moreover, it is impossible to plan, consult and develop implementation plans for an additional savings and efficiencies plan of £11 million with a requirement to set a balanced budget in February 2016.

Revenue Support Grant

Set out below are four key points with regard to dramatic changes in the distribution of the Revenue Support Grant.

- Locking in future local decisions

The Council is extremely disappointed that the Government has assumed increases in Council Tax levels for four years in its new calculations of Spending Power and therefore how Government distributes Revenue Support Grant. Council Tax increases are local decisions and any pre-empting of these decisions does not support Government's localism agenda.

The Government's assumptions underlying the amount of Council Tax that can be collected are far greater than local assumptions and therefore flawed in the Council's view. This has a detrimental impact on the Council's Spending Power calculation. Local Councils have made changes in Worcestershire with regard to the localised Council Tax Support System where only 90% of the funding for the transferred scheme was made. These changes have led to increases in Council Tax Yield over and above the increases in properties. Government's calculations of Spending Power have included the impact of these changes which are unlikely to be replicated in future years. The impact for Worcestershire is to overestimate increases in Council Tax Yield in 2018/19 by £1 million and 2019/20 by £4 million, for which there is then an adjustment made to Revenue Support Grant.

The tax raising abilities of local councils are already included in the baseline figures which underpin the Business Rate Retention and RSG distribution system prior to this consultation. Therefore, the proposed Settlement double counts.

- Little attention to need

The Council wishes to express its real disappointment over the use of baselines underlying the funding distribution system. The Council continues to receive £7 million less than Government's own assessment of the funding required meeting local need due to the locking in of damping prior to the move to the new Business Rates Retention system. The Council requests that damping is removed in full and therefore it receives funding that Government itself has assessed as required to meet need, and that any other funding allocations give sufficient weight to increasing need as Worcestershire's over 65 population is forecast to grow significantly when compared to metropolitan areas and London boroughs.

- Managing the impact of changes

In times of significant changes to Revenue Support Grant, Government has implemented changes alongside systems of floors and ceilings to manage the impact of dramatic changes. The Settlement does not include such a system that will expose the Council to significant risks in managing change.

- Negative Revenue Support Grant

Worcestershire's Revenue Support Grant reduces to zero by the end of the proposed Settlement period. In fact, a negative adjustment is proposed to the Council's Business Rate top-up grant to recognise reductions that are intended to be made over and above the level of Worcestershire's Revenue Support Grant.

In addition to the redistribution of Revenue Support Grant, this is fundamentally unacceptable and is in stark contrast to the announcements made when the Business Rate Retention System was established saying that tariffs and top-ups would only change in line with the Retail Price Index. This contradiction potentially undermines the trust that the Council has in Government statements on how funding systems will work. This means for Worcestershire that £0.76 million of business rate income collected within Worcestershire is redistributed to other areas of the Country.

Social Care Precept

The Council is able to consider raising Council Tax by 2% in respect of an Adult Social Care Precept. This would have the potential to generate additional income of around £4 million. It is, however, disappointing that the redistribution of Revenue Support Grant potentially, and with little notice, has reduced income by a similar and commensurate amount. Alongside the flow of funding, Government propose to levy additional requirements on the Council to report detailed information on the Adult Social Care Budget where decisions are made to utilise this new precept raising power.

The Council therefore has not received additional net new monies in 2016/17 and strongly supports a reduction, rather than increase in bureaucratic processes, which it believed this Government were keen to move away from.

Improved Better Care Fund and New Homes Bonus

The Council's New Homes Bonus has been spent in recent years on strengthening local infrastructure to support business and residential growth. Whilst recognising that reductions as proposed in a further consultation reduce these payments, the Council supports the intention to use the savings generated by these changes to support Social Care.

However, the Settlement redistributes this funding in a different way to how it is currently received by all Councils in Worcestershire. As an example, in 2017/18, Worcestershire Councils' New Homes Bonus funding is reduced by £3.8 million. However the proposed Improved Better Care Fund allocation in 2017/18 is just £0.1 million, half of which is funded by New Homes Bonus reallocations. The result is an outflow of funding from Worcestershire of £3.7 million with an equivalent amount of £2.2 million in 2018/19.

The Council welcomes the Secretary of State confirming that the Improved Better Care Fund will be received directly by the Council. However, the Council is deeply concerned with:

- a) the outflow of net funds again from Worcestershire, rather than this element of the Improved Better Care Fund being 'new' money;
 - b) the receipt of the Improved Better Care Fund only being substantively in 2018/19 and 2019/20, whereas the pressures within Social Care are immediate and now require this funding – half of the funding is being provided by an increase in the Local Government Departmental Expenditure Limit rather
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than recycling New Homes Bonus and therefore this should be made available in 2017/18; and

- c) a lack of clarity as to whether the Improved Better Care Fund will be received to support existing forecasts on pressures (as indicated in the Settlement) that arise out of demographic growth and demand for services or whether these monies will be accompanied with new spending commitments.

Reserves

The Council is aware that Worcestershire MPs have been informed that the Council has £112 million of un-ring-fenced reserves with the implications that these can be used to support the additional funding gap that has been created in the Settlement. The Council actually has around £20 million of reserves that are held as a general un-ringfenced or risk reserves. These are held to deal with emergencies and risks, can only be used once and are provisionally allocated against specific items.

The majority of our reserves are definitively earmarked for commitments that have already been made, held on behalf of Government until that specific grant is spent (PFI or grants for future commitments that have been made) or held on behalf of schools or other third parties. The additional reductions in grant will require actual savings and efficiencies to be delivered and cannot be met from equivalent withdrawals from Earmarked Reserves.

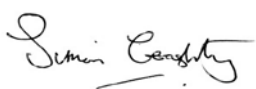
Recommendations for consideration

The Council urge you to consider the following changes to the Settlement to reduce the dramatic impact on County Councils.

- Reverse the Government's detrimental approach to Shire areas and Worcestershire through Grant Distribution that unfairly penalises County Councils;
- bring forward the Improved Better Care Fund to 2017/18 to ensure that there is not a net outflow of funds from Worcestershire and those monies can be used to support immediate pressures in Social Care
- Consider the application of floors and ceilings, or transitional support to the Council in 2016/17 and 2017/18 to dampen the effect of a dramatic reduction in Revenue Support Grant when comparisons are made to the announcements made within the Comprehensive Spending Review; and
- Limit the reductions in funding to the level of Revenue Support Grant, rather than applying a further adjustment to the County Council's Business Rate top-up grant in 2019/20 as this becomes potentially a tax on Worcestershire residents and business to pay for services delivered elsewhere in the Country.

The LGA indicated that this may only require £150 million to be made available to Local Government in 2019/20.

Kind Regards



Simon Geraghty
Leader of the Council



Sean Pearce
Chief Financial Officer

Local Government Finance Settlement 2016/17 - Consultation

Question 1: Do you agree with the methodology for allocating central funding in 2016-17, as set out in paragraphs 2.6 to 2.8?

No.

The Council does not agree with the proposed approach to allocate central funding in 2016/17 which it believes to be an expedient addition to the current system used to solve problems caused by the proposed steep decreases in central support and the impact on some local authorities who have a greater proportion of their expenditure funded by Revenue Support Grant and therefore have proportionally more to lose. The proposed approach negates this impact but at the expense of authorities like Worcestershire who raise more funding proportionally through council tax.

The methodology of redistributing Revenue Support Grant also highlights a different attitude to supporting social care in county areas compared with other parts of the Country. The Government's intended distribution of Revenue Support Grant has the impact of removing grant funding that supports services in Worcestershire and providing it to other Councils elsewhere in the Country.

The change in methodology has also resulted in significant differences in funding reductions faced by Councils with similar pressures in 2016/17 and 2017/18. This is coupled with a very short consultation period for the Council to plan how to manage the funding reductions and receive meaningful and informed responses from partners, service users and council tax payers. Previous changes of this magnitude have been implemented after much more lengthy consultation periods, and have tended to be supported by a phasing in of the change over more than one year.

The Council does not agree that the amount raised by Council Tax should be part of the calculation of how much central support is provided to the Council. While taxbase differences should be taken into account as it has been in previous distribution systems it is not acceptable that levels of Council Tax should also be part of the calculation particularly at such short notice.

Council Tax levels are subject to debate and decisions made by local councillors. Those areas, which have been prepared to pay more to support services, are now being penalised by losing more central support.

The Government welcomes views on whether any further transitional measures might be appropriate.

Previously when changes to grant distribution methods have been introduced then there have also been limits on gains and losses. For example the Council's baseline funding assessment is reduced by around £7 million due to the damping of gains through a recalculation of the needs assessment. Consideration should be given to the limiting of losses or gains in this current change of distribution method allowing time for authorities significantly affected by the change to prepare for it. This is particularly important when front line service changes are considered and the long lead in times for public consultation means authorities need time to affect due and fair process.

Question 2: Do you agree with the proposed methodology for calculation of the council tax requirement for 2016-17, as set out in paragraphs 2.10 and 2.11?

Whilst the calculation method of the Council Tax requirement is acceptable the Council does not agree that funding raised by Council Tax should be used in the calculation of reductions in Revenue Support Grant. Worcestershire's ability to raise Council Tax is already included in the Settlement Funding Assessment and should not be included again. Council Tax levels are not relevant to the distribution of Revenue Support Grant but are a result of local democracy and choice.

Question 3: Do you agree with the proposed methodology in paragraph 2.12 for splitting the council tax requirement between sets of services?

No specific comment.

Question 4: Do you wish to propose any transitional measures to be used?

Yes.

The Council believes that the time frame given by the current consultation period for such a significant change to funding distribution is too short for a comprehensive reply particularly when compared to that relating to the New Homes Bonus. The changes should be delayed for a year to allow for more effective planning and consultation.

As noted in the answer to question 1 above there should be some limit on gains and losses arising from the new method of distributing grant.

Question 5: Do you agree with the Government's proposal to fund the New Homes Bonus in 2016-17 with £1.275 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.15?

No.

The use of a top-slice to fund the New Homes Bonus together with its subsequent distribution method results in Worcestershire County Council being adversely affected once more. The inequity in the New Homes Bonus allocations has been recognised as a consultation has been launched for future changes but additional support for social care is required now. The reinstatement of the former Department of Communities and Local Government share of New Homes Bonus funding would help mitigate this situation while also protecting District Councils. The Government's approach allowing sufficient consultation change for New Homes Bonus is not consistent with its approach to Revenue Support Grant redistribution methodology changes.

Question 6: Do you agree with the Government's proposal to hold back £50 million to fund the business rates safety net in 2016-17, on the basis of the methodology described in paragraph 2.19?

No.

The design of the business rates retention system meant that levies were designed to cover the cost of safety net payments. In addition the design also meant top-up authorities such as Worcestershire County Council who provide social care were protected from the most severe risks of the business rates volatility and therefore were also excluded from the rewards. Holding back £50m from the Revenue Support Grant total penalises counties in order to provide support to other types of authorities.

Question 7: Do you agree with the Government's proposed approach in paragraph 2.24 to paying £20 million additional funding to the most rural areas in 2016-17, distributed to the upper quartile of local authorities based on the super-sparsity indicator?

The Council supports the recognition of higher costs of providing services in rural authorities. However although the Worcestershire area suffers from higher costs of providing services in rural areas there is no recompense for the County Council for these higher costs due to the calculation method. For example a local district council qualifies for this support but Worcestershire County Council receives nothing due to the averaging method used in the calculation. If a district area attracts additional funding due to the rural nature of the area so should the County in proportion to that area.

Question 8: Do you agree with the Government's proposal that local welfare provision funding of £129.6 million and other funding elements should be identified within core spending power in 2016-17, as described in paragraph 2.28?

No.

The Council does not agree with the identification of some of the funding elements within Core Spending Power. The highlighting of only some of the services supported through core funding is confusing at best and disingenuous at worst with the implication that expenditure levels can be or are being maintained. Expectations about levels of funding available are raised without taking into account local decision making powers and the overall reduction in funding of total core funding.

It does not appear equitable to identify only some areas as 'visible lines', and therefore losing sight of other areas where government assumed funding is being reduced. It is not clear how this aligns with the principles of Localism.

The Council is concerned that the Government is using 'visible lines' to reintroduce ringfencing of funding which would be a backward step with regard to the Government's Localism agenda.

Question 9: Do you agree with the Government's proposal to include all of the grant funding for the Care Act 2014 (apart from that funded through the Better Care Fund) in the settlement, using the methodology set out in paragraph 3.2?

No.

The Council does not agree with the inclusion of the funding for the Care Act in the Settlement. This funding was as a result of a New Burden. The 'Rolling in' of this New Burden into Revenue Support Grant has either been made without an appropriate transfer of funding into Revenue Support Grant or has increased dramatically the reductions in Revenue Support Grant reductions set out in the Comprehensive Spending Review. This transfer into Revenue Support Grant will be subject to significant reductions due to the proposed RSG redistribution methodology which will leave Worcestershire with no funding for this New Burden by 2019/20. This lack of funding comes despite Government assurances at the time the introduction of the Care Act will be fully funded. An un-ring-fenced section 31 grant should be used to fund this responsibility as was the case in 2015/16 for these ongoing responsibilities.

Question 10: Do you agree with the Government's proposal to include all 2015-16 Council Tax Freeze Grant in the 2016-17 settlement, using the methodology set out in paragraph 3.3?

No.

The Council notes that the funding is not protected and will therefore be much reduced by the end of the spending review period or in some cases nil due to the proposed Revenue Support Grant redistribution method. This funding should be provided by separate S.31 grant.

Question 11: Do you agree with the Government's proposal to include all 2015-16 Efficiency Support Grant funding in the settlement and with the methodology set out in paragraph 3.5?

No.

The Council notes that the funding is not protected and will therefore be much reduced by the end of the spending review period or in some cases nil due to the proposed Revenue Support Grant redistribution method. This funding should be provided by separate S.31 grant.

Question 12: Do you agree with the Government's proposal to include funding for lead local flood authorities in the 2016-17 settlement, as described in paragraphs 3.6 and 3.7?

No.

The Council notes that the funding is not protected and will therefore be much reduced by the end of the spending review period or in the case of Worcestershire be nil by 2019/20 due to the proposed Revenue Support Grant redistribution method. This funding should be provided by separate S.31 grant.

Question 13: Do you agree with the Government's proposal to pay a separate section 31 grant to lead local flood authorities to ensure funding for these activities increases in real terms in each year of the Parliament?

Yes.

Any funding designed to help with increasing costs is welcome and this principle of providing a grant to ensure real terms increases should apply to funding for all activities funded through the settlement. This is however a very small grant and therefore the bureaucracy surrounding its administration and audit certification should be minimised.

Question 14: Do you have any views on whether the grant for lead local flood authorities described in paragraph 3.8 should be ring-fenced for the Spending Review period?

Once the funding for the lead local flood authorities is included in the SFA then it will be subject to the same significant reductions as other services and cannot be ring-fenced.

Question 15: Do you agree with the Government's proposal to adjust councils' tariffs / top ups where required to ensure that councils delivering the same set of services receive the same percentage change in settlement core funding for those sets of services?

No.

The Council does not agree to changes in tariff and top-up amounts in order to achieve the reduction in central funding support from the Government. When the Business Rate Retention system was established one of the undertakings was that

there would be no reset before April 2020 with tariff and top-up changes limited to Retail Prices Index. Worcestershire County Council therefore understood that it would be able to plan on the basis of any business rate growth staying in the local area until at least that date. This proposal negates that undertaking and potentially undermines any future Government statements over funding levels, for example the four year plan offered to all Councils.

As stated in question 1 this proposal will affect Worcestershire County Council inequitably with those authorities who have never enjoyed high levels of central support being adversely affected.

Question 16: Do you have an alternative suggestion for how to secure the required overall level of spending reductions to settlement core funding over the Parliament?

Yes.

The Council believes that the same percentage reduction in Revenue Support Grant should apply to all Councils and the County areas should not be adversely affected because of the way the previous grant distribution system had allocated higher levels of grant to other types of authority such as Unitary, Metropolitan and London Boroughs.

Question 17: Do you have any comments on the impact of the 2016-17 settlement on persons who share a protected characteristic, and on the draft equality statement published alongside this consultation?

Yes.

It is likely that because Worcestershire has been affected disproportionately by the redistribution of Revenue Support Grant then there will be a greater impact on people living in Worcestershire but sharing the same characteristics or problems than those living in areas such as the London Boroughs and the Metropolitan districts.
