

## Rural Services Network (RSN)

### Provisional local government finance settlement 2020-21

1. The government published the provisional local government finance settlement for 2020-21 on 20 December 2019 via a written statement:  
<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2020-to-2021>  
<https://www.gov.uk/government/speeches/provisional-local-government-finance-settlement-2020-to-2021-statement>
2. In this briefing note we have analysed the settlement from a national perspective, and then outlined the specific impact on rural authorities (p.10).

#### Overview

3. The 2020-21 settlement is effectively an extension to the four-year settlement that covered the period 2016-17 to 2019-20. The operation of the funding schemes in the settlement and the values within it have broadly been rolled-over either in cash terms from 2019-20 or increased in line with the change in the business rate multiplier.
4. The one-year Spending Review 2019 made the significant funding changes that affect the 2020-21 settlement. These were:
  - **£1bn additional funding for social care.**
  - **2% adult social care precept, which could generate a further £500m**
  - **Reduction in the maximum increase in core Band D council tax from 2.99% to 1.99%**
  - **Settlement Funding Assessment increases in line with the multiplier (1.6%, £237m)**
5. The small business rate multiplier will be 49.9p, an increase of 1.63% compared to 49.1p in 2019-20. The multiplier increases in line with the Consumer Price Index (CPI) in the previous September.
6. Very little was added in the Conservative Party manifesto in last month's General Election. It was confirmed that the £1bn social care funding would be repeated in each year of the parliament but no new revenue funding was announced. A Potholes Fund (£500m) was proposed and the allocations from that fund will be announced in the new year.<sup>1</sup> The manifesto indicated that there are prospects for additional funding for

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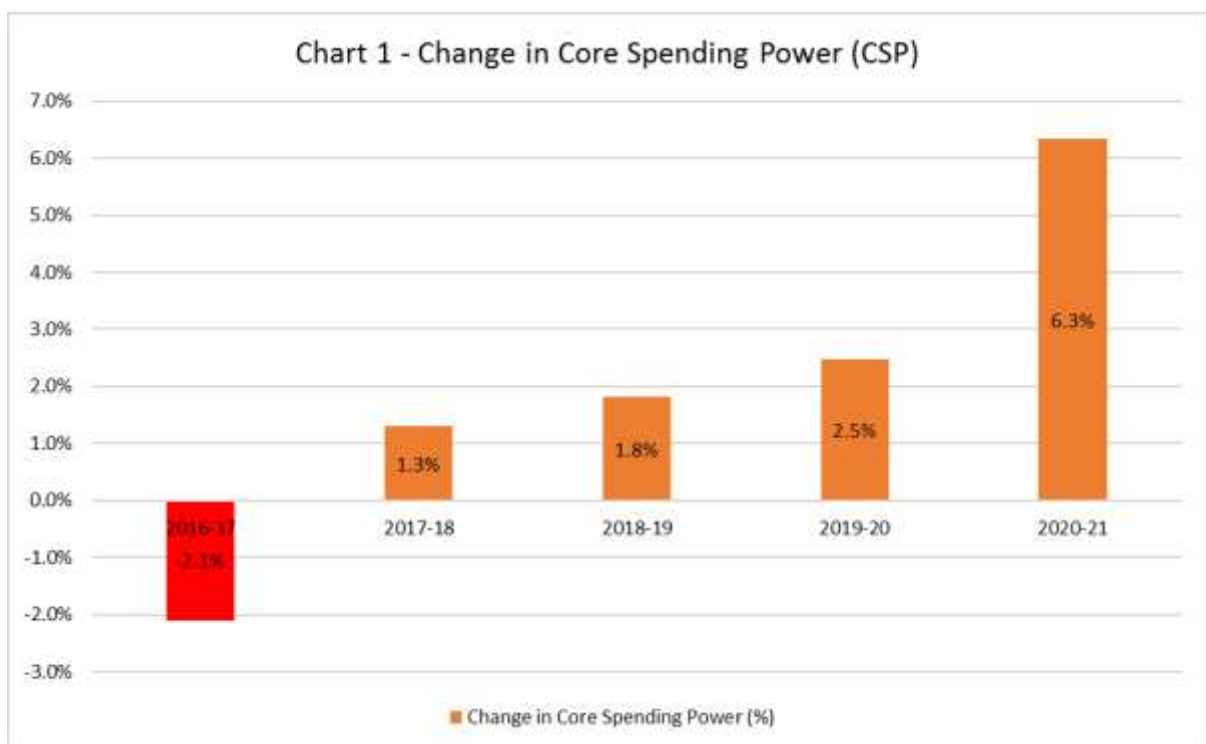
<sup>1</sup> The Potholes Fund is very advantageous to county authorities, most of whom are rural.

various new schemes (Childcare, SEND, New Towns Fund, flood defence) and capital investment but these are only likely to emerge in the coming months.

7. Any significant changes in local government funding will have to wait until either the Budget (expected in February 2020) or the Spending Review 2020 (which will follow in the Summer).

### Core Spending Power

8. Core Spending Power (CSP) will increase by 6.3% in 2020-21, the highest increase in CSP in over a decade. Chart 1 shows that CSP has been increasing in cash terms since 2017-18, reflecting the lower cuts in Settlement Funding Assessment and the increases in council tax (particularly adult social care precept). This is the first real-terms increase in CSP since 2010.



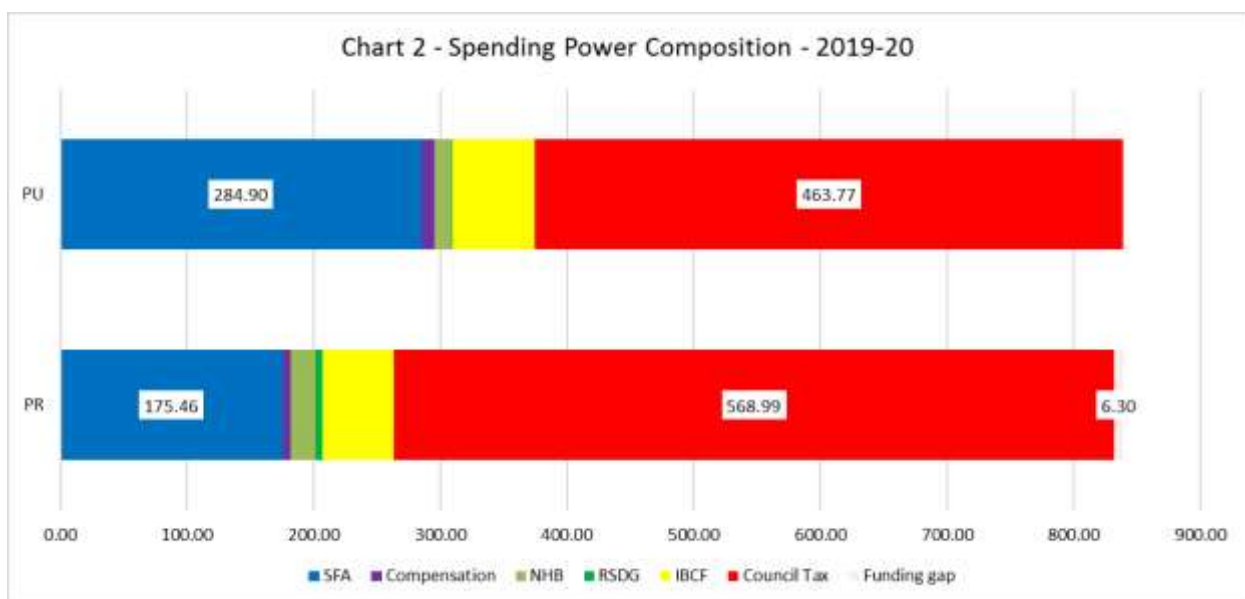
9. For rural authorities, a key element is the **Rural Services Delivery Grant (RSDG)**. There is no change in RSDG funding (£81m) compared to 2019-20, and no change in methodology (funding will be received by authorities in the top-quartile for super-sparsity).

**Table 1 – Change in Core Spending Power**

	<b>2019-20</b>	<b>2020-21</b>	<b>Change in 2020- 21</b>	<b>Change in 2020- 22</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Settlement Funding Assessment	14,560	14,797	237	1.63%
Compensation for under-indexing the business rates multiplier	400	500	100	25.00%
Council Tax	27,768	28,870	1,102	3.97%
New adult social care precept		500	500	
Improved Better Care Fund	1,837	2,077	240	13.06%
The Adult Social Care Support Grant	0		0	
Winter pressures Grant	240		-240	-100.00%
Social Care Support Grant	410		-410	-100.00%
New adult social care grant		1,410	1,410	
New Homes Bonus	918	907	-11	-1.16%
New Homes Bonus returned funding	0		0	
Rural Services Delivery Grant	81	81	0	0.00%
Transition Grant			0	
<b>Core Spending Power</b>	<b>46,213</b>	<b>49,142</b>	<b>2,929</b>	<b>6.34%</b>

## Rural overview

10. We have analysed the funding received by Predominantly Rural (PR) and Predominantly Urban (PU) authorities. These are the classifications developed by the government to identify the most urban and the most rural authorities.
11. The composition of funding for PR and PU authorities is very different. Chart 2 shows that PR authorities receive much less funding per head from the government, from both SFA and key social care grants. Rural authorities are much more reliant on income from council tax: residents in rural authorities are paying £105 more per head than residents in urban authorities. And overall, rural authorities have much less resources per head than urban authorities (£6 per head less, even though they pay much more in council tax).



12. Increases in grant funding and overall resources have been marginally higher in PR authorities compared to PU authorities (Appendix 1). Partly this is because PR authorities generate more from council tax (and are consequently more reliant on residents paying council tax).

## Settlement Funding Assessment (SFA)

13. SFA will increase in line with the uplift in the business rate multiplier, which results in an increase of £237m (or 1.6%).

**Table 2 – Settlement Funding Assessment**

<u>Total SFA</u>	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
All England	21,249.938	18,601.462	16,632.428	15,574.165	14,559.645	<b>13,818.862</b>
less GLA non fire element	-955.783	-950.084	-950.575	-965.541	-978.037	<b>-978.037</b>
All England	20,294.185	17,651.404	15,681.876	14,608.647	13,581.629	<b>13,581.629</b>
Predominantly Rural	3,822.672	3,219.264	2,767.420	2,520.785	2,307.883	<b>2,360.877</b>
Year on Year Change		-15.78%	-14.04%	-8.91%	-8.45%	2.30%
Cumulative Change (from 15/16)		-15.78%	-27.61%	-34.06%	-39.63%	-38.24%
Prdominantly Urban	14,346.790	12,651.678	11,391.449	10,701.406	10,003.119	<b>10,182.038</b>
Year on Year Change		-11.82%	-9.96%	-6.06%	-6.53%	1.79%
Cumulative Change (from 15/16)		-11.82%	-20.60%	-25.41%	-30.28%	-29.03%
<u>SFA per head</u>						
Predominantly Rural	284.10	239.25	205.67	187.34	171.52	175.46
Predominantly Urban	401.43	354.00	318.74	299.43	279.89	284.90
Gap (£)	117.33	114.75	113.07	112.09	108.37	109.44
Gap (%)	41%	48%	55%	60%	63%	62%

14. This is the first increase in SFA in over a decade. Table 2 shows the recent trend in changes to SFA, with the largest cuts in SFA at the start of the four-year settlement period. In fact, the cuts in SFA were even larger in the preceding years. Over the five years shown in Table 2, the cut in SFA has been 29% in cash terms, with the increase in 2020-21 changing the direction of travel but not replacing the massive cuts in local government funding.
15. The gap between rural and urban authorities has widened considerably since 2015-16, although it is now stabilising. It widened in the early part of the last spending review period because cuts in SFA were highest in high-taxbase authorities, which tend to include rural authorities.
16. Local authorities receive their SFA funding allocations via Revenue Support Grant (RSG) and Baseline Funding Level (BFL). The increase in the business rate multiplier has been applied to both these two elements as well, resulting in an increase of £38m in RSG and £198m in BFL.
17. The effect of preserving the relationships between SFA, RSG and BFL is to continue to fund Negative RSG. Negative RSG occurs when an authority's BFL exceeds its SFA. In this situation the authority is funded at the level of its (higher) BFL rather than at its level of assessed needs (SFA). The cost of Negative RSG in 2020-21 will be £152.9m, broadly the same as in 2019-20.

## **New Homes Bonus**

18. New Homes Bonus (NHB) will continue for another year but the government very clearly intends to phase it out by 2023-24. For now, there is no change in the operation of the scheme in 2020-21: the scheme works in the same way and applies the same threshold (0.4%).
19. The cost of NHB will reduce in 2020-21 as a result of the natural operation of the scheme. Without any changes to the threshold, the cost of the NHB will reduce to £907m, more than the £900m funding allocation but marginally less than the £916m in 2019-20.
20. The major change in NHB is that the new amounts earned in Year 10 will only attract an NHB reward for one year (2020-21). In the following year (2021-22), rewards will only be paid in respect of years 8 and 9, and in year 2022-23 only for year 9. NHB will effectively end by 2023-24. Chart 5 shows how NHB will taper-out over the next 3 years.
21. Once again, the government is making very clear that it wants to replace NHB, and replace it with something that is more “targeted”. Any replacement is unlikely to distribute as much funding as the NHB currently does, or to be distributed in the same way, but at least we should find out about the government’s intentions within a few months:

“It is not clear that the New Homes Bonus in its current form is focussed on incentivising homes where they are needed most. I am therefore announcing that the government will consult on the future of the housing incentive in the spring.

“This will include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance.”
22. Urban authorities receive more in NHB than rural authorities (£493 per head compared to £263 per head). But NHB allocations have fallen much more quickly in urban areas in 2020-21. The overall funding for NHB has only reduced marginally, so the reduction for urban authorities is the result of less above-threshold growth in properties.

**Table 3 – New Homes Bonus**

<u>Total NHB</u>	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
All England	1167.638	1461.855	1227.447	947.498	917.949	907.332
less GLA non fire element	0.000	0.000	0.000	0.000	0.000	0.000
All England	1200.001	1485.001	1251.996	946.221	917.950	917.950
Predominantly Rural	308.673	388.326	334.924	265.269	260.535	263.750
Year on Year Change		25.81%	-13.75%	-20.80%	-1.78%	1.23%
Cumulative Change (from 15/16)		25.81%	8.50%	-14.06%	-15.60%	-14.55%
Predominantly Urban	704.846	879.351	724.801	547.645	517.895	493.519
Year on Year Change		24.76%	-17.58%	-24.44%	-5.43%	-4.71%
Cumulative Change (from 15/16)		24.76%	2.83%	-22.30%	-26.52%	-29.98%
<u>NHB per head</u>						
Predominantly Rural	22.94	28.86	24.89	19.71	19.36	19.60
Predominantly Urban	19.72	24.60	20.28	15.32	14.49	13.81
Gap (£)	-3.22	-4.26	-4.61	-4.39	-4.87	-5.79
Gap (%)	-14%	-15%	-19%	-22%	-25%	-30%

### Adult social care funding

23. The Chancellor announced £1bn of new adult social care grants in the SR19. There were three elements to the funding:

- **Winter Pressures Funding: £240m continued from 2019-20** for councils to spend on adult social care services to help councils alleviate winter pressures on the NHS. This has now been rolled into the Improved Better Care Fund and its ringfence removed.
- **Social Care Support Grant: £410 million continued from 2019-20** for adults and children’s social care. Councils should be using this additional funding to “ensure that adult social care pressures do not create additional demand on the NHS”, “where necessary”. However, councils can use this grant to fund social care services for older people, people with disabilities and children.
- **Social Care Support Grant: £1bn in 2020-21 (as above)**. The two elements of the Social Care Support grant will be paid together (£1.41bn).

24. The two grants continuing from 2019-20 will be distributed using the Adult Social Care Relative Needs Formulae (RNF). The new £1bn grant will be distributed using a combination of the Adult RNF and the equalisation of £150m of council tax income. This approach was consulted on in the October Technical Consultation. The government is claiming that their methodology is “used to equalise the distributional impact of the ...

adult social care precept". This is misleading: the methodology only equalises part of the additional precept, which favours those councils with the largest taxbases.

25. The written statement says that "local authorities will have access to over £5.5 billion of dedicated funding across adult and children's social care in 2020-21". This is the amount of additional resources that authorities have received from new grants and generated themselves from the adult social care precept on top of those already in SFA.
26. Table 4 shows that urban authorities receive much more funding from IBCF than rural authorities. The formula used for social care is heavily weighted towards urban authorities. Furthermore, all the IBCF allocations fully take into account the ability of authorities to generate additional income from the Adult Social Care precept – which reduces the grant funding to rural authorities, which tend to have high taxbases.
27. The gap between PR and PU authorities is only marginally improved by the inclusion of the Winter Pressures grant (£240m) within IBCF.

**Table 4 – Improved Better Care Fund**

<u>Total IBCF</u>	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
All England			1115.000	1499.000	1837.000	2076.921
less GLA non fire element			0.000	0.000	0.000	0.000
All England			1115.002	1739.003	2487.004	2487.004
Predominantly Rural			235.108	311.899	377.596	442.762
Year on Year Change				32.66%	21.06%	17.26%
Cumulative Change (from 15/16)				32.66%	60.60%	88.32%
Predominantly Urban			755.555	1023.399	1264.117	1418.283
Year on Year Change				35.45%	23.52%	12.20%
Cumulative Change (from 15/16)				35.45%	67.31%	87.71%
<u>IBCF per head</u>						
Predominantly Rural			17.47	23.18	28.06	32.91
Predominantly Urban			21.14	28.64	35.37	39.68
Gap (£)			3.67	5.46	7.31	6.78
Gap (%)			21%	24%	26%	21%

#### **Revenue and capital funding outside CSP**

28. No announcement has been made about the Public Health grant. We are still assuming a 1% real-terms increase in the funding for public health in 2020-21, although this has not yet been confirmed. The consultation document confirms that there will be a real-terms increase, but does not specify the amount (p.8).
29. The former Independent Living Fund (ILF) grant will continue to be paid in 2020-21. There will be no changes to the amount (£160.6m) or distribution.



30. Allocations for the Dedicated Schools Grant (DSG) have been announced today. We will investigate further to see whether the allocations for the additional £700m SEND funding are included.
31. The Conservative Party manifesto announced £500m funding for a Potholes Fund. We understand that allocations will be published in the new year. It is not clear whether the £500m includes or excludes the Barnett Formula “consequentials” (i.e. the element that has to be allocated to Scotland, Wales and Northern Ireland).

### Government Funded Spending Power (GFSP)

32. Rural Services Network has developed a metric called Government Funded Spending Power that shows the funding that authorities receive from central government. Table 5 shows the change in government-funded spending power between 2015-16 and 2020-21. These are all the grant funding streams within Core Spending Power, excluding council tax.

**Table 5 –Government-Funded Spending Power (GFSP) (per head)**

<u>Total GFSP</u>	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
All England	22,630.568	20,482.092	19,630.504	18,526.487	18,445.617	18,787.527
less GLA non fire element	-955.783	-950.084	-950.575	-965.541	-978.037	-978.037
All England	21,674.785	19,532.008	18,679.929	17,560.946	17,467.579	17,809.490
Predominantly Rural	4,178.484	3,758.757	3,533.477	3,247.239	3,231.471	3,541.401
Year on Year Change		-10.04%	-5.99%	-8.10%	-0.49%	9.59%
Cumulative Change (from 15/16)		-1.67%	-7.57%	-15.05%	-15.47%	-7.36%
Prdominantly Urban	15,196.944	13,735.747	13,238.496	12,575.309	12,501.382	13,392.217
Year on Year Change		-9.62%	-3.62%	-5.01%	-0.59%	7.13%
Cumulative Change (from 15/16)		-4.26%	-7.73%	-12.35%	-12.86%	-6.65%
<u>GFSP per head</u>						
Predominantly Rural	310.54	279.35	262.60	241.33	240.16	263.19
Predominantly Urban	425.22	384.33	370.42	351.86	349.80	374.72
Gap (£)	114.68	104.99	107.82	110.53	109.64	111.53
Gap (%)	37%	38%	41%	46%	46%	42%

33. Cumulatively, the cut in GFSP have been similar in PR and PU authorities between 2015-16 and 2020-21 (7.36% in PR and 6.65% in PU authorities). However, the funding gap between PR and PU authorities remains very significant: funding per head is 42% higher in PU authorities compared to PR authorities.

34. This gap has grown since 2015-16 – although it has narrowed marginally in 2020-21. The narrowing is because PR authorities are gaining SFA and council tax income more quickly, and losing New Homes Bonus (NHS) less quickly than PU authorities.

#### **Band D Council Tax**

35. The maximum increase in “core” Band D will be 1.99% in 2020-21. This is lower than the maximum threshold in the two previous years (2.99% in 2018-19 and 2019-20). The reduction was a surprise when it was announced in SR19, and we are aware that some councils had to reduce their planned council tax increases as a result.

36. If all councils increase their Band D by the maximum, this will raise an additional £1.1bn, and continue the significant growth in council tax revenues that have taken place since 2015-16 (28% cumulative). The written statements says that, “this package will mean that the expected average council tax increase for 2020-21 will be the lowest since 2016-17”.

37. These are the council tax principles for 2020-21:

- **Core principle** of a maximum increase of 1.99% in Band D<sup>2</sup>. This applies to unitaries, county councils, London boroughs, GLA precept, and fire and rescue authorities.
- Continuation of the **adult social care precept**, allowing an additional **2% of Band D in 2020-21**.
- **Shire district councils** will be able to increase Band D by the higher of 1.99% or £5.
- The police settlement will not be until the new year, and there has been no indication of the maximum increase in council tax for **Police and Crime Commissioners**. The maximum increase in precept was £24 in 2019-20 (maximum increase was £12 in 2018-19).<sup>3</sup>

38. Ministers have not set a maximum precept increase for any of the **mayoral combined authorities**.<sup>4</sup>

39. The Government has also decided to defer setting any referendum principles for **town and parish councils**.

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<sup>2</sup> The report confirming the council tax referendum principles has not yet been published. The 2019-20 report is available here: <https://www.gov.uk/government/publications/council-tax-referendum-principles-report-2019-to-2020>

<sup>3</sup> Fire precept set by PCCs will still be subject to the 2% threshold.

<sup>4</sup> Six MCAs have the power to set a precept: GM, Liverpool City Region, West Midlands, Cambridgeshire, South Yorkshire, Tees Valley

40. PR authorities have to raise much more in council tax than PU authorities. PR authorities generate £568 per head compared to £463 per head in PU authorities, meaning that residents in rural authorities are paying £105 more than urban residents.
41. The gap between PR and PU authorities continues to grow: it increased from £78 in 2015-16, to £94 in 2019-20, and then to £105 in 2020-21. The continuing trend is because both taxbase per head (higher banded houses) and Band D council tax is higher in rural areas.

**Table 6 – Council tax (per head)**

<u>Total Council Tax</u>	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
All England	22,035.883	23,247.252	24,665.793	26,600.221	27,927.126	28,523.122
less GLA non fire element	-657.739	-636.105	-668.242	-711.135	-796.824	-836.665
All England	21,378.144	22,611.147	23,997.551	25,889.086	27,130.303	27,686.457
Predominantly Rural	5,707.397	6,036.358	6,386.860	6,822.662	7,205.987	7,656.048
Year on Year Change		5.76%	5.81%	6.82%	5.62%	6.25%
Cumulative Change (from 15/16)		5.76%	11.90%	19.54%	26.26%	34.14%
Prdominantly Urban	12,352.665	13,077.102	13,905.568	14,839.424	15,765.860	16,574.602
Year on Year Change		5.86%	6.34%	6.72%	6.24%	5.13%
Cumulative Change (from 15/16)		5.86%	12.57%	20.13%	27.63%	34.18%
<u>Council Tax per head</u>						
Predominantly Rural	424.17	448.62	474.67	507.05	535.54	568.99
Predominantly Urban	345.63	365.90	389.09	415.22	441.14	463.77
Gap (£)	-78.53	-82.71	-85.58	-91.84	-94.40	-105.22
Gap (%)	-19%	-18%	-18%	-18%	-18%	-18%

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**21 January 2020**

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## Appendix 1 – Elements of Core Spending Power per head – Predominantly Rural and Predominantly Urban authorities

Predominantly Rural	Per Head						19-20 to 20-21		15-16 to 20-21	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Per Head	%	Per Head	%
Settlement Funding Assessment	284.10	239.25	205.67	187.34	171.52	175.46	3.94	2.30%	-108.64	-38.24%
Compensation for under-indexing the rates multip	2.09	2.09	2.22	3.48	5.06	6.38	1.31	25.93%	4.29	205.01%
New Homes Bonus	22.94	28.86	24.89	19.71	19.36	19.60	0.24	1.23%	-3.34	-14.55%
Rural Services Delivery Grant	0.96	5.00	4.04	5.03	4.97	5.15	0.18	3.52%	4.19	434.53%
Improved Better Care Fund and other social care gr	0.00	0.00	17.47	23.18	28.06	32.91	4.84	17.26%	32.91	
Adult Social Care Support Grant	0.00	0.00	4.15	2.58	11.18	23.70				
Transition Grant	0.00	52.84	52.91	0.00	0.00	0.00				
Government Funded Spending Power	310.09	328.04	311.35	241.33	240.16	263.19	10.51	4.38%	-70.60	-22.77%
Council Tax	424.17	448.62	474.67	507.05	535.54	568.99	33.45	6.25%	144.82	34.14%
<b>Total Spending Power</b>	<b>734.26</b>	<b>776.66</b>	<b>786.01</b>	<b>748.39</b>	<b>775.70</b>	<b>832.18</b>	<b>26.01</b>	<b>3.35%</b>	<b>44.76</b>	<b>6.10%</b>

Predominantly Urban	Per Head						19-20 to 20-21		15-16 to 20-21	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Per Head	%	Per Head	%
Settlement Funding Assessment	401.43	354.00	318.74	299.43	279.89	284.90	5.01	1.79%	-116.53	-29.03%
Compensation for under-indexing the rates multip	3.40	3.40	3.60	5.66	8.24	10.30	2.06	25.00%	6.90	202.93%
New Homes Bonus	19.72	24.60	20.28	15.32	14.49	13.81	-0.68	-4.71%	-5.91	-29.98%
Rural Services Delivery Grant	0.02	0.12	0.10	0.12	0.12	0.12	0.00	0.00%	0.10	422.58%
Improved Better Care Fund and other social care gr	0.00	0.00	21.14	28.64	35.37	39.68	4.31	12.20%	39.68	
Adult Social Care Support Grant	0.00	0.00	4.33	2.69	11.68	25.91				
Transition Grant	0.00	1.89	1.89	0.00	0.00	0.00				
Government Funded Spending Power	424.58	384.01	370.07	351.86	349.80	374.72	10.70	3.06%	-75.77	-17.84%
Council Tax	345.63	365.90	389.09	415.22	441.14	463.77	22.63	5.13%	118.13	34.18%
<b>Total Spending Power</b>	<b>770.21</b>	<b>749.92</b>	<b>759.16</b>	<b>767.08</b>	<b>790.93</b>	<b>838.49</b>	<b>26.01</b>	<b>3.29%</b>	<b>44.76</b>	<b>5.81%</b>