

# Cabinet – Supplementary Agenda No.1

A meeting of the Cabinet will be held on:

**Date:** Tuesday, 11 January 2022

**Time:** 3.00pm

**Venue:** Civic Suite - Level 2, Gun Wharf, Dock Road, Chatham ME4 4TR

## Agenda

6. Provisional Local Government Finance Settlement 2022/23 (Pages 3 - 10)

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Date: 4 January 2022

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## **CABINET**

**11 JANUARY 2022**

### **PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2022/23**

Portfolio Holder: Councillor Alan Jarrett, Leader of the Council

Report from: Phil Watts, Chief Finance Officer

Author: Katey Durkin, Head of Finance Strategy

#### **Summary**

This report provides Cabinet with details of the provisional Local Government Finance Settlement announced by the government via a written statement on 16 December 2021.

#### **1. Budget and policy framework**

- 1.1. The provisional settlement is an important stage in the process of setting the 2022/23 budget, providing a firmer base to the resource assumptions underpinning it. Formulation of the 2022/23 budget proposals is a matter for Cabinet, however it will be for Council to agree the final budget at its meeting on 24 February 2022.
- 1.2. This report has been circulated separately to the main agenda. Therefore, the Cabinet is asked to accept this report as urgent to enable consideration of the matter at the earliest opportunity given that the final budget proposals will be submitted to the next scheduled Cabinet meeting on 8 February 2022.

#### **2. Core Spending Power**

- 2.1. The local government settlement is underpinned by the Core Spending Power calculation. This calculation makes certain assumptions about the local tax that Medway is able to generate and then aggregates this with the core grant funding available to Medway. Medway Council's Core Spending Power is summarised in Table 1 overleaf.
- 2.2. The Core Spending Power calculation is not in itself a statement of the actual resources available to the Council. It is simply a mechanism used by Government to illustrate the potential funds available to local authorities. In practice, the budget will be based upon the Council's own estimate of local tax yields.

**Table 1: Core Spending Power**

	<b>2021/22 £m</b>	<b>2022/23 £m</b>
Revenue Support Grant	6.185	6.380
NDR Baseline Funding Level	48.214	48.214
Settlement Funding Assessment	54.399	54.594
Council Tax excl. Parishes	134.578	140.769
Section 31 Compensation for Under-Indexing	2.512	3.961
Improved Better Care Fund	7.093	7.307
New Homes Bonus	0.986	1.979
Social Care Grant	6.098	8.497
Market Sustainability		0.674
Lower Tier Services Grant	0.364	0.383
2022/23 Services Grant		3.324
<b>Core Spending Power</b>	<b>206.030</b>	<b>221.488</b>

### 3. The Provisional Settlement

- 3.1. The Chancellor presented his Autumn Budget and Spending Review 2021 (SR21) to parliament on Wednesday 27 October 2021, which set out departmental budgets for the three years up to 2024-25. However, in order to “prioritise certainty for 2022/23” instead a one-year local government finance settlement was delivered, via a written statement on 16 December 2021.
- 3.2. The settlement documents confirmed that funding announced in SR21 to “tackle cyber security challenges facing councils [...] and the Supporting Families Programme [are] also not part of the local government finance settlement and further detail will follow in due course.” The Draft Budget made no assumptions about either of these funding streams as it is not clear how or when these allocations will be made, nor whether any new burdens may be tied to the funding.
- 3.3. The settlement documents also set out that “The government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years. Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes.”

### 4. Council Tax

- 4.1. The settlement confirmed that the core Council Tax referendum limit remains at its historic level of 2%, however in addition all authorities responsible for Adult Social Care services can levy an additional 1% Adult Social Care Precept. Medway’s Draft Budget assumes that Council Tax would be increased by 2.994%. The updated tax base will be presented to the Leader this month.

## 5. Business Rates

- 5.1. Neither the SR21 nor the provisional settlement made any announcements regarding increasing the proportion of Business Rates retained by local authorities. The Secretary of State for Levelling Up, Housing & Communities has indicated that the government would not “move precipitately to a system whereby 75% of business rates is retained because that works against the process of redistributing money to those who need it most particularly in the wake of Covid-19.” In the meantime, the 50% business rate retention scheme will continue in its existing form and Medway remains a top-up authority.

## 6. Baseline Need Funding

- 6.1. The SR21 documents set out that the government would provide councils with £4.8billion of new grant funding over the SR21 period for social care and other services, comprising annual national allocations of £1.6billion for three years and the Draft Budget estimated Medway’s allocation to be £6.4million for 2022/23. The settlement has confirmed the distribution of this national allocation will be through a combination of increased baseline need funding and other specific grants detailed later in this report. Table 2 below strips out the original £6.4million assumptions and replaces it with the amounts announced in the provisional settlement.
- 6.2. As that £4.8billion funding was referred to as ‘new’, the Draft Budget assumed it would be received in addition to existing funding through Revenue Support Grant, Section 31 Grant and Top Up, which the provisional settlement confirmed. The provisional settlement also announced the continuation of the lower tier services grant (introduced as a one-off grant in 2021/22) which aims to ensure that no authority will have less funding available in 2022/23 than in the current year. Medway’s allocation for 2022/23 is £383,076.
- 6.3. The provisional settlement also announced a one-off 2022/23 Services Grant “in recognition of the vital services, including social care, delivered at every level of local government.” Medway’s allocation is £3.324million.
- 6.4. Until the final Retained Business Rates figure is known through the completion of the NNDR1 Return (due at the end of January), we do not know the impact on the Baseline Need Funding assumptions that were included in the Draft Budget. However, to compensate for freezing the Business Rates multiplier until 31 March 2023, the provisional settlement includes an increase in grant compared to growth in line with RPI. Medway’s allocation is £3.961million.

## 7. New Homes Bonus

- 7.1. In the Spending Review 2020, the Chancellor set out that the Government would be maintaining the existing New Homes Bonus scheme for a further year with no new legacy payments. The Spending Review 2021 made no mention of the New Homes Bonus Scheme, so the Draft Budget assumed only the final legacy payment of £0.088million would be received. The provisional settlement has instead announced a new round of New Homes Bonus payments in 2022/23,

which will not attract new legacy payments. Medway's allocation for 2022/23 is £1.979million.

## 8. Education Related Grants

- 8.1. The Spending Review 2021 set out that the national schools budget would increase by £4.7billion by 2024/25 compared to the 2019 settlement for schools in 2022/23. SR21 also provided a new package of £1.8billion over the SR21 period to "recover children and young people's lost learning as a result of the pandemic". The settlement sets out that Education Related Grants will total £101.157million in 2022/23.

## 9. Social Care Related Grants

- 9.1. In addition to the flexibility to levy an Adult Social Care precept on Council Tax, the provisional settlement announced increased allocations for social care grants. Medway's indicative Social Care Support Grant allocation is £8.497million and the Improved Better Care Fund (iBCF) allocation will increase by CPI, taking it to £7.307million. Finally, the settlement confirmed the allocations for the first year of the Department for Health and Social Care's Market Sustainability and Fair Cost of Care Fund; this represents the first tranche of funding to offset the impact of the Government's social care reforms and Medway's allocation is £0.674million. While this is lower than anticipated in the Draft Budget (£0.800million), our projections continue to assume that the funding will only mitigate the impact of the reforms and as such this does not widen the Council's budget gap. Collectively these grants represent an increase of £2.487million compared to the Draft Budget.

## 10. Public Health Grant

- 10.1. The provisional settlement confirms that local authority spending through the public health grant will also continue to be maintained "in real terms", therefore Medway's Draft Budget assumes the same level of grant will be received as in 2020/21 plus 3% representing CPI, at £18.108million.

## 11. Summary of the Potential Impact on the 2022/23 Revenue Budget

- 11.1. Table 2 overleaf summarises the changes to the available funding for the 2022/23 revenue budget compared to the assumptions in the draft budget that Cabinet approved on 16 November 2021.

**Table 2: Changes to available funding**

	<b>2022/23 £m</b>
<b>Changes since Draft Budget</b>	
Removal of estimated share of £4.8bn national new grant funding over SR period (£1.6bn PA) - funding decrease	<b>(6.400)</b>
2022/23 One-off Services Grant - funding increase	3.324
New Homes Bonus - funding increase	1.891
Social Care Grant - funding increase	2.399
Improved Better Care Fund (iBCF) - funding increase	0.215
Reduced estimate of Market Sustainability & Fair Cost of Care - funding decrease	<b>(0.126)</b>
Lower Tier Services Grant - funding increase	0.383
Compensation for under-indexing the multiplier - funding increase	0.770
<b>Total</b>	<b>2.455</b>

## 12. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
<b>Final settlement may be worse for Medway than the Provisional settlement</b>	There remains a slight possibility that following consultation, changes could be made to the settlement that adversely affect the overall position for the Council in terms of Government support. This is considered a low risk but in the event that it proves to materialise there may be a need to table revised proposals for consideration by Council.	Close monitoring of government communications.	D3 (Low likelihood, marginal impact)

Risk	Description	Action to avoid or mitigate risk	Risk rating
<b>Inadequate funding</b>	Funding allocated is inadequate to offset expenditure pressures, and it may not be possible to deliver significant savings required to balance the Council's budget without recourse to reserves.	Officers and Members continue to work closely to identify savings.	C1 (Significant likelihood, critical impact)

### 13. Financial implications

13.1. The financial implications are set out in the report.

### 14. Legal and constitutional implications

14.1. There are no direct legal implications to this report.

14.2. The Council's constitution contains the budget and policy framework rules. The relevant extracts from the constitution are reproduced as follows:

- The budget and policy framework rules contained in the constitution specify that the Cabinet should produce the draft revenue and capital budget. This initial budget which does not have to give full detail, nor be a finalised set of proposals, should be submitted to the overview and scrutiny committees to consider the initial budget and if appropriate offer alternative proposals. Any such proposals will be referred back to the Cabinet for consideration.
- Under the constitution the Cabinet has complete discretion to either accept or reject the proposals emanating from the overview and scrutiny committees. Ultimately it is the Cabinet's responsibility to present a budget to the Council, with a special Council meeting arranged for this purpose on 24 February 2022. The adoption of the budget and the setting of Council Tax are matters reserved for the Council.

### 15. Recommendation

15.1. The Cabinet is asked to note the implications of the provisional settlement in formulating its 2022/23 budget proposals.

### 16. Suggested reasons for decision

16.1. These provisional levels of grant are a fundamental component of the 2022/23 budget, and their announcement is a further stage in the process of preparing a balanced budget.



## Lead officer contact

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## Appendices

None

## Background papers

Financial Outlook 2022/23 Report to Cabinet 28 September 2021:

<https://democracy.medway.gov.uk/ieIssueDetails.aspx?Id=31093&Opt=3>

Draft Capital and Revenue Budget 2022/23 Report to Cabinet 16 November 2021:

<https://democracy.medway.gov.uk/ieIssueDetails.aspx?Id=31562&Opt=3>

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