

CABINET

12 JANUARY 2021

PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2021/22

Portfolio Holder: Councillor Alan Jarrett, Leader
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Summary

This report provides Cabinet with details of the provisional local government settlement announced by the government via a written statement on 17 December 2020.

1. Budget and policy framework

- 1.1. The provisional settlement is an important stage in the process of setting the 2021/22 budget, providing a firmer base to the resource assumptions underpinning it. Formulation of the 2021/22 budget proposals is a matter for Cabinet, however it will be for Council to agree the final budget at its meeting on 18 February 2021.
- 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 2 February 2021.

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.
- 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

	2020/21 £m	2021/22 £m
Adjusted Revenue Support Grant	6.151	6.185
NDR Baseline Funding Level	48.214	48.214
Settlement Funding Assessment	54.365	54.399
Council Tax excl. Parishes	126.080	136.230
Section 31 Compensation for Under-Indexing	1.932	2.512
Improved Better Care Fund	7.093	7.093
Illustrative New Homes Bonus	1.221	0.986
Social Care Grant	5.492	6.098
Lower Tier Services Grant	0.000	0.364
Core Spending Power	196.183	207.682

3. The Provisional Settlement

- 3.1. The government announced the provisional settlement via a written statement on 17 December 2020. In previous years, the content of the provisional settlement has been largely known in advance; based on a technical consultation published after the Chancellor's Autumn Statement, both typically around October each year. This year the Chancellor did not deliver his one-year spending review until 25 November 2020 and there has been no technical consultation in advance of the provisional settlement being published.

4. Council Tax

- 4.1. The Council Tax referendum limit remains at its historic level of 2%, however the Adult Social Care precept has been extended for a further year, allowing upper tier authorities the flexibility to increase Council Tax by a further 3% above the referendum limit. Medway's Draft Budget assumed that Council Tax would be increased by 1.994%, however this report now assumes the Council will avail itself of this flexibility and increase the Council Tax by 4.995%.

5. Business Rates

- 5.1. The widely anticipated review of the Business Rates Retention scheme and plans to reset the baseline from next year have once again been deferred, whilst the government continues to focus on other, more pressing issues. 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. 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.

7. New Homes Bonus

- 7.1. In his Spending Review 2020, the Chancellor confirmed that the Government would be maintaining the existing New Homes Bonus scheme for a further year with no new legacy payments. Nationally, the New Homes Bonus Scheme has an estimated surplus of £278million which according to the scheme, would be redistributed back to local authorities. Medway's Draft Budget assumed that this funding would be distributed in 2021/22 with the closure of the scheme. However the provisional settlement confirmed that this surplus will instead be used to the fund the increased and new grants announced, including £150million of the new £300million social care grant, and the new lower tier services grant. The 2021/22 allocation indicates that Medway will receive £986,000.

8. Education Related Grants

- 8.1. The Spending Review 2020 set out that the national schools budget would increase by £2.2billion for 2021/22 compared to 2020/21 including funding to help children catch up on lost learning and supplementary support for free school meals. The Draft Budget projects that Education Related Grants will total £103.863million in 2021/22.

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 confirmed that all existing funding for social care would be maintained from 2020/21, as assumed in the Draft Budget. The provisional settlement also announced an additional £300million for adult's and children's social care. £150million of this new grant is however funded from the surplus in the national New Homes Bonus fund which the Draft Budget had assumed would be redistributed, as set out in paragraph 7.1 above. Furthermore £240million of this grant is subject to equalisation, whereby the government grant allocations attempt to compensate for differences in local needs and taxbases. As a relatively high taxbase authority, this reduces the level of funding Medway will receive through this grant. The 2021/22 allocation indicates that Medway will receive £6.098million through the social care support grant in 2021/22, representing an increase of £606,000 through this new funding, compared to the allocation in 2020/21.

10. Public Health Grant

- 10.1. The provisional settlement indicates that local authority spending through the public health grant will also continue to be maintained, therefore Medway's Draft Budget assumes the same level of grant will be received as in 2020/21 at £17.409million.

11. Lower Tier Services Grant

- 11.1. The provisional settlement announced a new, one-off lower tier services grant, aimed to ensure that no authority will have less funding available in 2021-22 than in the current year. Medway's allocation is £364,000.

12. Covid19 Funding

- 12.1. The provisional settlement confirmed that the government would continue to support local authority spending and income pressures arising from the Covid-19 pandemic, as assumed in the Medium Term Financial Strategy and Draft Budget. There are four key areas of support confirmed in the provisional settlement:
- A fifth tranche of the non-ringfenced Emergency Support Grant is confirmed for 2021/22, with Medway's allocation £7.864million.
 - The continuation of the sales, fees and charges income compensation scheme, with authorities able to claim for losses sustained in the first quarter of 2021/22.
 - A new local council tax support grant aimed to help councils deal with the increased cost of providing Local Support for Council Tax, and also to help to reduce tax bills. Medway's indicative allocation is £2.196million.
 - A new Tax Income Guarantee scheme, whereby the government will compensate local authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020-21.

13. Summary of the Potential Impact on the 2021/22 Revenue Budget

- 13.1. The draft budget that Cabinet approved on 19 November 2019 was predicated on the funding assumptions contained in the MTFs. Table 2 overleaf seeks to summarise the changes to the available funding for the 2020/21 revenue budget.

Table 2: Changes to available funding

	2021/22 £m
Available Funding as per Draft Budget (Cabinet 17/11/2020)	327.638
Changes since Draft Budget	
Council Tax Adult Social Care precept - funding increase	3.900
New Homes Bonus - funding reduction	(1.261)
New Social Care Support Grant - funding increase	0.606
Lower Tier Services Grant - funding increase	0.364
Available Funding as at 04/01/2021	331.247
One-off Covid19 funding	
Non-ringfenced Emergency Support Grant	7.864
Sales, fees and charges income compensation scheme	TBC
Council Tax Support Grant	2.196
Tax Income Guarantee	TBC
Total	10.060

14. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Final settlement may be worse for Medway than the Provisional settlement	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)
Inadequate funding	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)
Covid19 pressures exceed government funding	The MTFS and Draft Budget assumed that the government would continue to fund Covid19 pressures in 2021/22 as it has in 2020/21. Though this assumption has been confirmed in the provisional	Officers and Members continue to work to identify savings to reduce pressures reflected in the draft budget, and continue to lobby the government to fund the covid related pressures in full.	C2 (Significant likelihood, major impact)

Risk	Description	Action to avoid or mitigate risk	Risk rating
	settlement, there is a risk that the pressures experienced may exceed the covid related funding made available.		

15. Financial implications

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

16. Legal and constitutional implications

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

16.2. 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 18 February 2021. The adoption of the budget and the setting of Council Tax are matters reserved for the Council.

17. Recommendations

17.1. The Cabinet is asked to note the implications of the provisional settlement in formulating its 2021/22 budget proposals.

18. Suggested reasons for decisions

18.1. These provisional levels of grant are a fundamental component of the 2021/22 budget, and their announcement is a further stage in the process of preparing a balanced budget.

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Appendices

None.

Background papers

[Medium Term Financial Strategy 2020-2023 report to Cabinet 17 November 2020](#)

[Draft Capital and Revenue Budget 2021/22 report to Cabinet on 17 November 2020](#)