

CABINET

10 JANUARY 2023

PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2023/24

Portfolio Holder: Councillor Alan Jarrett, Leader of the Council

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Summary

This report provides the Cabinet with details of the Provisional Local Government Finance Settlement announced by the government via a written statement on 19 December 2022.

1. Budget and policy framework

1.1. The Provisional Settlement is an important stage in the process of setting the 2023/24 budget, providing a firmer base to the resource assumptions underpinning it. Following publication of the Provisional Settlement, the government has opened a four-week consultation period and will publish a Final Settlement early in the new year. Formulation of the 2023/24 budget proposals is a matter for Cabinet, however it will be for Council to agree the final budget at its meeting on 23 February 2023.

2. Core Spending Power

2.1. The Local Government Finance 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 2023/24

	2022/23 £m	2023/24 £m
Revenue Support Grant	6.380	7.308
Business Rates Baseline Funding Level	48.214	50.019
Settlement Funding Assessment	54.594	57.327
Council Tax excluding Parishes	140.769	149.136
Section 31 Compensation for under-indexing the Business Rates Multiplier	3.961	8.520
Improved Better Care Fund	7.307	7.307
New Homes Bonus	1.979	1.998
Social Care Grant	8.497	14.330
Adult Social Care Market Sustainability	0.674	2.337
Adult Social Care Discharge Fund	0	1.025
Lower Tier Services Grant	0.383	0
Services Grant	3.324	1.873
Core Spending Power	221.448	243.853

3. The Provisional Settlement

- 3.1. The Chancellor of the Exchequer presented his Autumn Statement to Parliament on Thursday 17 November 2022, after the publication of Medway's Draft Budget. Then on 12 December, ahead of the publication of the Provisional Settlement for 2023/24, the Department for Levelling Up, Homes and Communities (DLUHC) published a Local Government Finance Policy Statement 2023-24 to 2024-25, setting out the government's intentions for the Local Government Finance Settlement for the next two years, however, there were no national grant allocations included.
- 3.2. The Provisional Local Government Finance Settlement was announced via a written statement on 19 December 2022. The Ministerial Statement sets out that "councils across England will benefit from an additional £5 billion – a 9% increase on last year's settlement [...] with a one-off Funding Guarantee that ensures every council in England will see at least a 3% increase in core spending power before any local decisions around council tax are taken." The Provisional Settlement confirms grant allocations for 2023/24 and 2024/25 to "offer greater certainty [...] which will allow town halls to plan ahead with confidence".
- 3.3. The Ministerial Statement also announced a new "£100 million of additional funding for local authorities to support the most vulnerable households in England. This funding will allow councils to deliver additional support to the

3.8 million households already receiving council tax support, whilst also providing councils with the resources and flexibility to determine the local approaches to support other vulnerable households in their area.” This funding is outside of the Core Spending Power calculation, so we will add Medway’s allocation to the budget when confirmed.

- 3.4. The Settlement consultation document sets out that “The government had previously committed to carry out a Review of Relative Needs and Resources and a reset of accumulated business rates growth. Whilst we can confirm that these will not be implemented in this Spending Review period, the government remains committed to improving the local government finance landscape in the next Parliament.” However, changes to the mechanisms through which some grants are distributed will (according to the consultation document) seek to direct “funding to areas that need it most. The most relatively deprived areas of England will receive 17% more per household through this year’s settlement.”

4. Council Tax

- 4.1. The Provisional Settlement states that the Government is “protecting local taxpayers from excessive increases in council tax, by setting the referendum threshold at 3% per year from April 2023 for shire counties, unitary authorities, London boroughs, and the Greater London Authority, without a local referendum. Councils can set higher increases if they wish, via consent of a local referendum. [...] In addition, local authorities with social care responsibilities will be able to set an adult social care precept of up to 2% per year without a referendum.” This means Medway can increase its Council Tax by up to 5% without the need for a local referendum.
- 4.2. The Draft Budget assumed a 3% uplift, reflecting a core referendum limit of 2% with an additional 1% adult social care precept. A further 2% uplift (to 5%) would generate an additional £2.848million for Medway’s budget in 2023/24 compared to the Draft Budget projection. The final tax base (the number of band D equivalent properties in the area) will be presented to the Leader this month.

5. Business Rates

- 5.1. The Autumn Statement made a series of announcements to help businesses, “worth £13.6 billion over the next 5 years”. The Business Rate multipliers are again frozen, transitional relief will be provided to those whose bills will increase at the revaluation from April 2023 with additional support for small businesses, and the Retail, Hospitality and Leisure reliefs originally introduced during the pandemic will be increased from 50% to 75%. The Provisional Settlement confirms that the impact of these measures is funded by the Government.

6. Baseline Need Funding

- 6.1. The Provisional Settlement reflects that local authorities will receive the 2022/23 allocations of Revenue Support Grant (RSG) increased in line with the Consumer Price Index (CPI), based on the October rate of 10.1%. Medway's allocation is £7.308million, an increase of £928,185 compared to the Draft Budget. However, the Provisional Settlement also announced that three previously separate grants will be rolled into RSG; the Local Council Tax Support Administration Subsidy, the Family Annexe Council Tax Discount Grant and Additional Funding for Food Safety and Standards Enforcement (Natasha's Law) grants. Medway's 2022/23 allocations for those grants totaled £281,094, meaning the extent to which the increased RSG will benefit Medway's 2023/24 budget is £647,091.
- 6.2. In the 2022/23 Settlement, the Government introduced a one-off Services Grant "in recognition of the vital services, including social care, delivered at every level of local government." However, as the Spending Review 2021 showed the national quantum of overall funding for local authorities in 2023/24 was consistent with 2022/23, Medway's Draft Budget assumed that while this specific grant may end, any loss would be compensated by growth in other direct grants. The Provisional Settlement confirmed that this grant continues in 2023/24, however the national quantum has been reduced to remove the compensation previously announced for the impact of the Health and Social Care Levy on National Insurance Contributions, which has since been reversed. The grant has also been reduced "to increase the funding for the Supporting Families programme and to pay for other parts of the settlement such as increasing Revenue Support Grant." The consultation document notes that the quantum of the grant distributed in the Provisional Settlement has also been reduced as the government has held back a proportion "as contingency to cover unexpected movements". However, if this is not used, it will be returned to the Services Grant potentially increasing local authority allocations. Medway's allocation is £1.873million, £0.725million lower than assumed in the Draft Budget which also assumed a reduction in grant related to the reversal of the Health and Social Care Levy on National Insurance Contributions.
- 6.3. The Government introduced the Lower Tier Services Grant as a one-off grant for 2021/22 but continued that into 2022/23. The consultation on the Provisional Settlement states that "In recognition of inflationary pressures, we will repurpose the Lower Tier Services Grant from previous years and a proportion of the expired New Homes Bonus legacy payments to create a new one-off Funding Guarantee. This new guarantee will ensure that all councils will see at least a 3% increase in their Core Spending Power before any decisions about organisational efficiencies, use of reserves or council tax levels." Due to the increases in Social Care Grants set out in Section 7 of this report, which drive a greater than 3% Core Spending Power increase for Medway, we are not eligible for funding through this guarantee.

6.4. The Provisional Settlement confirms that local authorities will be compensated for the measures introduced to support Business Rate payers outlined at section 5.1 of this report. Until the final Retained Business Rates figure is known through the completion of the NNDR1 Return to Government (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 2024, the provisional settlement includes an increase in grant compared to growth in line with the October CPI rate of 10.1%. Medway's projected funding is £8.520million, an increase of £4.284million compared to the assumption in the Draft Budget.

7. Social Care Grants

7.1. In addition to the flexibility to levy a 2% Adult Social Care precept on Council Tax, the Autumn Statement announced that the rollout of the Adult Social Care charging reforms would be delayed from October 2023 to October 2025, but stated that the funding previously allocated for the reforms (nationally £1.3billion in 2023/24 and £1.9billion in 2024/25) would be distributed to local authorities through the Social Care Grant. However, the Statement did not refer to the Market Sustainability and Fair Cost of Care Fund, which was announced alongside the Charging Reforms. Finally, the Statement also announced new funding allocations for Social Care, with national allocations of £1billion in 2023-24 and £1.7billion in 2024-25. Of that:

- £600million in 2023/24 (£1billion in 2024/25) will be distributed through the Better Care Fund (BCF) "to get people out of hospital on time into care settings, freeing up NHS beds for those that need them".
- £400million in 2023/24 (£680million in 2024/25) will be distributed through a grant "ringfenced for adult social care which will also help to support discharge".

7.2. Medway's Draft Budget projected that we would receive £5.8million to fund the Adult Social Care Charging Reforms and the Market Sustainability and Fair Cost of Care changes. The Provisional Settlement therefore removes that projection, but sets out that Medway's allocation through the Social Care Grant for 2023/24 is £14.330million, an increase of £5.833million compared to the projection in the Draft Budget. However, the Provisional Settlement also confirmed that the Independent Living Fund, previously paid separately, will be rolled into the Social Care Grant from 2023/24. Medway's 2022/23 allocation of this grant was £720,000, therefore the extent to which the increased Social Care Grant will benefit Medway's 2023/24 budget is £5.113million. Medway's allocation from the Market Sustainability and Fair Cost of Care Fund is £2.337million, which is £1.663million more than assumed in the Draft Budget.

7.3. The day before the Settlement, the Government announced the 2022/23 allocations of the new Discharge Fund "to support timely and safe discharge from hospital into the community by reducing the number of people delayed in hospital awaiting social care and reducing the number of bed days lost to delayed discharges. The focus will be on (but not limited to) a 'home first'

approach and discharge to assess (D2A).” Medway’s 2022/23 allocation is £831,559. The Provisional Settlement confirmed that this fund would continue into 2023/24, with Medway’s allocation rising to £1.024million.

7.4. The Provisional Settlement confirmed that Medway’s Improved Better Care Fund (iBCF) allocation for 2023/24 will be unchanged from our 2022/23 allocation, at £7.307million.

7.5. The net impact of these changes to Social Care Grants is an increase for 2023/24 of £2million compared to the Draft Budget.

8. New Homes Bonus

8.1. Introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas, the New Homes Bonus scheme was significantly diluted in 2018/19 and it was widely anticipated that the scheme would end thereafter. However, in the Spending Review 2020, the then Chancellor set out that the Government would be maintaining the existing scheme for a further year, and the Spending Review 2021 again extended the scheme. The consultation on the Provisional Settlement states that the government will set out the future position of New Homes Bonus ahead of the 2024/24 Local Government Finance Settlement. The Provisional Settlement confirms that Medway will receive £1.998million in 2023/24, c£19,000 more than the Draft Budget assumption of £1.979million.

9. Education Related Grants

9.1. Outside of the Settlement, on 16 December, the government wrote to local authorities confirming the Dedicated Schools Grant (DSG) funding allocations for the 2023 to 2024 financial year. Medway’s allocations for Education Related Grants will total £116.566million in 2023/24.

10. Public Health Grant

10.1. Neither the Provisional Settlement nor the Autumn Statement made any announcements in respect of the Public Health Grant and we understand that the Department of Health and Social Care will be announcing allocations after Christmas. Our Draft Budget assumes the same level of funding will be received in 2023/24 as in the current year.

11. Summary of the potential impact on the 2023/24 Revenue Budget

11.1. Table 2 overleaf summarises the changes to the available funding for the 2023/24 revenue budget compared to the assumptions in the Draft Budget that Cabinet approved on 15 November 2022, which amount to a net increase in resources of £5.362million. The Draft Budget assumed an increase in Social Care funding of £5.8million as set out in Section 7 of this report, but

also reflected hypothecated additional expenditure of the same amount and as such, this did not help to close Medway's budget gap. The latest announcements confirm that we will not need to deliver the charging elements of the Adult Social Care reforms, which our Draft Budget assumed would cost £3.3million of the £5.8million total, reducing our budget gap by at least this amount in addition to the increased grants reflected in the table below. The actual increase in additional Adult Social Care expenditure required will be dependent on guidance and conditions of the specific Adult Social Care grants, which are yet to be published.

Table 2: Impact of the announcements on income in the Draft 2023/24 Budget

	£m
Council Tax referendum limit increase by 2%	2.848
Baseline need funding:	
Revenue Support Grant (net of grants rolled in outlined at 6.1 of this report) – funding increase	0.647
Lower Tier Services Grant – funding decrease	(0.383)
Services Grant (including reduction for Health & Social Care Levy Employers National Insurance Contributions 1.25%) – funding decrease	(0.725)
Social Care Grants:	
Social Care Grant – funding increase	5.833
Market Sustainability and Fair cost of Care fund – funding increase	1.663
Former recipients of Independent Living Fund – funding decreased as rolled into Social Care Grant	(0.720)
Adult Social Care Discharge Fund – funding increase	1.024
Adult Social Care Reforms – remove draft budget assumption	(5.800)
New Homes Bonus – funding increase	0.019
Compensation for under-indexing the Business Rates multiplier – funding increase	0.951
Total	5.362

12. 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	Close monitoring of government communications.	Close monitoring of government communications.

Risk	Description	Action to avoid or mitigate risk	Risk rating
	risk but in the event that it proves to materialise there may be a need to table revised proposals for consideration by Council.		
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
Likelihood		Impact:	
A Very high B High C Significant D Low E Very low F Almost impossible		1 Catastrophic (Showstopper) 2 Critical 3 Marginal 4 Negligible	

13. Consultation

13.1. Members are consulted on the development of the final budget as follows:

Initial budget proposals to Cabinet	15 November 2022
Reports to Overview and Scrutiny	December 2022 / January 2023
Budget proposals to Cabinet	7 February 2023
Budget proposals to Council	23 February 2023

14. Financial implications

14.1. The financial implications are set out throughout the report.

15. Legal and Constitutional implications

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

15.2. The Council's Constitution contains the budget and policy framework rules. The relevant extracts from the Constitution are summarised 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 23 February 2023. The adoption of the budget and the setting of Council Tax are matters reserved for the Council.

16. Recommendations

- 16.1. The Cabinet is asked to note the implications of the Provisional Local Government Finance Settlement in formulating its 2023/24 budget proposals.

17. Suggested reasons for decision

- 17.1. The provisional levels of funding announced are a fundamental component of the 2023/24 budget, and their announcement is a further stage in the process to prepare a balanced budget for the coming financial year.

Lead officer contact

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Appendices

None

Background papers

Financial Outlook 2023/24 report to Cabinet 18 October 2022:

<https://democracy.medway.gov.uk/ielssueDetails.aspx?Id=33680&Opt=3>

Draft Capital and Revenue Budget 2023/24 report to Cabinet 15 November 2022:

<https://democracy.medway.gov.uk/ielssueDetails.aspx?Id=34005&Opt=3>