

Cabinet

16 January 2024

Provisional Local Government Finance Settlement 2024 to 2025

Portfolio Holder: Councillor Vince Maple, Leader of the Council

Report from: Phil Watts, Chief Operating Officer (Section 151 Officer)

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Summary

This report provides the Cabinet with details of the Provisional Local Government Finance Settlement 2024 to 2025 announced by the government via a written statement on 19 December 2023.

1. Recommendation

- 1.1. The Cabinet is asked to note the implications of the Provisional Local Government Finance Settlement in formulating its 2024/25 budget proposals.

2. Suggested reasons for decision

- 2.1. The provisional levels of funding announced are a fundamental component of the 2024/25 budget, and their announcement is a further stage in the process to prepare a balanced budget for the coming financial year.

3. Budget and policy framework

- 3.1. Formulation of the 2024/25 budget proposals is a matter for Cabinet, however it will be for Council to agree the final budget at its meeting on 29 February 2024.

4. Background

- 4.1. The Provisional Settlement is an important stage in the process of setting the 2024/25 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, closing on 15 January 2024, and will then publish a Final Settlement shortly afterwards.

5. Core Spending Power

- 5.1. 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 below.
- 5.2. 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 2024/25

	2023/24 £m	2024/25 £m
Revenue Support Grant	7.308	7.792
Business Rates Baseline Funding Level	50.019	52.414
Settlement Funding Assessment	57.327	60.206
Council Tax excluding Parishes	149.302	158.948
Section 31 Compensation for under-indexing the Business Rates Multiplier	8.520	9.876
Improved Better Care Fund	7.307	7.307
New Homes Bonus	1.998	1.572
Social Care Grant	14.330	16.691
Adult Social Care Market Sustainability	2.337	4.365
Adult Social Care Discharge Fund	1.025	1.707
Lower Tier Services Grant	0	0
Services Grant	1.950	0.306
Adjustment for rolled in grants*	1.518	0
Core Spending Power	245.614	260.978

*For 2015-16 to 2023-24, historic Core Spending Power has been restated for rolled in grants to avoid overstating CSP increases. These grants are the Family Annexe Council Tax Discount grant, Local Council Tax Support Administration Subsidy grant, the Independent Living Fund, the Market Stability and Improvement Fund Workforce Fund, and the Fire Pensions Grant.

6. The Provisional Settlement

- 6.1. On 5 December 2023 the Department for Levelling Up, Homes and Communities published a Local Government Finance Policy Statement which "sets out the government's intentions for the Local Government Finance Settlement for 2024 to 2025". The Provisional Local Government Finance Settlement 2024 to 2025 itself was then announced via a written statement on 19 December 2023. The Ministerial Statement sets out that:

“This settlement makes available over £64 billion for local authorities in England, an increase of almost £4 billion or 6.5% in cash terms in Core Spending Power on 2023-24. Together, the policy statement published on 5 December, and this proposed settlement:

- ensures stability by maintaining the Funding Guarantee introduced last year, to ensure that every council sees at least a 3% increase in Core Spending Power next year before any local decisions on council tax rates; and*
- makes available an increase of almost £4 billion on 2023-24, of which £2 billion is additional Government funding; £1 billion of this is for children’s and adult social care in 2024-25.”*

6.2. The documents published alongside the Settlement for 2023 to 2024 stated 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.” The documents published alongside the Settlement for 2024 to 2025 again confirm that accumulated business rates growth will not be reset in this spending review period and again set out that “The government remains committed to improving the local government finance system more broadly in the next Parliament. This will include consideration of how we can go further to simplify and reduce the administrative burden of the funding landscape.” Medway Council’s Core Spending Power per head of population places us amongst the very lowest funded local authorities under the current arrangements to distribute national funding, despite relatively high levels of deprivation compared to other Councils in the South-East.

7. Council Tax

7.1. The Settlement sets out the Government’s proposed package of referendum principles for 2024/25, which are subject to the approval of the House of Commons alongside the Final Local Government Finance Settlement. For Medway Council, this represents a core referendum threshold of 3% per year and as a local authority with social care responsibilities, the ability to set an Adult Social Care Precept of up to 2% per year without a referendum.

7.2. The Settlement included bespoke Council Tax Referendum principles for councils “in the most significant financial failure”, allowing Thurrock and Slough Borough Council a core Council Tax referendum threshold of 8% and Woking Borough Council a Council Tax referendum principle of 10%. Bespoke council tax referendum principles are not proposed for the London Borough of Croydon reflecting that a higher flexibility was requested, set and utilised by the council in 2023-24. The Settlement states sets out that “The government view continues to be that councils in the most severe financial failure, that are seeking multi-year support from government, should continue to take all reasonable local steps to support recovery including additional council tax increases.”

- 7.3. Medway's Draft Budget assumed a 4.994% uplift, reflecting a core referendum limit of up to 3% with an additional 2% Adult Social Care precept. The final tax base (the number of band D equivalent properties in the area) which determines the amount of Council Tax which can be budgeted for, will be presented to the Leader this month for information as Finance Lead.

8. Business Rates

- 8.1. The Autumn Statement announced "a business rates support package worth £4.3 billion over the next five years to support small businesses and the high street. The small business multiplier will be frozen for a fourth consecutive year, and Retail, Hospitality and Leisure (RHL) relief will be extended, ensuring the most vulnerable businesses continue to be supported. The standard rate multiplier will be updated in line with CPI inflation." The Provisional Settlement confirms that local authorities will be fully compensated for the loss of income as a result of these business rates measures (including for the reduction in income as a consequence of the decision to freeze the small multiplier) and will receive new burdens funding for administrative and IT costs.
- 8.2. The amount of income the Council can budget for through Retained Business Rates is calculated through a statutory return to the government called the NNDR1 which reflects:
- any deficit or surplus in actual income received to the fund compared to the previous year's budget,
 - the total income expected through Section 31 grants compensating for rate reliefs awarded by the government,
 - the top-up grant to ensure authorities reach the baseline funding level set by the government, and
 - and the total Rateable Value (RV, as set for each non-domestic property by the Valuation Office Agency) of the area.

Until the NNDR1 is completed for 2024/25, due to be submitted to the Government by the end of January 2024, it is not possible to confirm the total amount of Business Rates and related grants the Council can budget for in 2024/25.

9. Non-ringfenced Government Grant

- 9.1. **Revenue Support Grant** – The Provisional Settlement reflects that local authorities will receive the 2023/24 allocations of the RSG increased in line with the Consumer Price Index (CPI) of inflation as at September 2023, 6.7%. Medway's allocation is £7.792million, an increase of £46,000 compared to the Draft budget.
- 9.2. **Services Grant** – The Services Grant was introduced as a one-off grant in the 2022/23, however DLUHC's Local government finance policy statement 2023-24 to 2024-25, published in December 2022, set out that the Services Grant would continue, but reduce in 2023/24 and gave no indication about 2024/25 so Medway's Draft Budget assumed it continued at the same rate, in line with projections from external advisors. The Provisional Settlement for

2024/25 however confirmed that the national quantum of the grant is reduced by almost 85% from £483million for England in 2023/24 to £77million in 2024/25. An element of this grant is being held back as contingency to cover any unexpected costs that may arise between the Provisional and Final settlement. Medway's allocation is £306,000, a reduction of £1.643million compared to 2023/24 funding levels and the projection included in the Draft Budget.

9.3. **New Homes Bonus (NHB)** – The New Homes Bonus was introduced in 2011 to provide an incentive to encourage housing growth by rewarding local authorities for net additional homes added to the Council Tax base. It is paid annually from a top slice of Revenue Support Grant. The 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 document published alongside the Provisional Settlement 2023 to 2024 said that “We also recognise the need to help councils plan and we will therefore set out the future position of New Homes Bonus ahead of the 2024-25 local government finance settlement.” Instead, the Provisional Settlement for 2024 to 2025 includes “a new round of NHB payments in 2024-25. There will be no change to the calculations process and allocations for 2024-25”. Medway's allocation is £1.572million, a reduction of £426,000 compared to the projection in the Draft Budget as fewer qualifying new homes have been delivered in the area than anticipated.

9.4. In the Settlement for 2023/24 the Government introduced “a new one-off Funding Guarantee...[that] 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.” The Provisional Settlement sets out that this will be maintained in 2024/25 to ensure all local authorities see an above inflation increase in their Core Spending Power. As set out in this report, the Provisional Settlement represents a reduction in funding for Medway Council through the Services Grant and the New Homes Bonus. District Councils are compensated for these reductions through the Guarantee. The Ministerial Statement published alongside the Provisional Settlement states that “The Government recognises that many local authorities are facing social care demand pressures. That is why we announced significant additional funding at the 2022 Autumn Statement.” As a result of this additional ring-fenced funding, which for Medway represents a greater than 3% increase in Core Spending Power, authorities with social care responsibilities are required to bear reductions in non-ringfenced grants that other local authorities are compensated for.

10. Social Care Grants

10.1. Alongside the Settlement for 2023/24, the Government set out the principals and indicative allocations for 2024/25 social care funding. In addition to the flexibility to levy a 2% Adult Social Care precept on Council Tax, the Provisional Settlement sets out that the Social Care Grant will increase

nationally by £692million, for Medway this is £16.691million which represents an increase of £323,000 compared to the projections in the Draft Budget.

- 10.2. The Provisional Settlement also confirmed that Medway's Improved Better Care Fund (iBCF) allocation for 2024/25 will be unchanged from our 2023/24 allocation, at £7.307million.
- 10.3. For 2024-25 the Market Sustainability and Improvement Fund is increased to £845million. Additionally, the Market Sustainability and Improvement – Workforce Fund element, worth £205million, has been rolled into the grant, making a total fund of £1.050billion. The Provisional Settlement sets out that Medway's allocation from these funds is £4.366million, as per the projections in the Draft Budget.
- 10.4. Finally, the Provisional Settlement confirmed that an additional £200million will be distributed in 2024/25 through the Discharge Fund, increasing the local authority component of this fund to £500million. Medway's allocation is £1.708million, as per the projection in the Draft Budget.

11. Education Related Grants

- 11.1. Outside of the Settlement, on 19 December the Government published the Dedicated Schools Grant (DSG) funding allocations for 2024 to 2025. The Schools Block allocation includes Academies so work is underway to determine the allocation between those and Medway's schools. As such, Medway's allocations for the DSG are estimated to total £128.813million in 2024/25. This is higher than projected in the Draft Budget and the final budget will also include other Education Related Grants (the Pupil Premium Grant and Sixth Form Grant) when these allocations are confirmed, however any additional increases in Education Related Grants must be spent with Schools so this does not improve the Council's budget position.

12. Public Health Grant

- 12.1. Public Health Grant allocations are made outside of the Settlement, often very late with the 2023/24 allocation only being announced on 14 March 2023. Indicative allocations for 2024/25 were published alongside the 2023/24 allocation, however the Provisional Settlement says that for Public Health services, the "total funding package will deliver a real terms increase of more than 7% in DHSC investment in local authority public health functions over the 2 years 2023 to 2024 and 2024 to 2025." We await confirmation of Medway's allocation for 2024/25, however the Draft Budget assumes this will be £19.038million, an increase of £373,000 compared to 2023/24.

13. Household Support Fund

- 13.1. The Household Support Fund was not mentioned in the Autumn Statement, DLUCH Policy Statement or the Settlement documents, and the Department for Work and Pensions has not announced any plans to extend the scheme into the next financial year. While the ending of the fund would not impact

Medway Council's budget directly, by the end of the current financial year, a total of £10.958million will have been distributed to vulnerable people across Medway since the current scheme began in September 2021. The loss of the scheme would therefore represent a significant reduction in financial support available to local residents.

14. Exceptional Financial Support Framework

14.1. The Settlement documents set out that the Government's Exceptional Financial Support framework is available to provide support where a council has a specific and evidenced concern about its ability to set or maintain a balanced budget, including where there has been local financial failure. The documents set out that where councils need additional support from the Government, they should take every possible step to minimise the need for that support to be funded by national taxpayers, while also recognising the cost-of-living pressures on families. As part of that process, the Government will consider representations from councils, including on council tax provision as indicated in section 7.2 of this report.

15. Summary of the potential impact on the 2024/25 Revenue Budget

15.1. Table 2 summarises the changes to the available funding for the 2024/25 revenue budget compared to the assumptions in the Draft Budget that Cabinet approved on 21 November 2023. These changes amount to a net reduction in resources of £1.699million.

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

	2024/25 £m
Non-ringfenced Government Grant:	
Revenue Support Grant – funding increase	(0.046)
Services Grant – funding decrease	1.643
New Homes Bonus – funding decrease	0.425
Social Care Grants:	
Social Care Grant – funding increase	(0.323)
Total movement – funding decrease	1.699

16. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Final settlement may be worse for Medway than the	There remains a slight possibility that following consultation, changes could be made to the settlement that adversely affect	Close monitoring of government communications.	CII

Risk	Description	Action to avoid or mitigate risk	Risk rating
Provisional settlement	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.		
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.	AI
Likelihood		Impact:	
A Very likely B Likely C Unlikely D Rare		I Catastrophic II Major III Moderate IV Minor	

17. Consultation

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

Initial budget proposals to Cabinet	21 November 2023
Reports to Overview and Scrutiny	December 2023 / January 2024
Budget proposals to Cabinet	13 February 2024
Budget proposals to Council	29 February 2024

18. Financial implications

18.1. The financial implications of the Provisional Local Government Finance Settlement are set out throughout this report.

19. Legal implications

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

19.2. 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 29 February 2024. The adoption of the budget and the setting of Council Tax are matters reserved for the Council.

Lead officer contact

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Appendices

None

Background papers

[Medium Term Financial Outlook 2023-2028 report to Cabinet 26 September 2023](#)

[Draft Capital and Revenue Budget 2024/25 report to Cabinet 21 November 2023](#)