



Provisional Local Government Finance Settlement

2021/22

January 2021

Provisional Settlement 2021/22

- Announced on 17 December 2020 – provided the 2021/22 Core Spending Power figures:
 - RSG increased by inflation (CPI)
 - Removal of Negative RSG
 - Business rates frozen, but multiplier compensation grant increased (RPI)
 - Increased Social Care Funding
 - New Homes Bonus
 - New lower tier services grant and minimum flat cash for districts
- No announcements relating to the allocation of funds from the BRR levy account
- Council Tax referenda principles and additional 3% Social Care Precept
- Additional Covid funding announced outside CSP
- Proposed local taxation losses compensation announced

Provisional Settlement 2021/22

- No additional papers published or mentioned relating to the local government funding reforms that are planned for introduction from April 2021 (i.e. Fair Funding, 75% Business Rates Retention, the full reset of the business rates baselines or the potential Alternative Business Rates Retention System)
- The Minister, when questioned, said that he hoped that “*there may be an opportunity to do so next year and my department will work with the Treasury to review that*” and when further pressed, he was “*not able to confirm when we will bring that forward*”

Information provided by MHCLG

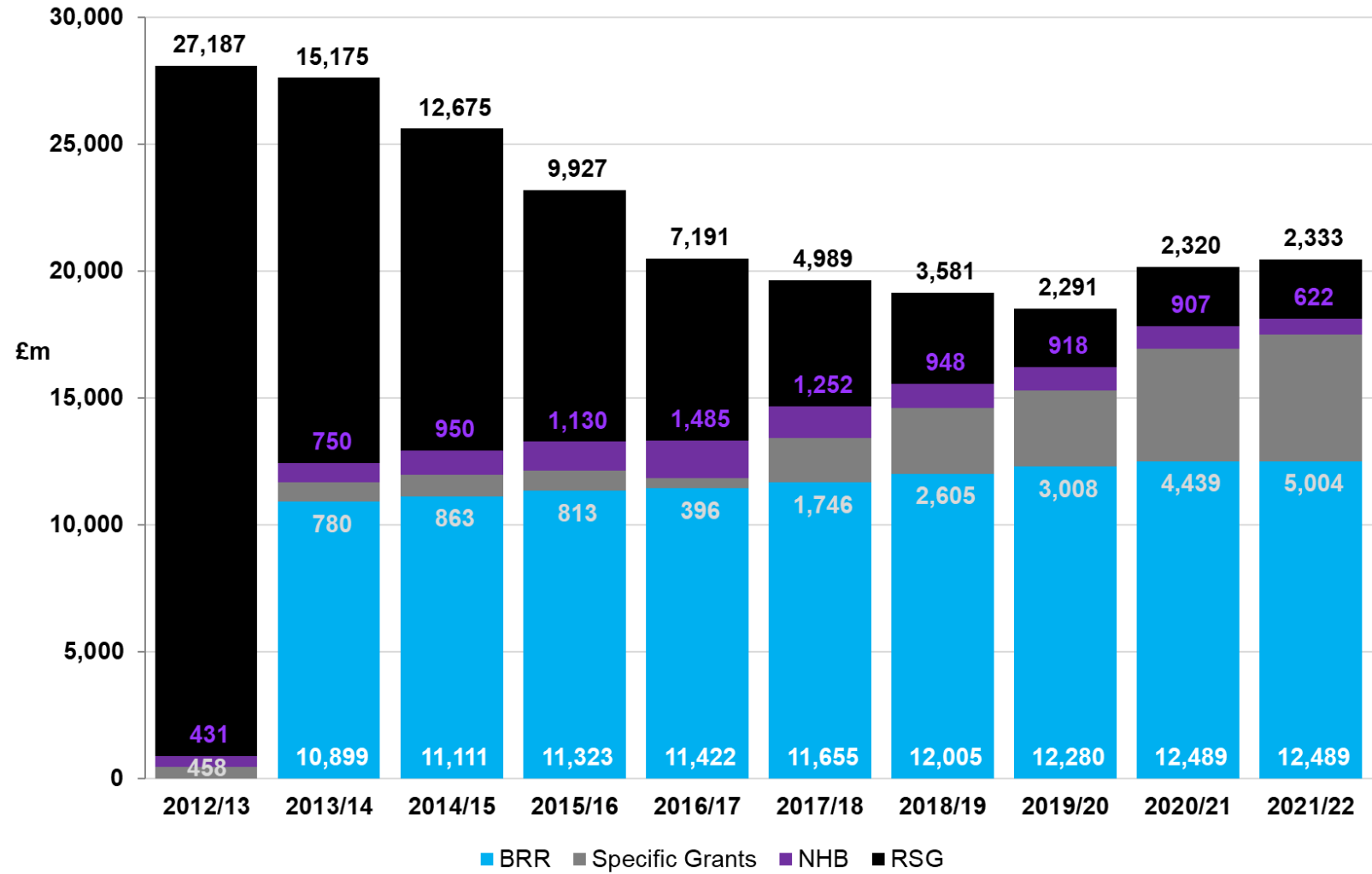
- Updated Core Spending Power including split by grant source
- Key Information for local authorities (and Pilots) i.e. SFA split
- Council Tax referendum limits and rules
- Funding allocations inside Core Spending Power
 - NHB calculator
 - Social Care
 - Lower tier services grant
 - SFA calculation Model
- Funding allocations outside of Core Spending Power
 - Local taxation losses scheme – consultative policy paper
- Provisional settlement consultation and draft equality statement

The biggest missing headline – new lower tier services grant providing flat cash guarantee

- A new, one-off £111m grant which has been allocated:
 - £86m using shares of lower tier funding within the 2013/14 Settlement Funding Assessment
 - £25m for a funding floor to ensure no authority has a decrease in core spending power
- This could be considered to be:
 - A partial return of the top-sliced RSG used to fund the New Homes Bonus
 - Transitional funding to reduce the impact of changing NHB allocations
 - An indication of what the government's approach could be to transitional funding in a new local government funding system

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Funding 2012/13 to 2021/22



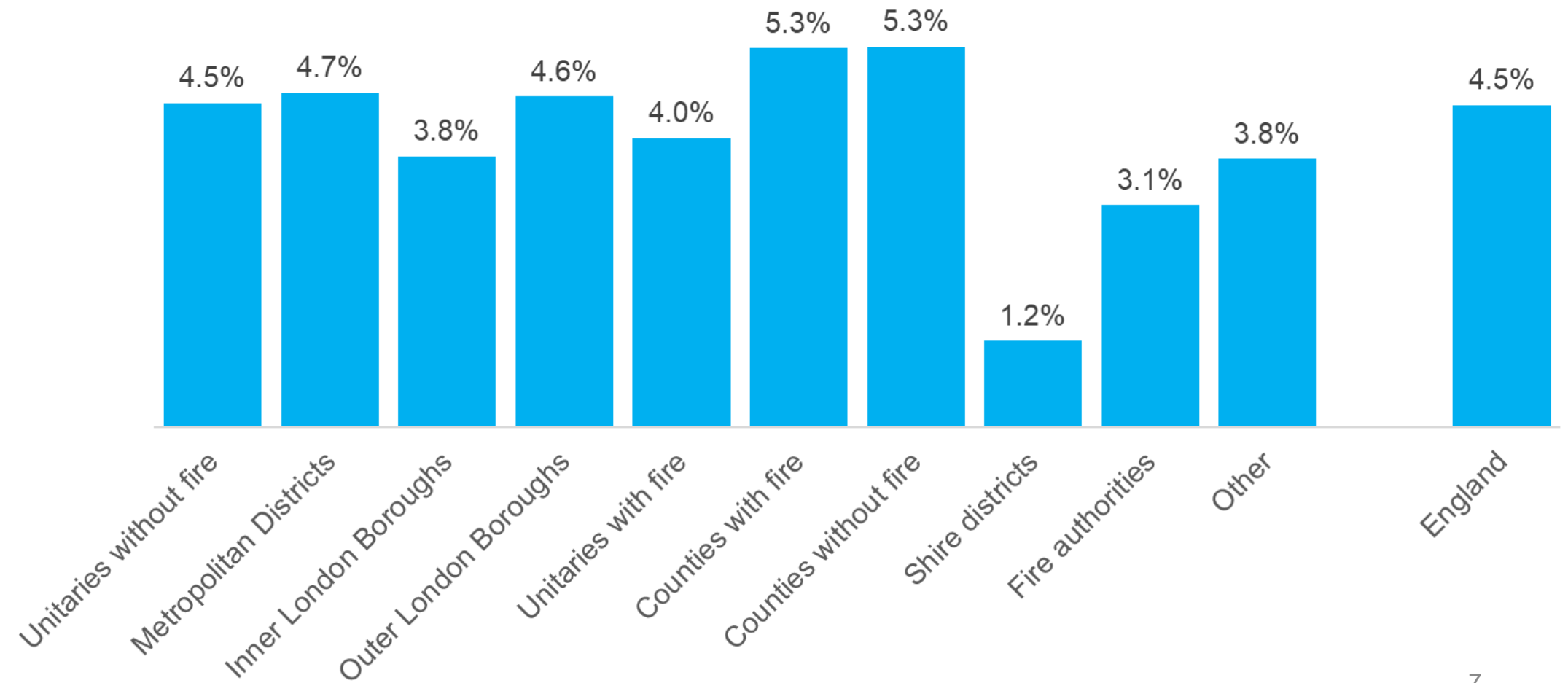
- Funding reduced from £28.1bn to £18.5bn (34%) to 2019/20, rising to £20.2bn in 2020/21
- Additional £0.3bn in 2021/22, reducing overall cut from £28.1bn to £20.5bn (27%)

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Change in CSP

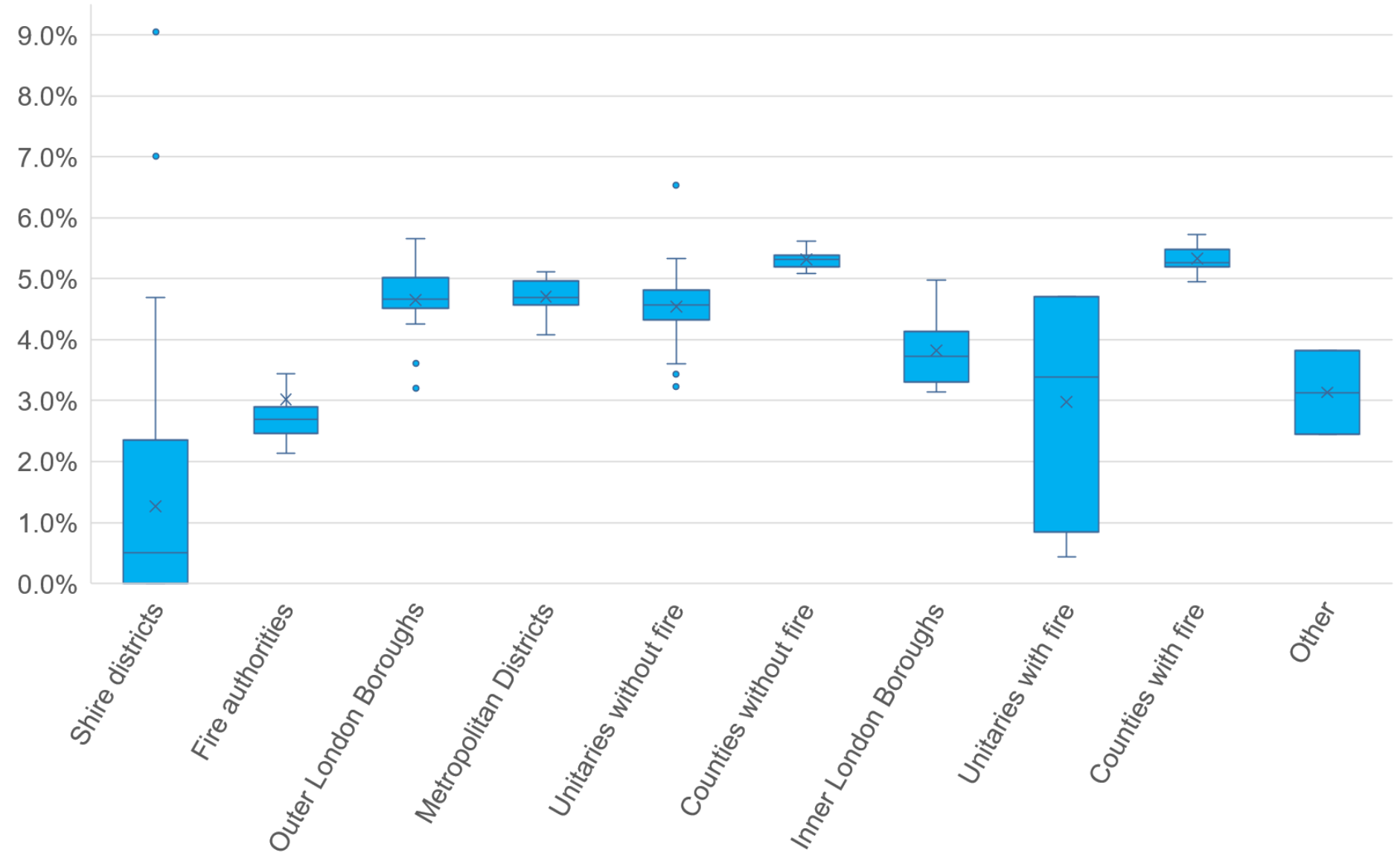
Cumulative change in CSP by class of authority

Cumulative change between 2020/21 and 2021/22



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Change in CSP funding within classes



What causes variation from class averages?

- Districts and Unitaries:
 - New Homes Bonus
 - £5 flexibility on Council Tax
- Upper tier authorities:
 - Local allocations of Social Care funding
- All Authorities:
 - Council Tax data and assumptions, including:
 - Historic tax base movement (as the CSP Council Tax figures are based on averages)
 - Historic local decisions on Council Tax (as the 2% is applied to your band D)

Core Spending Power: England

| England | | | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|-------------|
| Core Spending Power | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | Increase | |
| | £m | £m | £m | £m | £m | £m | £m | £m | % |
| Settlement Funding Assessment | 21,250 | 18,602 | 16,633 | 15,574 | 14,560 | 14,797 | 14,810 | 13 | 0.1% |
| Compensation for under-indexing the business rates multiplier | 165 | 165 | 175 | 275 | 400 | 500 | 650 | 150 | 30.0% |
| Council Tax Requirement excluding parish precepts | 22,036 | 23,247 | 24,666 | 26,332 | 27,768 | 29,227 | 31,145 | 1,918 | 6.6% |
| New Homes Bonus (incl. returned funding) | 1,200 | 1,485 | 1,252 | 947 | 918 | 907 | 622 | (285) | (31.4%) |
| Rural Services Delivery Grant | 16 | 81 | 65 | 81 | 81 | 81 | 85 | 4 | 4.9% |
| Transition Grant | 0 | 150 | 150 | 0 | 0 | 0 | 0 | 0 | 0.0% |
| Improved Better Care Fund (incl. former Winter Pressures Grant) | 0 | 0 | 1,115 | 1,739 | 2,077 | 2,077 | 2,077 | 0 | 0.0% |
| Social Care Grant (incl. former Adult / Social Care Support Grant) | 0 | 0 | 241 | 150 | 410 | 1,410 | 1,710 | 300 | 21.3% |
| Lower Tier Services Grant | 0 | 0 | 0 | 0 | 0 | 0 | 111 | 111 | |
| Core Spending Power Total | 44,666 | 43,730 | 44,296 | 45,098 | 46,213 | 48,999 | 51,210 | 2,211 | 4.5% |

Core Spending Power: England

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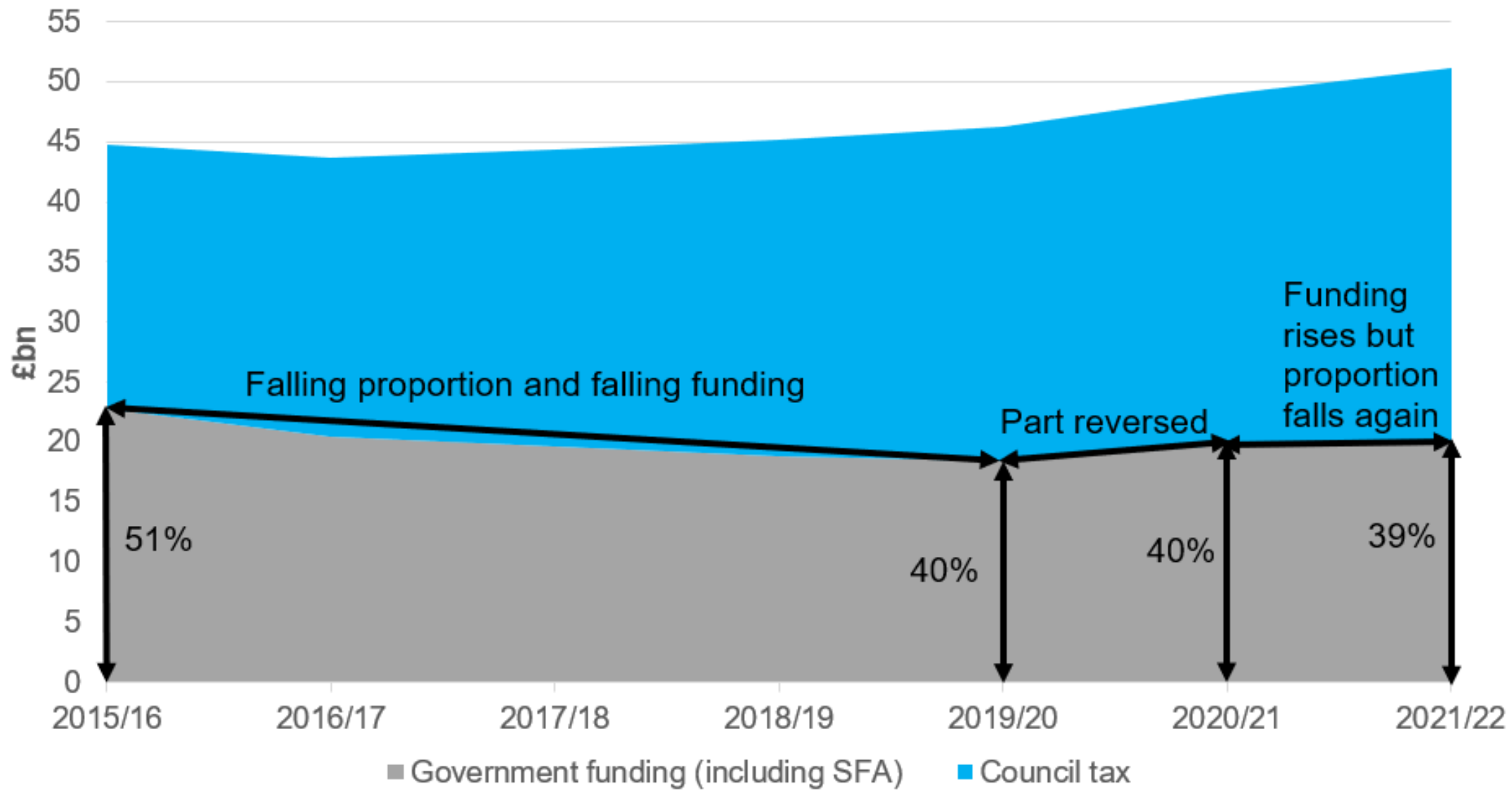
- Inflation
- Tax rate and base assumptions
- New allocations, same methodology
- Increase / new funding
- Flat cash

Council Tax Referendum Limits

- Government has reduced the referendum limit, but extended the social care precept. So:
 - Upper tier authorities 2% plus social care precept up to 3% can be made without a referendum
 - Shire District authorities increases of less than 2% or £5 (whichever is the higher) can be made without a referendum
- Social Care Precept effectively a one-year replay of the 3% maximum rise applicable when first introduced
- Other authority types:
 - Mayoral Combined Authorities, Town and Parish councils – deferred setting of referendum principles
 - Limits for PCCs will be £15
 - For the GLA, a limit of 2% on the unadjusted relevant basic amount of council tax will apply or if the adjusted relevant basic amount is increased by £16.59 or more

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Council Tax – changing average balance of funding

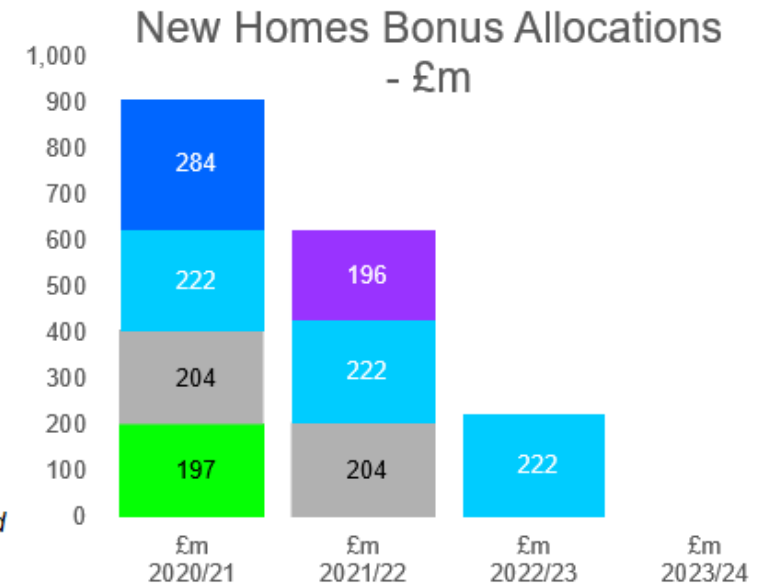


New Homes Bonus

- No change on previous method set out, no extra funding as no legacy payments to be made on 2020/21 allocations, so future numbers only showing 2019/20 legacy amount

England

| New Homes Bonus | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|-----------------------------|------------|------------|------------|---|
| | £m | £m | £m | £m |
| 2017/18 allocation | 197 | | | |
| 2018/19 allocation | 204 | 204 | | |
| 2019/20 allocation | 222 | 222 | 222 | |
| 2020/21 allocation | 284 | | | |
| 2021/22 allocation | | 196 | | |
| 2022/23 forecast allocation | | | - | <i>No future years' allocations assumed</i> |
| Total Allocation | 907 | 622 | 222 | - |



- Consultation 'shortly' on planned future of the scheme
- Lower tier services grant ensures that districts receive at least flat cash on CSP

What is missing from CSP?

Completely excluded:

- Funding outside of the Local Government Finance Settlement, for example:
 - Homelessness Prevention Grant and Flexible Homelessness Support Grant
 - Levy account surplus distribution shares

Partly excluded:

- Funding subject to local conditions and decision-making, namely:
 - Council Tax – estimated using maximum rise and historic base data (not the October CTB 1 return; no adjustment for Covid-19)
 - Business Rates – excluding any local growth (or decline), impact of remaining 2017/18 pilots (5 x 100% pilot areas and GLA 37% partial pilot)
- Council tax forms 61% (up from 60%) and SFA (business rates) 29% (down from 30%) of CSP

Levy Account

- Unclear what balance will be available in respect of 2020/21, though the compensation scheme suggests that there could be one
- The Secretary of State may also choose to credit funds to the account, for example, if it is expected that safety net payments will exceed safety net receipts. In 2020/21 a £1m credit was planned. The amount for 2021/22 will be confirmed at the final settlement
- Distributions of levy account surplus are not included in CSP, so do not affect comparisons of funding between years. As at 31 March 2020, the levy account balance was £22.8m after distributions of £40m

Other issues

- Homelessness Prevention:
 - At SR20, government announced £254m new funding for rough sleeping, bringing the total to £676m but it appears that not all of this has yet been allocated
 - £310m has been allocated as Homelessness Prevention Grant (which combines and increases the previous Flexible Support and Reduction grants, and also includes ongoing funding for the new burdens associated with the Homelessness Reduction Act)
 - Of the £310m, £263m rolls forward 2020/21 allocations, and the additional £47m is allocated using housing benefit claimant numbers and local rents, adjusted for area cost
- Local taxation losses funding
 - Consultative policy paper published including technical details
 - Government will fund 75% of relevant losses in council tax and business rates
- Covid-19 funding
 - £1.55bn general grant funding, allocated using Covid-19 RNF
 - £0.67bn LCTS funding, allocated using 2020/21 claimant numbers and average council tax levels

Covid Relative Needs Formula

- Many months' financial management monitoring information have been submitted. When allocating tranche 3 of funding, MHCLG decided to use Rounds 2-3 data to create a Covid-19 RNF
- The formula was developed using elements of the ongoing Fair Funding Review (FFR):
 - Statistical regression analysis to assess key cost drivers. FFR analysis concluded that population was key for most services (explaining 84% and 88% respectively of upper and lower tier variation). Next for upper tier was deprivation (4%) and for lower tier fixed cost (1.4%)
 - Local variation in cost requires an Area Cost Adjustment (ACA). FFR concluded that this should include a rates cost adjustment (for property costs), labour cost adjustment, travel time, and remoteness. However, weightings had not been determined and only indicative rates published
- Covid funding allocations may therefore reflect direction of travel for authorities' funding, post FFR. The allocations use population, deprivation (using Index of Multiple Deprivation score), an ACA, and a tier split of 21%.
- In using these approaches, the government is relying on a methodology which has not been subject to full consultation. In addition, particular analyses and weightings used also do not appear to have been published, which is especially relevant where the FFR had not reached conclusions

Local Council Tax Support Grant £670m

- Un-ringfenced and can be used to provide other support to vulnerable households
- “Broadly, we expect that the funding will meet the additional costs associated with increases in local council tax support”
- But methodology for distribution not based on increases in local council tax support
- Actually distributed based on relative share of:
 - Average number of working age claimants (at Q1 and Q2 2020/21); and
 - Average council tax levels
- So, while recognising increases in claimant numbers it is weighted more towards those who had higher numbers of working age claimants already
- So, funding allocations more readily reflect distributing funding to support residents experiencing hardship than policy aim of compensating for increased costs
- But funding to preceptors and billing authorities so more likely will be used to compensate for additional costs of increased working age council tax support

Council tax scheme

The government's proposed formula is 75% of the difference, if positive, between:

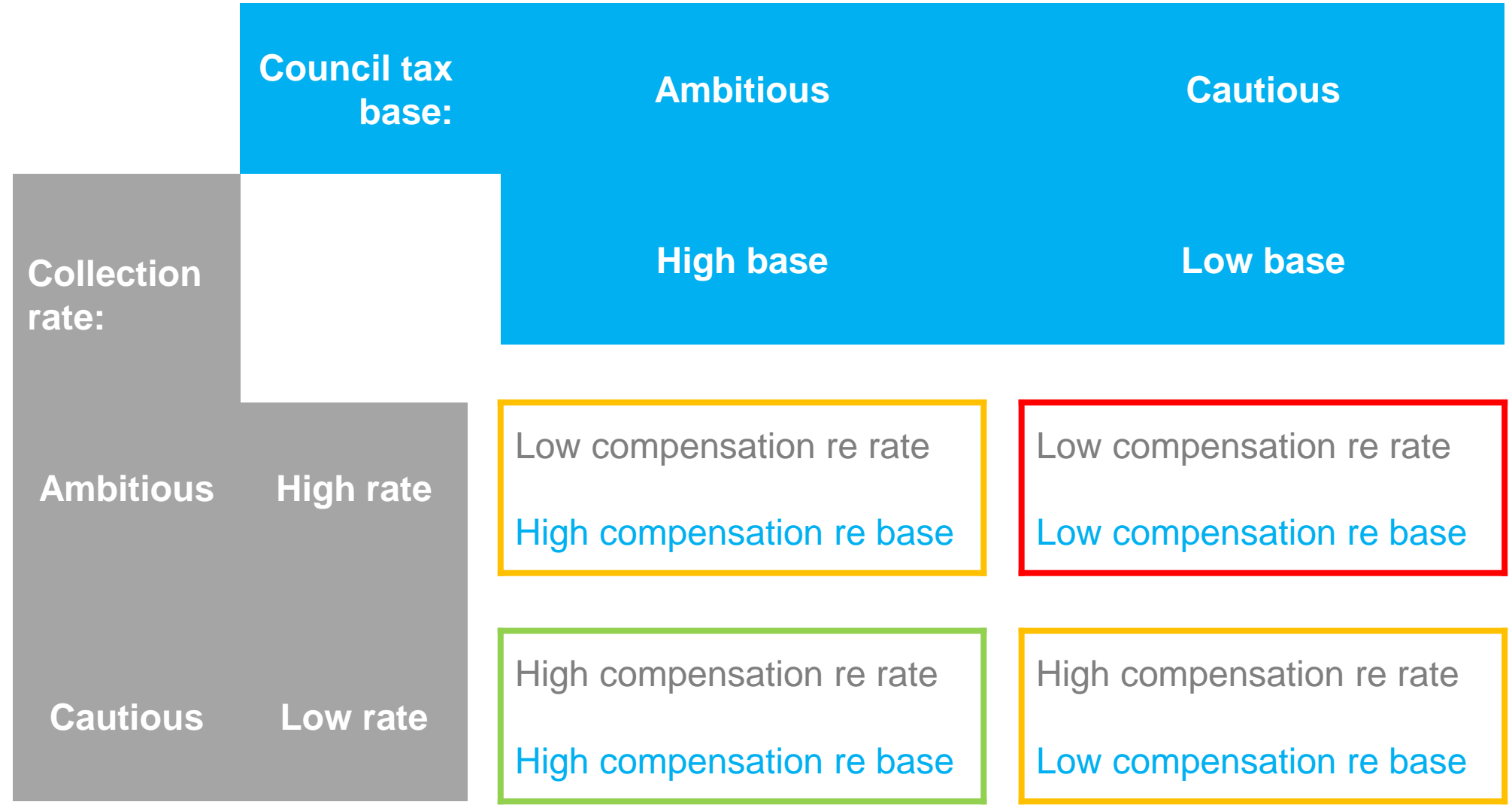
- Council tax requirement for 2020/21 as submitted on the CTR2020/21 return
- and
- Authority share of council tax collection fund multiplied by:
 - Net collectible debit from QRC4 return x collection rate from CTR 2020/21 return
 - plus
 - discretionary relief awarded under s13A1(c)
- Billing authorities will be compensated for their share including Parish Precepts (i.e. for deficits in respect of these which usually fall to the General Fund)
- Excluding discretionary relief will mean that authorities are not 'double funded' for support provided which is already funded by the Hardship Fund

Council tax scheme

- The QRC4 guidance confirms what should not be included in net collectible debit, most notably amounts for which council tax payers are not liable (i.e. exemptions and discounts) and prior year adjustments, and accounting adjustments (e.g. allowance for non-collection and write offs of uncollectible amounts)
- This means effectively, authorities will be compensated for increases in local council tax support caseload, but not for uncollectible amounts (except those expected to be uncollectible when the CTR form was completed)
- Authorities may conclude that this suggests that the government considers all council tax debts to be ultimately recoverable (e.g. through attachment of earnings)
- Therefore:
 - Authorities which set an ambitious collection rate (and expected a deficit as a result) will receive less from the compensation scheme
 - Authorities which set a low collection rate (and expected a surplus as a result) will receive more from the compensation scheme
- However, the opposite will be the case in respect of taxbase estimates

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Business rates scheme

- The business rates scheme is more generous than that for council tax
- For business rates, the formula will be 75% of the difference, if positive, between:
 - NNDR1 local share of income less NNDR1 s47 (discretionary funded) reliefs
 - less
 - NNDR3 local share of income less NNDR3 s47 (discretionary funded) reliefs
- Authorities will similarly receive compensation in respect of disregarded amounts (e.g. for renewable energy or designated areas), adjusted for amounts already funded by s31 grants.

Business rates scheme

- This means that, in respect of business rates, authorities will be compensated for:
 - The impact of accounting adjustments for appeals and allowance for non-collection
 - The impact of prior years' adjustments, including appeals paid out and debts written off, to the extent these are not paid from their existing provisions
 - The impact of additional reliefs (e.g. properties which receive relief due to being unoccupied)
- However, they will not be compensated by this scheme for:
 - The impact of changes to funded reliefs (which are already fully compensated by s31 grants)
 - Reductions in s31 grants relating to reliefs granted other than under s47 (e.g. telecoms relief and the small business rates relief)

Business Rates Pools

- 26 areas applied to pool in 2021/22
- As usual there are 28 days after the settlement to decide whether to remain as a pool or not (all or nothing)
- Authorities which have planned to pool will wish to continue to review up to the deadline whether pooling is likely to generate a benefit in 2021/22
- The business rates compensation scheme will operate inside the levy calculation, meaning that it will be unlikely that many authorities will require a safety net. Therefore, it is likely that 2020/21 pools will still be viable

Collection Fund deficit spreading

- Billing and precepting authorities will be aware that estimated deficits reported in January 2021 will be spread over the coming three years, rather than made good in full in 2021/22
- This will impact on cashflow, as precepts will be paid based on the spread amount, rather than the full amount. For billing authorities, this will mean holding the cashflow impact of the central and preceptors' shares for the full three years if a deficit is spread
- If a deficit is reported in January 2021, then it will impact both cashflow and budget over the coming three years. If it is not reported, it is expected to be disbursed as usual, in full the following year (2022/23)
- However, the compensation schemes will apply based on outturn. The cashflow implications of the compensation schemes are not yet clear
- LG Futures have produced a tool to support local authorities in completing their January estimates which shows the resource and cashflow impacts of different approaches
- Authorities purchasing the service will receive a Tool for their authority and a report setting out the information and the potential implications

Summary

- Provisional settlement:
 - £2.2bn increase in CSP 87% funded through council tax
 - Extending Social Care precept – now part of the landscape of funding settlements
 - Transition from NHB to post NHB world potentially signalled
- Additional COVID-19 funding:
 - £1.55bn of additional funding – will there be more given recent developments?
 - Further Covid funding for expenditure and to support additional CTS caseload
 - Information about compensation scheme for business rates and council tax
- Authorities will wish to consider the impact of compensation schemes and spreading when making their estimates for 2020/21 collection fund surplus / deficits. LG Futures can support authorities in understanding the resource and cashflow impacts of these decisions with a bespoke tool and report



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