

Council

21 January 2021

Report of Director of Resources

## **PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2021/22**

### **PURPOSE OF REPORT**

This report informs the Council of the provisional Local Government Finance Settlement for 2021/22 together with its implications for the Council's finances.

The appendix to the report sets out the Council's response to the Government's consultation paper on the settlement.

### **RECOMMENDATION**

1. That the provisional Local Government Finance Settlement for 2021/22 be noted.
2. That the response to the Consultation Paper, as given in Appendix 1, be noted.

### **WARDS AFFECTED**

All Wards

### **STRATEGIC LINK**

The Local Government Finance Settlement has serious implications for the Council's finances, and therefore potentially has a negative impact on the Council's ability to deliver its Corporate Aims and Objectives.

## **1 BACKGROUND**

- 1.1 The provisional Local Government Finance Settlement for 2021/22 was reported to Parliament on 17<sup>th</sup> December 2020. The provisional settlement was accompanied by a consultation paper on the general nature of the proposed settlement, with responses to be considered by government before determining the final amount of Revenue Support Grant and its allocation to receiving authorities. Responses are required by 16<sup>th</sup> January 2021. In view of the short timetable, a response will be submitted by the deadline in consultation with Political Group Leaders, the Leader and Deputy Leader and Chair and Vice Chair of the Council. This is given in Appendix 1.
- 1.2 This report outlines the details of the national settlement, together with the local settlement for the District Council.

## 2 REPORT

### 2.1 The National Settlement

The key headlines of the national settlement are set out below:

- 2.1.1 Local government has received an average **Core Spending Power (CSP)** increase of 4.5% (£2.2bn). This increase in CSP is better than in any year for more than a decade (with the exception of 2020-21) and represents real terms growth. It will do very little to address local government's funding shortfall, or the very serious funding problems in some local authorities.
- 2.1.2 However, a particularly worrying feature of the settlement is the increased reliance on increasing council tax. 87% of the increase in CSP is from council tax increases, and is accompanied by relatively low increases in grant funding. Social care authorities will be able to increase Band D by up to 5%, and district councils will be able to increase by the higher of 2% or £5 (expected but still very welcome). Fire authorities will still only be able to increase their Band D by 2% - even though police and crime commissioners can increase their precept by up to £15. There is no wider dispensation to allow councils to increasing council tax, even where councils are really struggling.
- 2.1.3 Very little of the new grant increases are funded with new money. Almost all the increases are funded by using the New Homes Bonus (NHB) returned surplus. This approach breaks the principle of returning the surplus to local government and thus makes forecasting more difficult.
- 2.1.4 A new grant (**Lower Tier Services Grant**) effectively uses £111m of the NHB returned surplus. It is a peculiar grant with the purpose of helping to minimise the range of increases in CSP, and particularly to ensure that no authority receives a reduction in CSP. It is very heavily weighted towards district councils, and particularly those that are losing from the changes in NHB. It is probably a short-term grant that will disappear when wider reforms of local government funding are introduced (possibly in 2022/23)
- 2.1.5 There are particularly large increases in COVID funding. Allocations from tranche 5 of the COVID funding (£1.55bn) have been announced, alongside a methodology for distributing the £670m to support council tax. At first glance, the proposals for compensating authorities for tax income support seem more generous than expected, but we have not yet had time to fully review the proposals.
- 2.1.6 Other key elements in the 2020-21 provisional settlement are:
- Revenue Support Grant (RSG) will be increased in line with the Consumer Price Index (CPI) (£13m, 0.55%).
  - Negative RSG. There will continue to be no adjustment for "negative RSG" (i.e. "negative RSG" continues to be funded).
  - Baseline Funding Level (BFL – the baseline share of business rates that an authority is allowed to keep) will be frozen in 2021/22 because the business rate multiplier will be frozen in 2021//22 However there will be a grant to compensate councils for income lost by the decision to freeze the multiplier in 2021/22.

- Council tax. MHCLG assumes every authority will increase Band D council tax by the maximum allowed, which is £5 per Band D (2.33%) for DDDC. In its CSP figures, MHCLG has assumed that the taxbase will increase in 2021/22 for each authority in line with their average taxbase increase since 2016/17. The taxbase will most likely be much lower than this because COVID has resulted in lower growth rates and lower collection rates, combined with higher costs of Local Council Tax Support.
- Social care funding. Existing social care grants will continue (£1.8bn Improved Better Care Fund (IBCF), £240m Winter Pressures, and £1,410m social care support grant). A further £300m social care grant was announced in the Spending Review 2020 (SR20) – but only £150m is new money, with £150m top-sliced from New Homes Bonus. The Government estimate that local authorities will have access to an additional £1.0bn of resources, based on £300m additional funding for social care and a further £0.7bn raised from the precept.
- New Homes Bonus. It is estimated that the overall cost of New Homes Bonus will be £622m, which in theory leaves a surplus of £278m (out of the £900m budget) to be returned to local government. There will be no returned surplus in 2021/22.
- Rural Services Delivery Grant. Increase in funding (4m to £85m) compared to 2020/21, and no change in methodology (funding will be received by authorities in the top-quartile for super-sparsity).

2.1.7 The Fair Funding Review and Business Rates Retention Review have been deferred for a further year; the outcome will not be implemented until 2022/23.

## 2.2 The District Council's Provisional Settlement for 2021/22

2.2.1 The provisional figures are expected to be confirmed in late January or early February 2021, when the Government announces the final settlement. The key points of the provisional settlement are set out below.

2.2.2 The **core spending power** for this Council has increased from £9,165,000 (adjusted) in 2020/21 to £9,281,000 in 2021/22 (an increase of 1.27%). The table below shows how the core spending power for Derbyshire Dales District Council is calculated and the elements of change:

Source of Funding	2020/21 Adjusted £000s	2021/22 £000s	Change £000s	Change %	Comments
Settlement Funding Assessment	1,675	1,675	0	0.0%	
New Homes Bonus	631	398	-233	-36.93%	
Rural Services Delivery Grant	401	421	20	5.0%	
Council Tax (excl. parish precepts)	6,391	6,629	238	3.72%	Assumes £5 increase in council tax and growth in tax base at same level as last 5 years.
Compensation for under-indexing the business rates multiplier	67	87	20	29.85%	
Lower Tier Services Grant	0	71	71		New for 2021/22
<b>Total Core Spending Power</b>	<b>9,165</b>	<b>9,281</b>	<b>116</b>	<b>1.27%</b>	

- 2.2.3 The 2021/22 **Settlement Funding Assessment** of £1.675 million is the same as for 2020/21. This is £23,000 less than the amount assumed in the Council's Medium Term Financial Plan for 2021/22 where an inflationary increase had been expected;
- 2.2.4 A new **Lower Tier Services Grant** Of £71,000 for 2021/22 helps to ensure that no authority receives a reduction in CSP.
- 2.2.5 **Negative Revenue Support Grant** has been funded in the settlement so is no longer a cost pressure in 2021/22. The MTFP had assumed a cost of £380,000;
- 2.2.6 The **New Homes Bonus** (NHB) has been retained but 2021/22 new allocations will be for 2020/21 only, with no legacy payments. The government will make legacy payments on allocations made in earlier years which are due to be paid in 2021/22. There will be no returned surplus in 2021/22. This results in NHB of £398,000 for 2021/22, which is £233,000 less than 2020/21 but £109,000 more than had been assumed in the MTFP.
- 2.2.7 **Rural Services Delivery Grant** increases by 5% to £421,000. In the MTFP approved in August we had assumed that this grant would reduce to £200,000 in 2021/22; this means that RSDG for 2021/22 is £221,000 more than included in the MTFP;
- 2.2.8 The **increase in the Council Tax** income shown in the table above at 3.72% reflects the government's assumed maximum £5 (2.33%) increase (on Band D), as well as an increase in the council tax base that reflects new homes at a rate of growth equal to that over the last 5 years. This rate of growth is probably over optimistic. The MTFP assumed a council tax increase of 1.94% (£4.16 per band D).
- 2.2.9 The increases in grants and council tax over the assumptions in our medium term financial plan amount to an increase in funding of £858,000 for 2021/22 as shown in table 2 below.

Source of Funding	MTFP £000s	Settlement £000s	Change £000s	Change %	Comments
Settlement Funding Assessment	1,698	1,675	-23	-1.4%	MTFP assumed inflationary increase
Negative RSG	-380	0	380	-100.0%	Negative RSG removed from settlement
Compensation for under-indexing the business rates multiplier	68	87	19	27.94%	
Lower Tier Services Grant	0	71	71		New for 2021/22
New Homes Bonus	289	398	109	37.72%	
Rural Services Delivery Grant	200	421	221	110.5%	
Council Tax (excl. parish precepts)	6,548	6,629	81	1.24%	Assumes £5 increase in council tax and growth in tax base at same level as last 5 years.
<b>Total Core Spending Power</b>	<b>8,423</b>	<b>9,281</b>	<b>858</b>	<b>10.19%</b>	

#### 2.2.10 COVID-19 funding

The District Council has been allocated £294,000 from tranche 5 (2021/22) of the COVID funding, alongside a methodology for distributing further funding to support

council tax. At first glance, the proposals for compensating authorities for tax income support seem more generous than expected, but we have not yet had time to fully review the proposals.

#### 2.2.11 Officer Comments

##### **A one year settlement**

This settlement relates to 2021/22 only and there is no certainty that this level of funding will continue into future years. While the provisional settlement results in significantly more grant being received for 2021/22 than had been anticipated in the medium term financial plan, it is more difficult to predict the level of finance settlement that might be received from 2022/23 onwards given the lack of clarity over future funding levels.

The positive settlement for 2021/22 should not be taken as an indication of the likely funding position in future years. Significant changes in local government finance are due to take place from 2022/23. For example, the retained business rates of £1.675m for 2020/21 could be reduced significantly as part of the government's review of business rates retention, Rural Services Delivery Grant (£421,000 in 2021/22) and Lower Tier Services Grant (£71,000 in 2021/22) could disappear after the Fair Funding Review. New Homes Bonus is expected to reduce from £398,000 in 2021/22 to £218,000 in 2022/23 and possibly be removed altogether after that.

#### 2.2.12 Conclusion

The settlement for 2021/22 is much better than expected and will enable a balanced budget to be set for that financial year. However, most of the financial uncertainties for future years, that have been explained repeatedly, still remain. This settlement helps greatly for 2021/22 but the financial uncertainties and need for corporate savings remain for subsequent years.

### **2.3 Consultation**

Responses to the consultation paper are required by 16 January 2021. In view of the short timetable, a response has been submitted by the deadline in consultation with Political Group Leaders, the Leader and Deputy Leader and Chair and Vice Chair of the Council. This is given in Appendix 1. Suggested responses from the Rural Services Network will be considered when drafting the Council's responses.

## **3 RISK ASSESSMENT**

### 3.1 Legal

This report is for noting. The implications are that this will enable a balanced budget to be set for that financial year, thus the legal risk of this report is low.

### 3.2 Financial

As stated in the body of the report, the 2021/22 provisional settlement funding assessment is the same as awarded in 2020/21 but this remains significantly less than prior years. As shown in table 2 the provisional settlement results in the Council

receiving £858,000 more in 2021/22 than anticipated in the Medium Term Financial Plan. However, the positive settlement for 2021/22 should not be taken as an indication of the likely funding position in future years. The Council needs to maintain a degree of caution until the outcome of the government reviews on business rates retention and “Fair Funding” are known and the funding position for 2022/23 onwards has been clarified. An updated Medium Term Financial Strategy and an updated Medium Term Financial Plan will be reported to Council in March 2021. Significant corporate savings may still be required from 2022/23 onwards and therefore the financial risk is assessed as “high”.

### 3.3 Corporate Risk

The financial risk as described above may have significant implications for the Council’s future ability to deliver its priorities, and to provide services at the current levels. The corporate risk is, therefore, high.

## 4 OTHER CONSIDERATIONS

- 4.1 In preparing this report, the relevance of the following factors has also been considered: prevention of crime and disorder, equalities, environmental, climate change, health, human rights, personnel and property.

## 5 CONTACT INFORMATION

- 5.1 Karen Henriksen, Director of Resources, Tel: 01629 761284

Email: [karen.henriksen@derbyshiredales.gov.uk](mailto:karen.henriksen@derbyshiredales.gov.uk)

## 6 BACKGROUND PAPERS

- 6.1 The Provisional Local Government Finance Settlement, consultation paper and all supporting documents can be found at:

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2021-to-2022>.

## 7 ATTACHMENTS

Appendix 1 – Response to consultation paper – **to follow**