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Local Government Grants - Settlement 2020/21

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FINANCE WITH VISION

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1. Introduction

- 1.1 The government has previously stated its intention to hold a new Spending Review in 2019 covering the period 2020/21 to 2022/23 (SR19). However, with the current Political turbulence around Brexit and the ongoing election process for a new Leader of the Conservative Party to the take over as Prime Minister in late July 2019, SR19 now looks unlikely.
- 1.2 The increasing view that there will not be a SR19 was reflected during our recent series of regional events held across England during June which supported authorities with the medium-term planning for the period 2020/21 to 2022/23. In these sessions we have been fielding many questions about the potential impact on grants provided to local government for 2020/21 without a Spending Review.
- 1.3 This briefing note is being provided to highlight how grants for 2020/21 might be affected in such a scenario. The note is not based on any additional information that we have been provided by MHCLG relating to such an eventuality. Instead it is based analysis of the most likely practical course of action the government might take for providing grants for local government in 2020/21.
- 1.4 This note is structured as follows:
- Section 2 – Background to the Spending Review and what they have provided in the past;
 - Section 3 – Grant by grant review of the potential impact of an absence of SR19;
 - Section 4 – Potential council tax referendum levels for 2020/21;
 - Section 5 – The next steps.

2. Background

- 2.1. There have been three Spending Reviews since 2010, each of which has had an impact upon the strategic financing of local government.
- SR10: this Spending Review, published in October 2010, established the initial path of reductions to local government grant funding and the introduction of Council Tax Freeze grant. At the same time as the SR10 took effect, New Homes Bonus was launched for the period of the SR.
 - SR13: this Spending Review, published in June 2013, continued with the reductions to local government grant funding; the rolling forward of the Council Tax Freeze grant; and the introduction of the Better Care Fund.
 - SR15: this Spending Review, published in November 2015, again continued with reductions to local government grant funding; introduced reforms to New Homes Bonus; ended Council Tax Freeze grant, set council tax referendum limits at 2% per annum or £5 for District Councils (whichever was higher); and introduced the Social Care Precept at 2% per annum.
- 2.2. It has therefore become the norm for the main strategic funding decisions of central government as they relate to local government to be made at each SR; although these have been supplemented at subsequent annual Local Government Finance Settlements (e.g. with the introduction of the Improved Better Care Fund at Settlement 2016/17; additional flexibility on the Social Care Precept at Settlement 2017/18 and the increase in the referendum limit to 3% - before applying the Social Care Precept – at Settlement 2018/19).
- 2.3. With this in mind, in the next section we review the main grants made available to local government through Settlement 2019/20, considering when the grant was introduced, how it is distributed, and evidence for how it might change in the context of a one-year settlement for 2020/21.

3. Grant review 2020/21

3.1. We have reviewed the following grants, which are covered at each annual Settlement and are within Core Spending Power:

- Revenue Support Grant (RSG) - £653m after some rolling into Business Rates Pilots;
- Multiplier under-indexing compensation grant - £400m in 2019/20;
- New Homes Bonus (NHB) - £918m in 2019/20;
- Improved Better Care Fund (IBCF) - £1,837m in 2019/20;
- Winter Pressures Grant - £240m in 2019/20;
- Social Care Support Grant - £410m in 2019/20; and
- Rural Services Delivery Grant (RSDG) - £81m in 2019/20.

This is shown at table 3.1.

3.2. We have also reviewed a number of grants which are provided outside of the Core Spending Power calculations, including:

- Negative Revenue Support Grant (RSG) - £153m in 2019/20;
- Business rates retention: levy account surplus - £180m in 2019/20;
- Public Health Grant - £3,134m in 2019/20; and
- Better Care Fund - £3,840m in 2019/20 plus Disabled Facilities Grant, IBCF and Winter Pressures Grant.

This is shown at table 3.2.

3.3. Of course, although a grant might not be reduced in cash terms for 2020/21 this would still represent a real terms reduction when set against increasing costs, whether measured at CPI, RPI or other relevant measure of inflation.

3.4. The level of funding change will of course be impacted upon by the increase in council tax allowed (and enacted locally), the proportion of council tax funding relative to grant funding and the increases in costs of service delivery. This varies significantly from council to council.

3.5. It should also be remembered that business rates baselines are increased each year in line with CPI. Assuming £12.3bn in Baseline Funding in 2019/20 (pre pilots) is repeated at 2020/21 then an increase to Baseline Funding of approximately £250m would be expected for local government (unless RSG was reduced in an equal and opposite direction).

Table 3.1 Grants within Core Spending Power

Grant	When was it introduced?	How is the grant distributed?	How it might change?	Current status for 2020/21
Revenue Support Grant	Represents part of Settlement Funding Assessment (SFA) introduced from 2013/14	This is the balance between Baseline Funding and the Business Rates Baseline	Each year it has been reduced through reductions identified at SR15 and by an amount equal to the increase in funding in business rates from applying the annual business rates multiplier	No additional reductions to RSG have been signalled beyond SR15; and reducing RSG by the increase in the multiplier would increase the amount of negative RSG
Multiplier under-indexing compensation grant	Introduced in 2014/15 for the under indexation of the business rates multiplier grant	Based upon the final NNDR3 for an authority	This would only be removed at the time of a reset of business rates baselines and a move to 75% BRR	This should only disappear at a time of a reset.
New Homes Bonus	2011/12	This is distributed based on property calculations applied above a deadweight plus legacy payments	The NHB framework has previously been amended as part of an SR	No change to NHB has at this stage been signalled for 2020/21
Improved Better Care Fund	2017/18	Distributed through a mixed formula for sharing original IBCF grant and additional IBCF grant including link to locally raised additional Social Care Precept	Removing this funding before an SR would be a direct reduction on adult social care funding and a fundamental change to the Better Care Fund	In the absence of an SR and social care green paper the removal of IBCF has not been signalled

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Grant	When was it introduced?	How if the grant distributed?	How it might change?	Current status for 2020/21
Winter Pressures Grant	2019/20	This is allocated based on the Adult Social Care Relative Needs Formula	This was introduced as a one-off grant in the lead up to SR19 and it was expected that this grant would disappear within a new SR/FFR	Without the SR / FFR it could be expected to continue
Social Care Support Grant	2019/20 (replacing previous years' one-off grants)	This is allocated based on the Adult Social Care Relative Needs Formula	It was expected that this grant would disappear within a new SR/FFR	Without an SR/FFR this could be expected to continue
Rural Services Delivery Grant	2015/16	Based on distributions when the grant was included within RSG in 2015/16 factored up for increased amounts	It was expected that this grant would disappear within the FFR/75% BRR	No change to RSDG has been signalled

Table 3.2 Grants outside of Core Spending Power

Grant	When was it introduced?	How if the grant distributed?	How it might change?	Current status for 2020/21
Negative RSG Grant	2016/17	This is provided to any council with negative RSG that results from reductions to SFA and the contra adjustment for the multiplier being applied to Baseline Funding	This has been applied to every year where negative RSG has arisen across SR15, but has been assumed to disappear at the FFR	No change to negative RSG grant has been signalled
Levy Account surplus grant	2019/20	On the basis of the 2013/14 settlement funding assessment	The level of change will be determined by the projected level of surplus on the Levy Account for 2020/21.	The projected surplus arose in 2019/20, it might arise again in 2020/21 although at a different lower level
Public Health Grant	2013/14	In line with methodology established at inception, with a new methodology consulted upon not yet applied	The government has not announced any change to Local Authorities responsibility for Public Health or their funding for this in 2020/21	Not expected to end in 2020/21. But will the reduction applied over the SR (2.6% in 2019/20) be applied to the 2020/21 grant?
Better Care Fund	2013/14	In line with NHS funding allocations	Planned to be reviewed at SR19	There has not been any announcement of a change to the BCF

4. The council tax referendum limits

- 4.1. MHCLG will need to clarify the referendum limits for 2020/21 including whether to continue the additional Social care Precept for another year.
- 4.2. As previously indicated the SR typically sets the strategic framework for referendum limits. In the absence of an SR it therefore might be expected that the current regime in place over the last two years continues for an additional year.
- 4.3. Projections for CPI and RPI at December 2019 and April 2020 are in line with the levels at December 2018 and April 2019 so the government might be minded to keep the current 3% threshold with the £5 flexibility for District Councils for another year.
- 4.4. Whether the Social Care Precept is extended for another year, or rather in advance of a Spending Review whether it will be removed, is an issue Upper Tier Councils will need to consider. Current planning for 2020/21 can at least quantify quite readily the additional resources that would arise should the Precept continue for another year at the current rate of 2% (the 3% limit at 2019/20 having been limited at no more than 2% per annum for the three years up to 2019/20).

5. Implementation and the next steps

Implementation

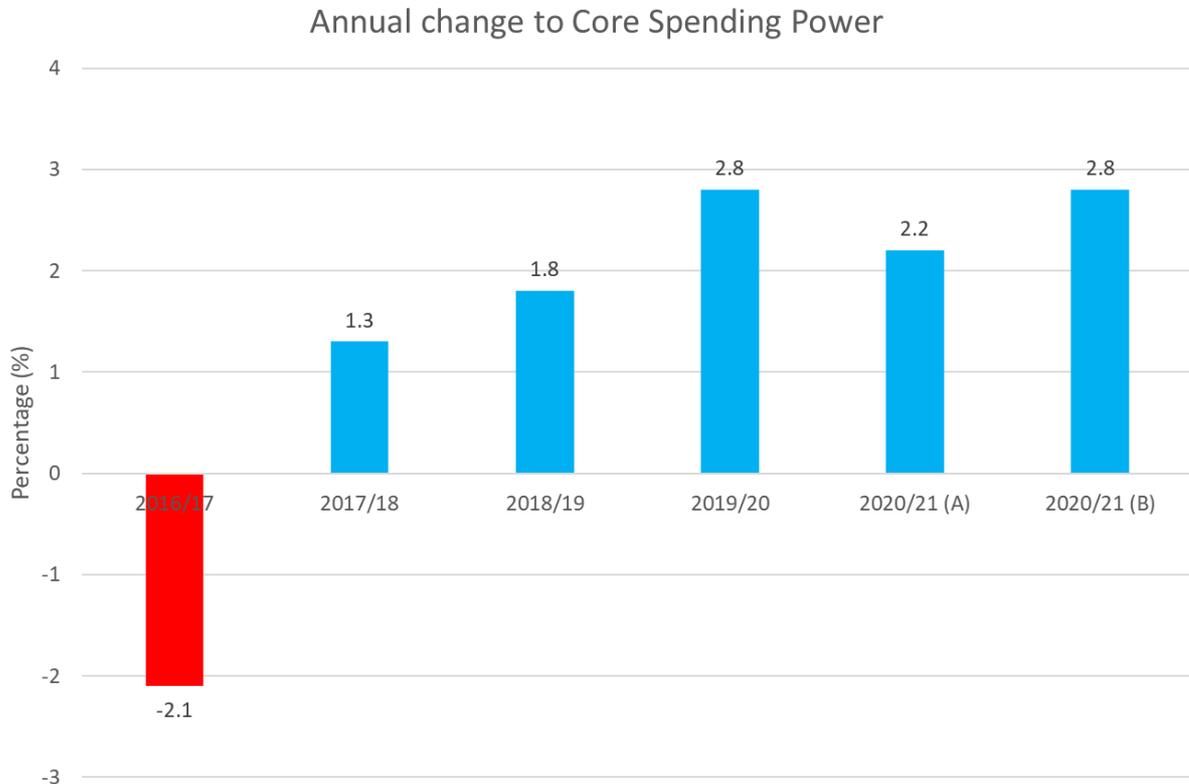
- 5.1. If the government were to take the individual actions indicated in table 3.1 then Core Spending Power could increase as shown in table 3.3 below in 2020/21. Option A assumes no additional year of Social Care Precept and option B a further year of a 2% Precept.

Table 3.3 Potential scenario funding across Core Spending Power for 2020/21

	2019/20	2020/21 (A)	2020/21 (B)
	£bn	£bn	£bn
Settlement Funding Assessment	14.6	14.9	
Compensation for under indexing	0.4	0.4	
Council tax income	27.9	28.8	29.1
Improved Better Care Fund	1.8	1.8	
New Homes Bonus	0.9	0.8	
Rural Services Delivery Grant	0.1	0.1	
Winter Pressures Grant	0.2	0.2	
Social Care Grant	0.4	0.4	
Total CSP Funding (rounded)	46.4	47.4	47.7
Percentage increase in 2020/21		2.2%	2.8%

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- 5.2. Given the trend on the annual change to Core Spending Power between 2016/17 and 2019/20, extended at 2020/21 to include either with no additional year of Social Care Precept (A) or an additional year of the Precept at 2% (B), then the annual change to Core Spending Power over five years would be as follows:



- 5.3. The table shows that the assumed increase to Core Spending Power in 2020/21 is either 0.6% below that in 2019/20 (with no additional Social Care Precept in 2020/21) or the same as the increase of 2.8% in 2019/20 (if the Social Care Precept were extended in 2020/21).
- 5.4. Faced with the equal highest percentage increase in Core Spending Power for the five-year period in 2020/21, **the government may therefore decide that there is headroom to take specific actions to reduce some of the grant funding outlined in table 3.1 if it allowed an additional year of Social Care Precept.** The critical question for local government would then be:
- Which grants might be reduced or removed? and
 - Which councils would any reductions or removals impact most?
- 5.5. This is impossible to predict, with some impacting Unitary and County Councils more and others impacting District Councils more.

Next steps

- 5.6. The government could still launch the process for an SR19 although given the current political hiatus this would make for a very late Spending Review relative to previous years and then decide whether to proceed with funding reform for local government. Alternatively, if the government signalled that there will be no SR this year then it would be expected that MHCLG would need to launch a consultation on its technical proposals for Settlement 2020/21.
- 5.7. It would be unsurprising if the route to be chosen by the government is not clear until after summer 2019.
- 5.8. LG Futures will provide a briefing once clarity on the route the government intends to follow becomes clearer.