



Lee Geraghty

lee.geraghty@lgfutures.co.uk
07738 000368

Provisional Local Government Finance Settlement 2020/21

20 December 2019

FINANCE WITH VISION

LG Futures Ltd., 11 Media Village, Liscombe Park, Leighton Buzzard LU7 0JL www.lgfutures.co.uk T. 01908 410811

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Separate Excel Workbook:

Appendix A: Local Authority Specific Tables

1. Introduction

1.1. On 20 December 2019, the Secretary of State for the Ministry for Housing, Communities and Local Government, Rt. Hon. Robert Jenrick MP, made a written statement to Parliament on the provisional local government finance settlement 2020/21. This briefing provides a summary of the provisional settlement, with the supporting appendix showing your individual authority figures.

1.2. The note is split into four sections, these being:

- Main Points
- Local Government Funding – Nationally
- The Provisional Settlement – Your Authority
- Next Steps

Main Points

1.3. The 2020/21 local government finance settlement is for one year only. It is based on the Spending Round 2019 funding levels, with individual authority allocations based upon Spending Review 2015 and subsequent funding announcements.

1.4. Within Spending Round 2019 and the subsequent local government finance settlement technical consultation, information regarding 2020/21 funding allocations was provided. The provisional settlement confirms these previous announcements, the main points of which are set out below:

- **Council Tax** – As previously announced at Spending Round 2019, the council tax referendum limit will be 2% for local authorities with social care authorities allowed a 2% social care precept. The provisional settlement confirmed districts will be allowed to apply the higher of the referendum limit or £5.
- **Business Rates Retention** – The three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff / Top Up amounts) have all increased by 1.63%, in line with the September 2019 CPI inflation figure.
- **Revenue Support Grant** - As outlined in the technical consultation, RSG (for those authorities that still receive RSG in 2019/20) has increased in line with the Business Rates Retention system (+1.63%).
- **New Homes Bonus** - The 2020/21 allocations have been announced. These will be paid with the legacy payments due from previous years (2017/18 to 2019/20). As previously announced, there will be no legacy payments for the 2020/21 in year allocations. The deadweight of 0.4% was maintained, with an additional £7m added from departmental resources (total funding of £907m).
- **Top Up/Tariff Adjustments (Negative RSG)** – As in previous years, the government has decided to eliminate the negative RSG amounts.

- **Social Care Funding** – Originally announced at Spending Round 2019, with further details provided in the technical consultation, the provisional settlement confirms the previously proposed national amounts and allocation methodologies.
- **Rural Services Delivery Grant** – The 2020/21 allocation of £81m and methodology for distribution remain unchanged from 2019/20.
- **Business Rates Pilots** – As expected, no new business rates pilots were announced for 2020/21, with all areas (aside) from the original 2017/18 pilot areas reverting back to the 50% scheme. The 2017/18 pilot areas are to remain at 100%, or 37% for the Greater London Authority.

1.5. The provisional settlement figures for your authority are set out in Appendix A.

2. Local Government Funding – Nationally

Background

- 2.1. The 2020/21 provisional finance settlement represents the eighth year in which the Business Rates Retention (BRR) scheme is the principal form of external local government funding. As in previous years, the provisional settlement provides authorities with a combination of provisional grant allocations and their baseline figures within the BRR scheme.
- 2.2. The provisional figures are expected to be confirmed in late January 2019 (within the final settlement announcement). The 2020/21 announcement is the first and only year of the Spending Round 2019, with future years' announcements dependent on a number of factors, including: Spending Review 2020, the outcome of the Fair Funding Review, the BRR Reset, the move to 75% BRR and any reform of the New Homes Bonus scheme.
- 2.3. Further details on the main announcements made are set out below.

Core Spending Power - Overall

- 2.4. The National Core Spending Power figures for the period 2015/16 to 2020/21 are shown in Table 2.1 below. It shows an increase of 6.3% for 2020/21 and an overall change for the period 2015/16 to 2020/21 of 10.0%.

Table 2.1 Core Spending Power figures for England 2015/16 to 2020/21

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	£m	£m	£m	£m	£m	£m
Settlement Funding Assessment	21,250	18,602	16,633	15,574	14,560	14,797
Under-indexing business rates multiplier	165	165	175	275	400	500
Council Tax	22,036	23,247	24,666	26,332	27,768	29,370
Improved Better Care Fund	-	-	1,115	1,499	1,837	2,077
New Homes Bonus	1,200	1,485	1,252	947	918	907
Rural Services Delivery Grant	16	81	65	81	81	81
Transition Grant	-	150	150	-	-	-
Adult Social Care Support Grant	-	-	241	150	-	-
Winter pressures Grant	-	-	-	240	240	-
Social Care Support Grant	-	-	-	-	410	1,410
Core Spending Power	44,666	43,730	44,296	45,098	46,213	49,142
Change %		-2.1%	1.3%	1.8%	2.5%	6.3%
Cumulative change %		-2.1%	-0.8%	1.0%	3.5%	10.0%

2.5. The provisional settlement figures for your authority are set out in **Appendix A**.

2.6. Table 2.2 below shows the change in funding compared to 2019/20.

Table 2.2 Change in 2020/21 Core Spending Power figures compared to the 2019/20 Final Settlement

	2019-20	2020-21	Change
	£m	£m	£m
Settlement Funding Assessment	14,560	14,797	237
Under-indexing business rates multiplier	400	500	100
Council Tax	27,768	29,370	1,602
Improved Better Care Fund	1,837	2,077	240
New Homes Bonus	918	907	(11)
Rural Services Delivery Grant	81	81	-
Winter pressures Grant	240	-	(240)
Social Care Support Grant	410	1,410	1,000
Core Spending Power	46,213	49,142	2,929

2.7. The Table shows:

- An increase to the Settlement Funding Assessment of £237m and £100m for the under indexing of the business rates multiplier.
- An increase to the Council Tax amounts of £1,602m
- The additional £1bn of social care grant funding.

2.8. A breakdown of each of the Core Spending Power components is provided below.

Core Spending Power – Breakdown

2.9. The Core Spending Power amounts have been split across four areas:

- Settlement Funding assessment
- Council Tax
- New Homes Bonus
- Specific Grants

a) Settlement Funding Assessment - £14,797m in 2020/21

2.10. The Settlement Funding Assessment amount consists of three funding streams:

- (i) Business Rates Retention
- (ii) Revenue Support Grant
- (iii) Tariff/Top Up adjustment amounts

2.11. An explanation of the issues relating to each of these elements is provided below.

(i) Business Rates Retention

2.12. In terms of the figures announced at provisional settlement, the business rates retention system has remained stable since its launch in 2013/14. In each subsequent year, unless part of a pilot, the safety net level has remained at 92.5% of baseline need, the levy ratio has remained at 1:1 (with a maximum levy of 50%) and all three headline amounts (Baseline Need, Business Rates Baseline and Top Up/Tariff amounts) have increased in line with inflation (or an adjusted version of it).

Business Rates Retention: Inflation

2.13. Since 2018/19, the September CPI inflation figure has been the basis of determining the annual increase to the business rates multiplier; previously the RPI figure was used. In order that this change remained revenue neutral for local government, there has been an offsetting increase to S31 grant payments. This is through the additional line on the Core Spending Power figures "Compensation for the under indexation of business rates", which also includes funding for previous years' caps on the RPI increases. This compensation amount is still included for 2020/21.

2.14. The proposed increase to the small business rates multiplier for 2020/21 is 1.63%, increasing it from 49.1p to 49.9p. This is also reflected in the increase to NNDR Baselines, Baseline Need and Top Up / Tariff amounts.

2.15. The multiplier for the Under-Indexing Business Rates Multiplier has increased from 16/491 in 2019/20 to 20/499 in 2020/21 (taken from the 2020/21 NNDR1 form). This suggests that not only have they increased the adjustment for the historic changes (which we calculated would have only required 17/499) but also for what would have been the RPI rate in September (of 2.4%).

2.16. This is positive for local government, given the intention to use CPI had been announced, and therefore we expected the RPI-based compensation to cease. The additional compensation (the use of 20/499 instead of 17/499) is worth approximately an additional £75m to local authorities in 2020/21.

(ii) Revenue Support Grant Allocations

2.17. As indicated in the provisional settlement technical paper, the 2020/21 RSG amounts have

been determined using 2019/20 amounts plus the September CPI inflation increase of 1.63%.

(iii) Top Up/Tariff Adjustments (Negative RSG)

- 2.18. These adjustments were first introduced in the 2016/17 provisional settlement. They reflected the need to remove funding from authorities (due to the Spending Review 2015 funding reductions) that no longer had Revenue Support Grant.
- 2.19. Due to the approach taken in making the reductions, the top up/tariff adjustments tended to hit high taxbase/high tax rate authorities, with an increasing number being affected each year from 2017/18 to 2019/20. However, at the 2016/17 final settlement, the adjustments up to and including 2018/19 were removed, with the 2019/20 amounts removed at the 2019/20 provisional settlement.
- 2.20. As previously proposed in the provisional settlement technical consultation, the negative RSG amounts have been eliminated for 2020/21.

b) Council Tax - £29.4bn in 2020/21

(i) Referendum limits

- 2.21. For 2020/21, there will continue to be differential limits that will trigger the need for a council tax referendum.
- 2.22. A referendum limit of up to 2% for all authorities except Shire Districts and Mayoral Combined Authorities. For district councils, as in previous years there will be additional flexibility, with increases of less than 2% or up to and including £5 (whichever is higher) above the authority's relevant basic amount of council tax for 2019/20 can be made without triggering a referendum.
- 2.23. There will be no council tax referendum principles set for Mayoral Combined Authorities.

(ii) Social Care Precept

- 2.24. The introduction of a social care precept was originally announced at SR2015. In the 2016/17 local government finance settlement, the government confirmed that there would be a 2% social care precept and that this would be available for four years up to 2019/20. The 2017/18 settlement altered the annual limit to 3%, but with a total increase of 6%, for the period 2017/18 to 2019/20. For 2020/21, a social care precept of 2% is allowed.

(iii) Town and Parish Councils

- 2.25. Parish councils will continue not to be subject to the referendum limits. As in previous years, the government has indicated it will keep this approach under review for future years.

c) New Homes Bonus - £907m in 2020/21

2.26. The New Homes Bonus allocations for 2020/21 have been announced and can be found by [clicking here](#). The Core Spending Power figures for 2020/21 include these allocations.

2.27. It is important to note that:

- The allocations are provisional and subject to local authority checks;
- The overall allocation for each authority is based on the legacy payments for 2017/18 to 2019/20 plus the 2020/21 allocation;
- As previously announced, the 2020/21 “in year” allocations will not have future years legacy payments;
- The deadweight for 2020/21 in year allocations remains at 0.4%;
- An additional £7m has been added to the £900m of funding, in order to allow the deadweight to remain at 0.4%; and
- The ministerial statement announced a Spring 2020 consultation on the future of the scheme, stating that *“It is not clear that the New Homes Bonus in its current form is focused on incentivising homes where they are needed most”* and the consultation will *“include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance”*.

2.28. Table 2.3 below shows that the “in-year” allocation for 2020/21 of £284m; this reduces the overall cost of the scheme to £11m, compared to £918m in 2019/20. It also shows the in-year allocation of £284m is the highest, since 2017/18 when the 0.4% deadweight was introduced.

Table 2.3 National New Homes Bonus Allocations

	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Prior Years	1,030	545	295	
2017/18	197	197	197	197
2018/19		204	204	204
2019/20			222	222
2020/21				284
Total	1,227	946	918	907

d) Specific Grants £3.6bn

2.29. Details of the Specific grants within the Core Spending Power are set out below and summarised in Table 2.4. Table 2.4 shows the 2019/20 levels, the changes previously announced, and the 2020/21 amounts announced at the provisional settlement. The table shows there are no changes from those amounts previously announced.

Table 2.4 Specific Grant allocations within the Core Spending Power 2020/21

	2019-20	SR19	2020-21
	£m	£m	£m
Improved Better Care Fund	1,837	240	2,077
Winter Pressures Grant	240	-240	0
Social Care Support Grant	410	1,000	1,410
Rural Services Delivery Grant	81	0	81
Total	2,568	1,000	3,568

- 2.30. **Winter Pressures Grant.** In 2019/20, £240m of additional funding was provided to councils to spend on adult social care services to alleviate winter pressures on the NHS. This was allocated using the existing Adult Social Care Relative Needs Formula. The funding was ringfenced to support the NHS in dealing with Winter Pressures and pooled into the Better Care Fund. For 2020/21, the winter pressures funding has been incorporated into the Improved Better Care Fund line and must therefore form part of local authorities' contribution to the BCF.
- 2.31. **Improved Better Care Fund.** In 2019/20, £1,837m was allocated through the Improved Better Care Fund. This amount remains the same for 2020/21. The overall amount within the Core Spending Power now includes the £240m Winter Pressures Grant Funding (previously shown separately).
- 2.32. **Social Care Support Grant.** In 2019/20, £410m of additional (non-ringfenced) funding was allocated for use for adult and children's social services. This was allocated using the existing Adult Social Care Relative Needs Formula will also be used to distribute this Social Care Support Grant funding. For 2020/21, as announced in Spending Round 2019, an additional £1bn of funding was added to this grant.
- 2.33. The additional £1bn has been allocated as per the technical consultation, this being:
- £850m to be allocated using the Adult Social Care Relative Needs Formula, as per the existing Social Care Support Grant (i.e. the £410m allocated in 2019-20); and
 - £150m to equalise the impact of the distribution of the adult social care council tax precept, using the current Improved Better Care Fund equalisation methodology.
- 2.34. **Rural Services Delivery Grant.** For 2020/21, the funding amount (£81m) and methodology for distribution remain unchanged from 2019/20, though in light of the responses to the Technical Consultation it seems likely that the Government will review the allocation method in future.

Wider Local Government Funding Issues

2.35. A summary of wider local government funding issues is set out below.

(i) Queens Speech & Business Rates Retention

2.36. In the Queen's Speech (19 December 2019) it was announced that there would be:

- A fundamental review of business rates - *LG Futures* - *Whilst any change in how business rates is determined would alter the ability of each authority to collect business rates locally, local authority gains or losses from any change would not be expected i.e. as with revaluations, NNDR Baseline, and therefore Top Up / Tariff amounts would be adjusted to offset changes in the amount collected.*
- An increase to the retail discount relief (from 33% to 50%) and extension of this to cinemas and music venues, with extensions to pub and relief local newspaper relief planned. *LG Futures* - *It is expected that the lost business rates income from these new / higher reliefs announced will be, as per previous changes, offset by increased s31 grant payments.*
- The Government restated its commitment to a review of the business rates system and to move to three-yearly revaluations, beginning in 2021. *LG Futures* – *The 2017 revaluation saw adjustments to top up / tariff amounts to offset the changes in RV locally. This made the initial impact of revaluation revenue neutral locally. However, as appeals on the new RV amounts are paid for locally (and are not uniformly distributed) the impact of revaluation 2017 will not be equal across local authorities. It remains to be seen if appeals are nationalised (the government's hope) as part of any reform of the business rates retention system, for Revaluation 2021.*

(ii) Pooling

2.37. There are 27 local authority areas that have applied to pool in 2020/21. It is understood that MHCLG has confirmed by letter to Pools of the usual 28-day cooling off period to determine if they wish to proceed with their pool for 2020/21.

(iii) Business Rate Pilots

2.38. The original 100% pilot areas from 2017/18 will continue for 2020/21; these areas being:

- *Liverpool City Region*
- *Greater Manchester*
- *West of England*
- *Cornwall*
- *West Midlands*

2.39. The GLA will also continue to be a pilot area, potentially within the planned London Pool (at 67% local share, the GLA retaining 37% instead of receiving RSG and the TfL Capital Grant), and the London Billing Authorities reverting back to a 30% share, as per the original BRR scheme.

2.40. The 15 pilot areas for 2019/20 (at 75%) will revert to 50% local share for 2020/21; these being:

- | | |
|---------------------------|-----------------------------------|
| ➤ <i>Berkshire</i> | ➤ <i>North and West Yorkshire</i> |
| ➤ <i>Buckinghamshire</i> | ➤ <i>North of the Tyne</i> |
| ➤ <i>East Sussex</i> | ➤ <i>Solent</i> |
| ➤ <i>Hertfordshire</i> | ➤ <i>Somerset</i> |
| ➤ <i>Lancashire</i> | ➤ <i>Staffordshire and Stoke</i> |
| ➤ <i>Leicestershire</i> | ➤ <i>West Sussex</i> |
| ➤ <i>Norfolk</i> | ➤ <i>Worcestershire</i> |
| ➤ <i>Northamptonshire</i> | |

(iv) Dedicated Schools Grant

2.41. In September 2019, the Secretary of State for Education announced that Dedicated Schools Grant (DSG) funding for 2020/21 would rise by £2.6bn, plus £1.5bn to fund additional pension costs for teachers. Announcements followed in October confirming various elements and provisional allocations. The Government have now announced updated calculations reflecting the latest pupil numbers (using the January and October 2019 census data). Each local authority will, as usual, receive funding in four blocks, all of which have now been confirmed for 2020/21 (prior to recoupment of funding for Academies, which will be finalised in the coming months):

- Schools Block - Each local authority will receive a minimum of a 1.84% per pupil funding increase. The allocations also meet the Conservative Manifesto commitment to provide at least £5,000 for every secondary school pupil, and £3.750 per primary pupil. Local authorities will now also be required to deliver these per pupil rates to schools in local funding formulae (though many areas' rates are already at this level, and authorities may, in exceptional circumstances, apply for disapplication for affordability reasons).
- Early Years Block – allocations announced this week, following rates confirmed in October.
- High Needs and Central Services Block – as announced in October 2019, updated for pupil numbers.

2.42. The allocations and supporting documents can be found [here](#), the details of the requirement to pass minimum funding levels to schools can be found [here](#).

(v) Independent Living Fund

- 2.43. Following the closure of the Independent Living Fund (ILF) in June 2015, the government agreed to continue funding pre-existing ILF arrangements until the end of 2019/20, through the Former ILF Recipient Grant. The ministerial statement confirmed that the former ILF Recipient Grant will continue to be paid to local authorities in 2020/21.
- 2.44. The total value of the grant in 2020/21 will be maintained at the 2019/20 value of £161m, with the same approach to individual local authority allocations. Details are to be published shortly.

(vi) Levy / Safety Account

- 2.45. In the 2019/20 provisional (and final) settlement there was an additional £180m of funding allocated from the Business Rates Retention levy/safety net account (leaving £15m in the account). This was allocated via the 2013/14 Settlement Funding Amount allocations. This funding was not included in the Core Spending Power figures for 2019/20.
- 2.46. The levy account following the 2018/19 NNDR3 process is expected to have a surplus of approximately £58m. However, there is no mention of this being allocated within the provisional settlement papers. It therefore remains to be seen whether it all be added for the final settlement (and if so how) or retained in the account.

(vii) Local Government Funding Reforms

- 2.47. There were 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).

3. The Provisional Settlement – Your Authority

3.1. The provisional settlement figures for your authority are shown in **Appendix A** (excel spreadsheet). The figures for your authority can be accessed via the drop-down menu at the top of the sheet.

3.2. An explanation as to what each of the tables show within Appendix A is set out below.

Core Spending Power

3.3. Chart 1 and Table 1 show the Core Spending amounts for your authority for the period 2019/20 to 2020/21.

3.4. Chart 2 compares your authority's Core Spending Power change against comparator groups.

Settlement Funding Assessment

3.5. Chart 3 and Table 2 show the Settlement Funding Assessment amounts for your authority.

Business Rates Retention

3.6. For the period 2019/20 to 2020/21, Table 4 shows your authority's:

- Baseline Funding level (i.e. amount of funding received if business rates are collected at the target level)
- Baseline Business Rates amount (i.e. target amount to be collected)
- Tariff/Top Up amount
- Levy rate % (i.e. amount of levy paid on the local share of business rates collected above the target amount)

3.7. Table 5 shows the safety net threshold and the percentage reduction in business rates (compared to baseline business rates amount) that would need to occur to reach the safety net threshold for 2020/21.

4. Next Steps

4.1. The consultation document can be accessed [here](#). It contains the following questions:

Question 1: Do you agree with the government's proposed methodology for the distribution of Revenue Support Grant in 2020-21?

Question 2: Do you agree with the government's proposal to eliminate negative RSG?

Question 3: Do you agree with the proposed package of council tax referendum principles for 2020-21?

Question 4: Do you agree with the government's proposals for the Social Care Grant in 2020-21?

Question 5: Do you agree with the government's proposals for iBCF in 2020-21?

Question 6: Do you agree with the government's proposal to fund the New Homes Bonus in 2020-21 with the planned £900m from Revenue Support Grant, with additional funding being secured from departmental resources, and to allocate the funds in line with previous years but with no legacy payments?

Question 7: Do you agree with the government's proposed approach to paying £81m Rural Services Delivery Grant in 2020-21 to the upper quartile of local authorities, based on the super-sparsity indicator?

Question 8: Do you have any comments on the impact of the proposals for the 2020-21 settlement outlined in this consultation document on persons who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide evidence to support your comments.

The consultation can be responded to using the response form included with the consultation.

The deadline for responses is 11.45pm 17 January 2020.

Alternatively, responses can be made as follows:

Emailed to: LGFsettlement@communities.gov.uk

Posted to Local Government Finance Settlement Team

Ministry of Housing, Communities and Local Government

2nd floor, Fry Building

2 Marsham Street

London SW1P 4DF

Enquires should be made to:

Email: lgfsettlement@communities.gov.uk

LG Futures' Support

4.2. LG Futures is also able to:

- Provide support to local authorities to analyse the local implications of the finance settlement;
- Support authorities in the completion of their NNDR1 form; and the provision for appeals;
- Provide further interpretation of the settlement through our forthcoming funding events (dates and a web link to book onto events are provided below).

7 January - York

8 January - London

9 January - Winchester

14 January - London

15 January - Exeter

16 January – Birmingham

21 January – Manchester

Places can be booked at <https://bookwhen.com/lgfuturesjan2020events>

4.3. If you have any queries about this note or for further information about our support, please contact Lee Geraghty at lee.geraghty@lgfutures.co.uk or by telephoning 07738 000368.

Limitations

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