



## **MEDIUM TERM FINANCIAL STRATEGY 2021/22–2024/25 – SPENDING REVIEW UPDATE**

### **1 INTRODUCTION**

**1.1** The Chancellor of the Exchequer, Rishi Sunak, announced the one-year Spending Review 2020 on Wednesday 25 November 2020. The Spending Review contains a large number of measures in response to the financial impacts of the Covid-19 pandemic that relate to local government. The purpose of this Supplementary Appendix is to provide an update on some of these developments and their potential impact on the Council. At this stage, details are limited in some areas and all of these measures will be outlined in more detail in further guidance and the Provisional Local Government Finance Settlement, which is now expected to be announced in the week commencing 14 December 2020.

### **2 COVID-19 FUNDING**

#### **2.1 Covid-19 Support Funding**

Covid-19 support funding in respect of local authority expenditure pressures has been extended to cover quarter 1 of 2021/22. Nationally, £1.55bn has been allocated to fund this. Allocation methodology is still being considered and MHCLG are considering targeting and prioritisation. It is difficult to predict at this stage what the allocation to the Council might be, as previous tranches have prioritised different service areas and tiers of local government.

#### **2.2 Sales, Fees, and Charges Lost Income Reimbursement Scheme**

This scheme involves a 5% deductible rate, whereby councils will pay the first 5% of all lost planned sales, fees and charges income, with the government compensating them for 75p in every pound of loss thereafter. The purpose of the 5% deductible is to account for an acceptable level of volatility, whilst shielding authorities from the bulk of losses.

In 2020/21, it is currently estimated that the Council will receive around £3.033m in compensation under this scheme. The scheme is now being extended into the first quarter of 2021/22. At present, the key unknown regarding the scheme is what the baseline figures will be that income loss will be compared against – for the current year it was 2020/21 budgets. MHCLG will issue further guidance.

#### **2.3 Leisure Centres**

The Department for Culture, Media, and Sport (DCMS) has been continuing to develop a compensation scheme in respect of local authority leisure centres which are operated by third parties, and £100m has been allocated nationally for this. It is anticipated that there

will not be formula-based allocations under this scheme and that there will be a bidding process in December.

## **2.4 Homelessness and Rough Sleeping**

Nationally, additional funding of £254m has been announced to reduce homelessness and rough sleeping, although £103m of this had been previously announced earlier this year in respect of accommodation and substance misuse support.

## **2.5 Regeneration of Towns and Communities**

The government is supporting the regeneration of towns and communities by targeting further investment including the following:

- A new Levelling Up Fund worth £4 billion for England. This will invest in local infrastructure that has a visible impact on people and their communities and will support economic recovery. This new cross-departmental Fund for England will invest in a broad range of high value local projects up to £20 million, or more by exception, including bypasses and other local road schemes, bus lanes, railway station upgrades, regenerating eyesores, upgrading town centres and community infrastructure, and local arts and culture. It will be open to all local areas in England and prioritise bids to drive growth and regeneration in places in need, those facing particular challenges, and areas that have received less government investment in recent years. The Spending Review makes available up to £600 million in 2021-22. The government will publish a prospectus for the fund and launch the first round of competitions in the New Year.
- Supporting the long-term regeneration of 167 towns across England to increase jobs, deliver growth and improve living standards through the Towns Fund.
- Supporting places, such as former industrial areas, deprived towns and coastal communities, by setting out what the UK Shared Prosperity Fund (UKSPF) will invest in and how it will be targeted.
- Delivering 10 Freeports across the UK – at least one in each of England, Scotland, Wales and Northern Ireland – to bring jobs, investment and prosperity to some of the most deprived communities. The programme aims to establish Freeports as national hubs for global trade and investment across the UK, promote regeneration and job creation and create hotbeds for innovation

## **3 COUNCIL TAX AND BUSINESS RATES**

### **3.1 Collection Fund Deficits**

Detailed proposals for changing the accounting treatment of the 2020/21 collection fund deficits have been previously confirmed in Regulations, and Collection Fund deficits will be spread over the next three years, as already reflected in the draft MTFS.

### **3.2 Tax Income Guarantee Scheme**

The Tax Income Guarantee Scheme will fund 75% of unrecoverable losses in both business rates and council tax. The Treasury has estimated that the cost of the scheme will be £762m (£255m in each of the next 3 years) which is substantially lower than 75% of the £3.1bn tax-income losses that have been reported in the returns to MHCLG reported in 2020/21. MHCLG are working on this and there will be some guidance issued on how to assess 'irrecoverable' losses. MHCLG are hoping to use existing data collections, and it is hoped that Guidance will be issued before the Provisional Settlement. Defining unrecoverable tax might be difficult, but authorities should be able to budget on the basis that 75% of unrecoverable losses will ultimately be funded. This measure could have implications for the calculation of

the council tax base for 2021/22 as it could influence the amount that needs to be provided for bad debts in the tax base.

### **3.3 Council Tax Support**

£670m additional grant funding has been announced to help councils in respect of council tax support. It is possible that this will provide support to authorities in respect of the impact on council tax bases arising from increased Local Council Tax Reduction Scheme (LCTRS) reliefs. It is understood that further details will be announced and consulted on in the Provisional Settlement.

### **3.4 Council Tax Referendum Limits**

In 2021/22, local authorities will be given greater council tax flexibility. The core referendum threshold will remain at 2% (with district councils able to increase by the higher of £5 or 2%). Police and crime commissioners will be able to increase their precept by £15. Social care authorities will be able to apply a further 3% increase (5% in total). Details of how the council tax principles will be applied will be set out in the Provisional Settlement.

### **3.5 Business Rates and Business Rates Reliefs**

As previously reported, there will no reset of the Business Rates Retention system and implementation of the Fair Funding Review in 2021/2.

The small business rate multiplier is usually indexed using the September Consumer Price Index (CPI), which was 0.55% in September 2020. However, the Government has announced in SR 2020 that it will freeze the multiplier in 2021/22, and local authorities will be compensated by way of Section 31 grants.

There was no announcement in SR 2020 about the Expanded Retail Discount supporting retail, hospitality and leisure businesses, although tables in the Spending Review documents confirm that there is no funding for continuing the expanded discount into 2021/22. This does raise concerns about the collection of business rates in 2021/22 as these reliefs have been a significant support in 2020/21, amounting to around an additional £30.7m in ESC. However, a decision about reliefs will be taken in the New Year to respond to the “evolving challenges presented by COVID-19”

## **4 OTHER DEVELOPMENTS**

### **4.1 New Homes Bonus (NHB)**

There has been considerable uncertainty regarding NHB as the consultation on the future of NHB and potential alternative incentives for the provision of new housing has been postponed. There will now be a one-year only round of NHB funding (year 11), so the total payments of NHB to be received in 2021/22 will be two legacy payments in respect of years 8 and 9, and one payment in respect of year 11. Under the current system, NHB allocations are based on growth in the number of properties between this year and last year as shown on the council tax CTB1 forms, and an allocation is payable over a growth threshold of 0.4%. However, the Covid-19 pandemic has clearly affected house completions this year, and current estimates suggest that, using this methodology, the council’s year 11 allocation could be as low as around £25k, as these forms indicate growth of only 0.42% over the past year. More detail on NHB allocations will be available as part of the Provisional Local Government Finance Settlement, including whether the 0.4% threshold will be maintained

for the year 11 allocation. The MTFS does not assume any new NHB allocations in 2021/22 in addition to the residual legacy payments.

#### **4.2 Revenue Support Grant (RSG) and Rural Services Delivery Grant (RSDG)**

The 2020/21 Local Funding Settlement will now effectively roll forward into 2021/22 which means that Council can expect RSG and RSDG of around £330k and £250k respectively. These grants are not currently allowed for in the draft MTFS.

#### **4.3 Public Sector Pay**

The Public Sector pay freeze announced by the Chancellor does not apply directly to local authorities, as the Government has no formal role in the decisions around annual local government pay increases which are developed through negotiations between the LGA and the relevant trade unions. The LGA's calculations around the affordability of pay increases take full account of the financial settlement given overall to local government but this is not the only factor involved. The draft MTFS continues to assume pay awards of 2% for 2021/22 onwards.

#### **4.4 Digital Connectivity and Local Government Cyber Security**

Over £260 million has been announced for transformative digital infrastructure programmes, including the Shared Rural Network for 4G coverage, Local Full Fibre Networks, and the 5G Diversification and Testbeds and Trials Programmes, and £1.2 billion has been announced to subsidise the rollout of gigabit-capable broadband, as part of the Government's £5 billion commitment to support rollout to the hardest to reach areas of the UK. The underlying core settlement for local authorities in 2021/22 also includes providing £16 million to support modernisation of local authorities' cyber security systems

#### **4.5 Flooding and Coastal Erosion**

A doubling of flood and coastal investment across England investing £5.2 billion over six years has been announced, including a £200 million six-year flood and coastal erosion resilience innovation programme which will support over 25 local areas to take forward wider innovative actions that improve their resilience to flooding and coastal erosion, and up to £155 million to accelerate 22 shovel-ready flood defence schemes announced earlier this year.

### **5 CONCLUSION**

There is a considerable amount of detail outstanding regarding the announcements in the Spending Review, which it is expected will be clarified over the coming weeks, and in the Provisional Local Government Finance Settlement. Overall, the measures in the Review are very welcome developments to local authorities and address, at least in part, a range of the expenditure and income impacts on the Council for the remainder of 2020/21 and 2021/22.