

Budget Update for OSMC – 14 January 2021

Introduction

1. At its meeting on 10 December, the OSMC requested an update on the budget be tabled at its next meeting on 14 January 2021.
2. Subsequently, the 2021/22 provisional settlement was announced on 17 December 2020. The settlement is provisional and subject to a consultation period which ends on 16 January 2021. A final settlement is then expected in February. This report focuses on updating the budget for the details within the provisional settlement, which will be a key part of the council's funding for 2021/22.

Background

3. The provisional settlement largely confirms the announcements in the November 2020 Spending Review (SR2020). Key messages are as follows:
 - Confirmation of a 2% council tax limit before a referendum applies for 2021/22, but with permission for social care authorities to continue to raise additional funding through up to a 3% social care precept;
 - New Lower Tier Services Grant that was not announced in the Spending Review;
 - Confirmation of the detailed allocation for major grants such as the COVID-19 support and support for Social Care in 2021/22.
 - A scheme to fund 75% of 'irrecoverable losses' from 2020/21 in council tax and business rates was announced in SR2020. This scheme will run in parallel to the requirement for billing authorities to spread their 2020/21 collection fund deficit over 3 years. Further details have been provided on this scheme in the settlement documents, which will need to be worked through.
4. The settlement includes no information on the national total for public health grant or any related individual local authority allocations.

Provisional Settlement – National Picture

5. Local government has received an average Core Spending Power (CSP) increase of 4.5% (£2.2Bn). Core Spending Power is a measure of the resources available to local authorities to fund service delivery, including grant funding from Government, the assumed funding from business rates and local council taxation.
6. However, a feature of the settlement is the increased reliance on increasing council tax. The local government financial consultants, Pixel Financial Management, estimate that approximately 87% of the increase in CSP is from council tax assumed increases rather than additional grant funding.
7. The settlement provides figures for 2021/22 only i.e. one year ahead. This makes longer term planning very difficult, especially as Government are planning changes to the system of business rate funding and also a 'Fair Funding Review' which will overhaul the method of distribution of funding to local authorities.

Provisional Settlement – Local Picture

8. A comparison of the provisional settlement to the estimated position assumed for Southampton for budget planning, and which underpinned the budget update report to Cabinet as reported on 15 December 2020, is provided in table 1 below:

TABLE 1: Provisional Settlement Announcement vs Draft Budget Assumptions

	Dec 20 settlement	Budget assumption	Difference
	£M	£M	£M
COVID-19 Local Authority Support Grant	7.82	7.80	0.02
Social Care Grant	8.45	8.16	0.29
Improved Better Care Fund	10.39	10.39	0.00
Revenue Support Grant and Top-Up Grant*	15.65	15.69	(0.04)
New Homes Bonus (NHB)	1.51	1.47	0.04
Lower Tier Services Grant	0.42	0.00	0.42
Totals	44.24	43.51	0.73

* **NOTE:** due to the freeze of the business rates multiplier £0.02M inflation uplift will be via section 31 grant instead

9. The total gain, when compared with the funding assumption included within the draft budget submitted to Cabinet in December 2020 is therefore £0.75M, representing £0.73M in the above table and supplemented by £0.02M extra in Section 31 grants (which compensates the authority for Government decisions to hold down the national increase in business rates).
10. The Lower Tier Service Grant is a wholly new grant, which could not have been anticipated when drafting the budget submitted to Cabinet. It is worth £0.42M to Southampton City Council in 2021/22.
11. The settlement provides a notional figure for funding from local business rates, however, the actual figure is up to local authorities to estimate themselves, based on their local knowledge of the expected proceeds. This element of funding will therefore be confirmed after further work in January and will be particularly important given the uncertainty on business rates due to the economic fallout from COVID-19.
12. We will continue to monitor any further information and/or announcements from Government which may impact on the authority's funding for 2021/22. For example, no mention was made in the provisional settlement on the funding allocated to the Public Health Grant.
13. Furthermore, with Southampton moving into tier 4 for COVID-19 from 26 December, this will also impact on the funding support received from Government in the current year and may have implications for the 2021/22 budget. However, at the time of writing the full financial implications of this change remain unclear. A verbal update will therefore be provided at the Committee in the expectation announcements will be made early in the New Year, as well as any financial update relating to the new lock down measures just announced as of 4 January.

14. The budget gap remaining for 21/22, as reported in the December Cabinet paper was £3.97M. The additional funding arising from the settlement (at £0.75M) will lower this gap to £3.22M, all else being equal.
15. Further work during January will take place to reassess and review both the council tax base and the expected income from business rates. The work will be informed by any information from other councils to make the best estimate possible. All budget pressures will also be reassessed, particularly given the uncertainty around areas of council spending and income influenced by COVID-19.

Next Steps

16. The Cabinet will put forward its final proposals for the 2021/22 Budget, Medium Term Financial Strategy (MTFS) and Capital Programme at its meeting on 23 February 2021, taking into account feedback from the public engagement exercise which is underway.
17. Full Council will set the 2021/22 Budget and agree the Council Tax, MTFS and Capital Programme on 24 February 2021.