

Highways and Transport Committee

Supplementary Paper

Date: Thursday, 13th January, 2022

Time: 10.30 am

Venue: The Capesthorne Room - Town Hall, Macclesfield SK10 1EA

6. **Medium Term Financial Strategy 2022/23 - 2025/26** (Pages 3 - 8)

Please find attached Appendix 2 of the report which was marked to follow on the agenda.

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Appendix 2

Provisional Settlement: Impact on Pre-Budget Consultation

Overview

The Cheshire East Council Pre-Budget Consultation was launched prior to the Provisional Local Government Settlement, as has been the case in previous years. This means the impact of the settlement must also feature in the overall feedback received during the consultation period. This supports the development of the final MTFS presented to Council in February each year.

The announcement in Parliament, on 16th December, provided an indicative settlement for a three-year period, but only provided detailed, authority level, figures for a single-year. The settlement has therefore been analysed to identify the impact on the figures contained in the consultation document for 2022/23 only. Beyond that there is significant risk in forecasting the local impact of further planned reviews related to Fairer Funding, Business Rate Retention, Social Care Levy and Levelling Up.

Links to the spending review information are provided below:

- <https://questions-statements.parliament.uk/written-statements/detail/2021-12-16/hcws510>
- <https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2022-to-2023>

Nationally Core Spending Power (CSP) will increase by 6.9% in cash terms in 2022/23. This is approximately 4% in real terms, although inflation assumptions have increased. Council tax increases make up the bulk of increases in Spending Power, and Government assumes within the CSP figures that local authorities will apply the maximum council tax increases, and that taxbases will continue to grow. This assumption is consistent with the Council's consultation document which included 1.99% Council Tax increases annually with a further 1% each year as an Adult Social Care Precept. This contributes to a Cheshire East Council CSP increase of 6.07%.

The settlement provides increased government grants and a rollover of some existing grants that exceed the forecasts within the consultation document. Virtual briefings given in December 2021 alerted members to this likely positive outcome. It is unfortunate that the single-year nature of the settlement creates limited scope for sustainable change in the MTFS.

Local government received £1.5bn in additional funding overall, and around 40% of this funding increase has been identified as related to social care. This includes inflationary increases in Improved Better Care Fund, and additional Adult Social Care Support Grant. The balance is allocated through a new Services Grant. The Council consultation already provided for large increases in spending on both Children and Adult Social Care in the medium term to reflect forecast demand. The consultation did allow for limited additional grant income from the settlement, although this was partially offset by pending increases in National Insurance Contributions.

Table 1 (below) identifies the specific items included in the settlement and highlights where this varies to the Cheshire East Council consultation material.

In developing the final MTFS proposals for Council approval the additional grant income must be considered alongside emerging financial pressure related to the following issues:

- Large increases in utility costs and other, inflation related, expenditure
- Longer term impact of inflation, and costs of borrowing, to support the Capital programme
- Rising transport costs, particularly related to home to school transport
- Potential requirement to locally resolve deficits in Dedicated Schools Grant reserves
- Medium term COVID 'scarring'
- Overall reductions in future grants related to the pending review of the structures of local government funding.

The final item above is a risk emerging from current structures that reward local growth, such as New Homes Bonus and Business Rate Retention being reviewed against options that could focus on deprivation for example. This risk may have a material impact as Cheshire East Council already has a high tax base, below average deprivation levels and top-up to remove negative Revenue Support Grant allocations.

Table 1: The potential impact of the Announcements is mainly positive for the 2022/23 financial year

Area	Announcement (National position)	Budget Consultation Position CEC	Provisional Settlement Position CEC	Potential Impact in 2022/23 CEC
Council Tax				
Council tax.	DLUHC assumes every authority will increase Band D council tax by the maximum allowed (1.99% base and 1% ASC). In its CSP figures, DLUHC has assumed that the taxbase will increase in 2022/23 for each authority in line with their average taxbase increase between 2017/18 and 2021/22. This approach reflects actual recent changes in taxbase, which has rebounded quickly from the pandemic.	£254.7m	£254.7m	No Impact
Business Rates				
Baseline Funding Level (BFL)	BFL will be frozen in 2022/23 because the business rate multiplier will be frozen. A business rates baseline reset seems likely from 2023/24. Damping or transitional support should help to soften losses in funding.	£49.1m	£49.1m	No Impact
		(including: Cheshire East baseline of £42.5m + local growth in base since 2013/14 + use of S31 compensation grants for reliefs granted since the start of the Business Rates retention scheme)		
Compensation for under-indexing the multiplier	Compensation has been calculated based on the Consumer Price Index (CPI), which was 3.1% in September 2021. The final settlement will use Retail Price Index (RPI) – which in September 2021 was much higher, at 4.9%.	No estimate calculated	+£3.5m	Increases Collection Fund Reserve

Area	Announcement (National position)	Budget Consultation Position CEC	Provisional Settlement Position CEC	Potential Impact in 2022/23 CEC
£1.5bn COVID-19 Additional Relief Fund (CARF)	Allocations to authorities are based on rateable values adjusted for the impact of the pandemic. The effect of the pandemic has been expressed in terms of Gross Value Added (GVA). Only the rateable values for premises that are eligible for support are included within the methodology. Billing authorities will make discretionary relief awards to businesses based on a discretionary schemes.	No estimate calculated	+£8.9m	Increases support to local business rate payers
Grants				
Revenue Support Grant (RSG)	Inflation has been applied to RSG (£72m, 0.5%). This uplift is limited for authorities with “negative RSG”	Nil	£0.007m	+£0.007m
New Homes Bonus	A further year has been added, in addition to the legacy payment for Year 8. Overall cost of New Homes Bonus will be £554m, £68m less than in 2021/22. There will be no returned surplus in 2022/23, with the £346m surplus used to fund other grants within CSP.	£3.920m	£6.614m	+£2.694m
Lower Tier Services Grant	This grant was introduced in 2021/22 and is continued into 2022/23. The minimum cash guarantee element has been recalculated (cost reduces from £25m to £20m). Overall grant remains the same (£111m).	Nil	£0.353m	+£0.353m
Social care support grant	£636m will be added to the existing £1.710bn grants.	£7.979m	£11.341m	+£3.363m
Services Grant	This is a new one-off grant (£822m) that is distributed to every authority using the 2013/14 Spending Funding Assessment. It is equivalent to a 5.5% increase in SFA. The settlement papers make very clear that this is a one-off grant. It is likely to be replaced by the more radical changes to funding distribution that are promised for 2023/24.	£2.000m (estimated additional grant from Spending review)	£2.932m	+£0.932m* (*note two items below)
NI increase and NLW	Funding for increases in National Insurance Contributions, the National Living Wage, and pay awards is included within the settlement package, and effectively funded through the various grant increases. There will be no further funding for these pressures.	£0.814m	Nil	-£0.814m (to be funded from Services Grant)
Supporting Families (£40m) and Cyber Security (£12m)	These are new grants announced in SR21 but no allocations have been announced in the settlement.	Included within the £2.000m above	TBC	TBC (likely to be funded from Services Grant)
Rural Services Deliver Grant	No change in funding, not received by CEC	Nil	Nil	No Impact

Area	Announcement (National position)	Budget Consultation Position CEC	Provisional Settlement Position CEC	Potential Impact in 2022/23 CEC
Improved Better Care Fund (IBCF)	Inflation will be added to existing IBCF (£63m to £2.077bn). Spending must be agreed with NHS.	£8.500m	£8.706	+£0.206m
Funding for adult social care reforms	<p>Local authorities will incur additional costs from the reform proposals in two ways:</p> <ul style="list-style-type: none"> • Changes in the “cap” and capital limits • Market equalisation <p>There will be tax increases to fund the additional cost of these reforms. National Insurance Contributions (NICs) will be increased by 1.25% in April 2022. Of the additional tax income, £5.4bn will be allocated to social care, of which £3.6bn will be used to fund the cost of these social care reforms.</p> <p>An initial allocation (£162m) from the £3.6bn has been distributed through the settlement. The grant is focussed on market sustainability and Fair Cost of care, and the relatively small amounts reflect the assumption that costs will initially be relatively low in 2022/23.</p>	No estimate calculated as funding comes with new burdens	£0.979m	+£0.979m* (* impact of new burdens TBC)
Negative RSG	There will continue to be no adjustment for “negative RSG” (i.e. “negative RSG” continues to be funded for those authorities whose BFL is higher than their underlying SFA).	No impact included	Nil	No Impact
School Grants – CEC	<p>The standard update for October 2021 pupils and final figures has resulted in +£4.6m from the July 2021 position.</p> <p>There is also additional schools funding of £7.3m (intended to cover early years, post 16 AND 5 – 16 year olds). This is a provisional figure and will be confirmed in spring 2022. Allocations will be outside of the standard formula and on a per child basis. This brings additional complexity to the allocations.</p> <p>It is expected that the extra funding will be rolled into baselines.</p>	£250.1m	£262.0m	+£11.9m* (*Ringfence for DSG, and potential additional complexity burdens)
High Needs Grant CEC	<p>The basic allocation has increased by £0.7m over July 2021 figures. There is also additional high needs funding of £1.8m (CEC share of £325m). As above this will be paid separately and it is assumed this extra funding will be made permanent.</p>	£48.1m	£50.6m	+£1.5m* (*set against significant high needs funding shortfall)
DSG – Early Years and Central Block etc	<p>The Central block figure has increased by £20,000 to £2.5m compared to July 2021.</p> <p>Early years has been announced at £23.3m (no previous estimate released. 2021/22 figure is £23.2m). Some of the £7.3m extra for schools will also be paid to early years providers at £24 per pupil. That is not factored in here.</p>	£25.7m	£25.8m	+£0.01m

Area	Announcement (National position)	Budget Consultation Position CEC	Provisional Settlement Position CEC	Potential Impact in 2022/23 CEC
	Rates for pupil premium and the continuation of the extended rights for home to school travel grant have also been announced.			
Public Health	The settlement includes no information about the national total, or individual council allocations, of the public health grant for 2022/23	£16.929m	TBC	TBC* (* Ringfence remains on this budget)
Other				
Town and Parish Council precept levels	Ministers have not set a maximum precept increase and decided to defer setting any referendum principles for town and parish councils.			No impact
Consultation Period	There will be a four-week consultation period to 13 January 2022: https://www.gov.uk/government/consultations/provisional-local-government-finance-settlement-2022-to-2023-consultation			

Alex Thompson

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Cheshire East Council

January 2022

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