APPENDIX B

Liverpool City Council

Finance & Resources

Medium Term Financial Strategy 2021/22 to 2022/23

Contents Page

1. Overview

1.1 Purpose of the Document

1.1.1 The Medium-Term Financial Strategy (MTFS) provides a robust, consistent and sustainable approach to establishing and maintaining a stable and prudent financial basis on which improvement and transformation of the City Council's services can progress.

1.1.2 The MTFS looks to take into account the longer-term implications of the following:

- Forecast future resource levels for both revenue and capital;
- Relating service demands and priorities to forecast resource availability;
- Forecast impact of changes on both the demand for services and likely funding due to:
  - Global, national and local economic factors;
  - Demographic changes;
  - Technological advances;
  - Climate change;
  - New legislation; and
  - Policy initiatives by both the Government and the City Council.

1.1.3 The MTFS will also model alternative policies or proposals and will provide a financial framework within which priorities can be determined and business planning can proceed effectively. Further work continues to ensure that current financial resources continue to be aligned with the priorities set out in the City Plan.

1.1.4 In addition to the City Council's annual budget, there are a number of major strategy documents, which align to the MTFS including the Capital Investment Treasury Report incorporating the Capital and Investment Strategy, the Capital Programme, the Asset Management Plan and the Treasury Management Policy Statement.

1.2 Links to Corporate Priorities

1.2.1 The MTFS ensures that the City Council's finances are aligned with aims of the recently adopted City Plan. The overall vision set out in the City Plan is for a ***thriving, sustainable fair city for everyone***, with the following six key priorities; these being:

- **A healthy, happier, fairer Liverpool for all** - we will work together to tackle health inequalities and respond to what matters most to people in terms of improving their health and wellbeing across all stages of life – Starting Well, Living Well and Ageing Well.

- **People are educated to succeed throughout life** - children are ready for school and everyone has access to an inclusive, high quality education that enables them to live fulfilled, happy and productive lives. Employment prospects improve through lifelong learning and access to technical and professional skills.

- **Safe and thriving neighbourhoods** - all residents live in safe, inclusive and welcoming neighbourhoods, where people choose and aspire to live, raise their families and grow old. Public services are aligned with local need to reduce inequalities within the city.

- **A strong and inclusive economy** - a productive, innovative, sustainable and fair economy, where businesses thrive through nurturing talent from all communities and provide good jobs with fair pay, conditions and progression.

- **A low carbon, connected and accessible city** - a city with smart, clean, accessible and integrated infrastructure, where organisations, businesses and residents are all playing their part in responding to the climate emergency and speeding the city's transition to zero carbon.

- **The most exciting city in the UK** - Culture, sport and creativity is Liverpool's USP and makes the city attractive for residents, workers, visitors and investors.

1.3 Background

1.3.1 On 4 March 2020 the City Council set a balanced budget for 2020/21 taking budget savings decisions across Directorates to close a £29.332M budget gap. This brought the total approved budget savings to £449.8M over the ten-year period from 2010/11 to 2020/21. For 2021/22, a forecast budget gap of £26.119M was also reported as part of the 2020/21 Budget Report and Medium-Term Financial Strategy (MTFS). This budget gap was forecast to increase to £58.901M in 2022/23.

1.3.2 These forecasts were based on several assumptions including a 5% per annum cut in Settlement Funding Assessment (SFA), increases in the National Living Wage (NLW) and employee pay generally, and other assumptions around budget pressures and local taxation. These assumptions have been reviewed each month as part of the monthly Revenue and Capital Monitoring Reports and were revised following the Spending Review published on 25 November 2020. Report ref. DFR.40.20 identified a revised forecast budget gap for 2021/22 of £24.734M and this has now been revised further following the publication of the Local Government Finance Settlement for 2021/22 and estimation of the outturn on the Collection Fund for 2020/21 and of the tax bases for 2021/22 for both business rates and council tax.

1.3.3 Having agreed the Budget for 2020/21 and set out the forecasts for 2021/22 to 2022/23 on 4 March 2020, the situation began to change dramatically just over two weeks later, on 20 March, when formal lockdown measures began to be implemented across the UK in response to the global Covid-19 pandemic. This included the closure of schools, universities, non-essential retail, leisure and hospitality venues and restrictions on freedom of movement. People were encouraged to work from home where possible and all elite sporting events were postponed or cancelled. An 80% furlough scheme was introduced for those who were unable to continue working.

1.3.4 The national lockdown restrictions were eased from 10 May 2020 and on 30 July local restrictions began to be introduced followed by new national restrictions on 8 September (including the 'rule of six') following a resurgence of the virus. On 12 October a new three-tier lockdown system was introduced in England with Liverpool City Region being the first to be categorised in the highest tier 3, meaning that the area was in a very high state of alert.

1.3.5 The three-tier lockdown system was superseded by a second national lockdown from 5 November to 2 December although schools and universities remained open. This was followed by a stricter three-tier system which saw Liverpool City Region downgraded to tier 2 following a successful mass testing pilot.

1.3.6 However, the temporary easing of restrictions over the Christmas period was followed by a third national lockdown from 5 January 2021 which included schools and other education establishments not included in the second lockdown. This was in response to a new, more contagious variant of the Covid virus and to a worsening of the infection, hospitalisation and death rates. At the time of writing, the end date for the third national lockdown is still uncertain but restrictions are expected to be relaxed more gradually than following previous lockdowns with no regional variations.

1.3.7 The widescale lockdown and social distancing measures introduced to try and contain the Covid-19 virus have had a significant detrimental impact on the global economy and on the public finances of governments around the world. Demand for local government services has increased whilst anticipated income levels have fallen. The City Council's forecast spending plans for 2020/21 have been continually reassessed for 2020/21 and future years as the changes to the severity of the lockdown measures have had a differential impact on both expenditure and income.

1.3.8 The City Council is on target to spend an additional £90M on Covid-related pressures during 2020/21. In addition, income from sales, fees, charges and other commercial sources is forecast to be £30M less than budgeted. In total, the impact on the 2020/21 budget, before taking account of additional central government funding, is forecast to be £120M. Further income losses in relation to the collection of local council tax and business rates will impact in 2021/22 to 2023/24, as any deficit on the Collection Fund relating to 2020/21 will be phased over the next three years, as opposed to having to be factored into the budget for the following year only.

1.3.9 The figures above indicate the scale of the impact that the Covid pandemic has had on the City Council's finances and the impact is expected to continue into 2021/22 and beyond. Indeed, the Government has already recognised this by announcing a fifth tranche of Covid-19 Emergency Funding to cover anticipated costs in 2021/22. Liverpool's allocation is

£20.304M and this is in addition to the £59.545M already allocated for costs in 2019/20 and 2020/21.

1.3.10 The Government has also announced that the compensation scheme for lost Sales, Fees and Charges income arising from the pandemic and the associated enforced restrictions will continue to operate for the first quarter of 2021/22. In 2020/21 the City Council is estimating that it will receive £15.679M in compensation for lost income during the year.

1.3.11 The City Council has also estimated that it will receive £8.898M towards the 2020/21 deficit on the Collection Fund which will need to be funded in 2021/22 to 2023/24; and it has been allocated £8.239M in Council Tax Support Grant to help offset losses in Council Tax income due to anticipated increases in the number of Local Council Tax Support (LCTS) claimants in 2021/22.

1.3.12 In 2020/21 the City Council also received over £40M in other government grants and funding from the NHS towards specific Covid related initiatives such as testing and tracing, infection control, hospital discharges, support for vulnerable people, the homeless and those experiencing increased hardship, and for lockdown compliance and enforcement. In addition, the City Council has been allocated almost £200M in funding to be distributed to local businesses and over £124M in compensation for additional business rates reliefs awarded for 2020/21. It is not yet known if any of this funding will continue into 2021/22 and details may not be announced until the national Budget scheduled for 3 March 2021, the same day that the City Council is due to set its budget for 2021/22.

1.3.13 The Provisional Local Government Finance Settlement for 2021/22 was published on 17 December 2020. This was followed by a short period of consultation with the Final Local Government Settlement published on 4 February 2021. This will be covered in detail below.

1.4 National and International Influences

1.4.1 Local Government funding is subject to both national and international influences. These can have a significant impact on the level of services required to be provided and the ability of local authorities to provide them.

1.4.2 The global and national economic situation continues to be challenging in a number of areas. The financial crash of 2008 was followed by the deepest recession experienced in the UK, and much of the western world, since the Second World War. The initial recession reduced the size of the economy dramatically. Public spending rose from 38.9% of national income in 2007/08 to 44.9% in 2009/10 while tax revenues fell from 36.2% of national income to 35.0%. The immediate result was a deficit of £153 billion or nearly 10% of national income.

1.4.3 However, according to the Institute for Fiscal Studies (IFS), the most remarkable feature about the crisis and the recession that followed was not its initial scale but the persistence of its effects. While the economy had been growing for nine years, it had been growing only slowly by historic standards. The crisis precipitated what has proved to be a “big and permanent hit to the size and structure of the UK economy", according to the IFS.

1.4.4 In the UK, the recovery from the post-crash recession has been the slowest ever with official forecasts suggesting that GDP per person will be 24% lower in 2023 than it would have been if it had grown in line with pre-crisis trends. Total day-to-day spending on public services was still set to be 3% lower in real terms in 2020/21 than it was in 2010/11 (9% lower in per-person terms). Outside of the Department of Health and Social Care, spending was set to be 16% below 2010/11 levels (21% in per-person terms).

1.4.5 Historically, global economic recessions have tended to occur, on average, every ten years. Therefore, based on economic trends, a recession was anticipated in the early 2020's and there was already some concern that the ability of central banks to deal with any recession is limited due to the already historically low interest rates and ongoing quantitative easing measures. This was all before the onset of the global Covid-19 pandemic and consequent economic contraction that has accompanied the lockdown and other social distancing measures imposed by governments around the world.

1.4.6 The magnitude of the recession caused by the Covid-19 outbreak is unprecedented in modern times. UK GDP was 25% lower during the depth of the crisis in April 2020 than it was only two months earlier in February. For some context, this is over three times the 7% decline in GDP recorded during the financial crisis in 2008/09.

1.4.7 Economic activity picked up over the spring and summer, reflecting the opening up of the economy and pent-up demand from the first lockdown. This was followed by a further short-lived lockdown in November. GDP was 9% lower in November than before the pandemic.

1.4.8 As a new variant of the virus drove up Covid-19 infection rates in December, lockdowns were again introduced across the UK by early January 2021 in order to reduce the spread of the virus. This is expected to contribute to a fall in GDP in the first quarter of 2021.

1.4.9 Forecasts for GDP point towards a large decline in 2020. In the first half of December, HM Treasury surveyed investment banks, economic research organisations and other institutions for their GDP forecasts. The average forecast for 2020 GDP growth was -11.1% (compared with 2019). To provide some context, GDP fell by 4.1% in 2009 during the recession caused by the financial crisis.

1.4.10 The average forecast for GDP growth in 2021 was +5.4%, suggesting a relatively strong recovery is expected, though not enough to recover the lost ground of 2020. However, this was all before the announcement of the latest national lockdown.

1.4.11 Even when the economic shock of the pandemic does eventually dissipate, the crisis may result in lasting damage to, and/or structural shifts in, the economy. Some possible changes could include an increase in the prevalence of working from home and an acceleration of online commerce growth. This would impact on the long-term viability of commercial office and retail premises, especially in city centres and out of town retail parks. For local authorities it would reduce income from business rates and from some commercial investments.

1.4.12 The Covid outbreak is significantly affecting the UK Government public finances. Tax revenues are falling and government spending is increasing. The Government's budget deficit is expected to reach a peace time record in 2020/21. The measures the Government has taken to support businesses, workers and household incomes are likely to cost around £280 billion this year. The longer the crisis continues, the more the cost to government will rise.

1.4.13 In terms of the labour market, between March and November there has been an increase of 1.4 million people claiming unemployment related benefits. This represents more than double the total 1.2 million claimants in March 2020. Not all people on these benefits will be out of work, some will be low-paid workers falling below Universal Credit income thresholds. The true impact is only likely to be seen once the furlough scheme ends. A recent survey of businesses by the ONS suggests around 14% of employees were on furlough in the two-week period ending 27 December.

1.4.14 Another factor that could have a significant impact on some sectors of the UK economy is the recent ending of the transition period following the UK's exit from the EU. The implications of the trade deal agreed with the European Union (EU) are still being analysed by different business sectors, but the expectation is that there will be some disruption to cross border trade in the short to medium term.

1.4.15 These global and national economic challenges will impact on the level of public funding available to local government and other public services with government forced to make choices about which services to protect. These economic factors also create pressures on local communities, which in turn increase demand for local government services and place local sources of income at greater risk. Furthermore, the ability of the City Council to raise income from business rates and council tax will be impacted by the prevailing economic conditions. [*See section 5 for a list of references and links to further information*].

1.5 The City of Liverpool

1.5.1 According to the latest population projections from the Office for National Statistics (ONS), Liverpool's population is set to increase from 494,814 in mid-2018 to 556,994 in 2043. This represents an increase of 12.6% over the period and exceeds the growth forecast for England as a whole, which is set to increase by 10.3% by 2043.

1.5.2 This difference between projected national growth and growth for Liverpool is important because it means that Liverpool's population, as a proportion of the national total, will be increasing if these projections are borne out. This, in turn, has positive consequences for any revised relative needs assessment used to distribute government funding in the future, because population will undoubtedly be one of the key factors taken into consideration.

1.5.3 The projected rate of population growth for Liverpool compares favourably to that of the other English Core Cities. Only Bristol is projected to have higher growth than Liverpool (15.0%). Sheffield has projected population growth of 11.3% and for all of the other Core Cities it is below the England average.

1.5.4 Further analysis reveals that, for Liverpool, the projected growth in the population aged 75 and over is set to increase by 60.2% by 2043. This compares to growth for people aged 0 to 19 of 13.9% and growth of only 7.5% for those aged 20 to 64 by 2043.

1.5.5 The number of people aged 75 and over is projected to increase from 32,635 in 2018 to 52,266 in 2043 or from 6.6% of the total population to 9.4%. The number of people aged 65 and over is projected to increase by 32.4% from 72,608 in 2018 to 96,108 in 2043. This creates significant demand pressures for adult social care and health related services, community health and primary and secondary care.

1.5.6 In relation to comparative measures of deprivation, Liverpool remains one of the most deprived local authority areas in England, ranked 4th most deprived out of 317 authorities (*ONS - Indices of Deprivation 2019*). The Indices divide the country into Lower Super Output Areas (LSOA) and identify that 49% of Liverpool's 298 LSOA are in the 10% most deprived in the country, it should be noted that this is an increase on the 2015 figures when 45% were in the most deprived decile.

1.5.7 In terms of the local economy, there are 250,040 jobs in Liverpool where employees are recorded as being paid via the PAYE system. Of these, 60,135 are in the public sector (24%). Nationally (Great Britain) the proportion of public sector jobs is 17.2% and the average across the Core Cities is 20.5%.

1.5.8 In terms of business density, there were 462 businesses in Liverpool per 10,000 population (aged 16+). This is below the national average of 550 and the Core Cities average of 492. However, the picture in relation to business start ups and closures is more favourable. There were 103 business start ups per 10,000 population in Liverpool and 66 closures. This compares to 72 start ups nationally and 63 closures. For the Core Cities, the average is 82 start ups and 72 closures.

1.5.9 The number of benefit claimants as a proportion of the resident population aged 16 to 64 in Liverpool was 4.5% compared to only 2.9% nationally but in line with the Core Cities average of 4.3%. This is based on the number of people claiming Jobseeker's Allowance plus those who claim Universal Credit and are required to seek work and be available for work. 68% of the population, aged 16 to 64, are in employment in Liverpool compared to 75.6% nationally and 70.1% across the Core Cities.

1.5.10 Average weekly earnings in Liverpool are £556.50 (full time) and £203.90 (part time). The national (GB) average is £584.90 and £196.90. The average

Core Cities rates are £550.90 (full time) and £190.90 (part time). Full time pay in Liverpool would appear to lag behind the national average but is above the Core Cities average. Part-time pay in Liverpool is higher than both the national and Core Cities averages.

1.5.11 However, median household income in Liverpool is still low, £22,302 per annum, compared to £31,979 nationally and £26,889 for the Core Cities. [*See section 5 for a list of references and links to further information*].

1.6 Local Government Finance Settlement 2021/22

1.6.1 On 17 December 2020, the Provisional Local Government Finance Settlement for 2021/22 was published. The Final Settlement figures were published on 4 February 2021 and this MTFS incorporates the latest figures from the Final Settlement.

1.6.2 The planned Spending Review for Autumn 2020 was originally planned to cover at least three future years, determining how much funding would be allocated to individual government departments and therefore how much would be available for distribution to local government. However, due to the impact of the Covid pandemic and continued uncertainty about the trajectory it will follow in 2021/22 and future years, the Government has once again decided to postpone its longer-term review and issued a one-year Spending Review, covering 2021/22 only.

1.6.3 In addition to postponing the longer-term Spending Review, the government is also postponing the Review of Relative Needs and Resources (previously referred to as the Fair Funding Review), which will inform the Government's assessment of how much funding the City Council requires to deliver statutory services, relative to other authorities. It is also postponing the introduction of the proposed 75% Business Rates Retention System and the resetting of the baseline figures for retained business rates income that were first set in 2013/14. This means that the current 100% Business Rates Retention Pilot Scheme in operation across the Liverpool City Region since 2017/18 will continue for another year. In addition, the Government has also delayed any further announcements regarding the future long-term funding for social care.

1.6.4 As a result, the 2021/22 Local Government Finance Settlement is essentially a 'roll-forward' of the 2020/21 Settlement with some additional funding provided. The changes arising from the Settlement will be considered in more detail below.

Settlement Funding Assessment (SFA)

1.6.5 The SFA is comprised of Revenue Support Grant (RSG) and Baseline Funding under the Business Rates Retention System. The Baseline Funding is comprised of the Government's estimate of retained business rates plus or minus any Top-Up or Tariff.

1.6.6 The amount of income that each local authority can retain from business rates was first determined by the Government in 2012 and subsequently used to establish the baseline for the new Business Rates Retention System introduced in 2013/14. Since then, these baseline figures should have increased in line with the Retail Price Index (RPI) inflation rate as at September of the previous year. This should therefore be incorporated into the uplift in the business rate multiplier, which determines the total amount that can be raised from business rates nationally. The amount of any Top-Up or Tariff should also be uplifted each year in line with RPI as these simply represent a redistribution of business rates income nationally.

1.6.7 In practice, the business rates multiplier has not always been uplifted by the appropriate inflation rate and this means that the amount of income retained by local authorities and available for redistribution, is lower than it otherwise would have been. Local authorities are compensated for this "under-indexation" via a Section 31 grant each year. Likewise, where the Government has introduced or increased business rates reliefs that were not originally incorporated into the baseline figures in 2013/14, compensation for this "lost" income is also incorporated into the Section 31 Business Rates Compensation Grant. This grant will be discussed further in the relevant section below.

1.6.8 The 2021/22 Settlement is again based on a 'roll-forward' of the previous year's SFA. In addition, the Government is uplifting the RSG figures in line with September's CPI of 0.5%. However, the small business rates multiplier will be frozen at the 2020/21 level.

1.6.9 The table below compares Liverpool's SFA under the 50% Business Rates Retention System at the 2020/21 and 2021/22 Settlements. The retained business rates figures are the Government's uplifted estimates per the baselines that were established for 2013/14. The City Council uses its own estimates of business rates income when it sets its budget in March each year.

Table 1: Comparison of 2020/21 & 2021/22 SFA Under 50% Scheme

Breakdown of SFA Under 50% Rates Retention	**2020/21 Settlement £M**	**2021/22 Settlement £M**	**Variance £M**
Retained Business Rates (Government Baseline)	98.538	98.538	0.000
Top-Up	78.169	78.169	0.000
RSG	53.158	53.452	0.294
Total SFA	**229.865**	**230.159**	**0.294**
Improved Better Care Fund	34.941	34.941	0.000
Total SFA + Improved BCF	**264.806**	**265.100**	**0.294**

1.6.10 The composition of Liverpool's SFA is distorted due to the Council's participation in the 100% Business Rates Retention Pilot Scheme. Under the pilot arrangement, Liverpool foregoes RSG and Improved Better Care Fund in return for being able to retain additional business rates income. The amount of Top-Up payable is also adjusted to ensure that participants in the pilot scheme are no better or worse off than they would have been under the 50% scheme. Under the pilot scheme, the 0.5% increase in RSG is received as additional Top-Up Grant. This is shown in the table below.

Table 2: Comparison of 2020/21 & 2021/22 SFA Under 100% Scheme

Breakdown of SFA Under 100% Rates Retention	2020/21 Settlement £M	2021/22 Settlement £M	Variance £M
Retained Business Rates (Government Baseline)	199.086	199.086	0.000
Top-Up	65.720	66.014	0.294
Total SFA	**264.806**	**265.100**	**0.294**

1.6.11 This is only the second year that RSG has been uplifted for inflation. The first time was in 2020/21. Normally, any inflationary uplift is only applied to the Retained Business Rates figure and to the Top-Up Grant. This reflects the uplift in the business rates multiplier which means that local authorities should be able to collect more business rates income and that there should be more income available for redistribution via the system of Top-Ups and Tariffs. Previously, RSG has been reduced each year and it was widely expected that it would be phased out completely over the course of the next Spending Review period. However, as part of the 'roll-forward' of the 2019/20 and 2020/21 Settlements the Government has agreed, not only to maintain RSG at the same level, but to uplift it in line with CPI.

1.6.12 Liverpool City Council did not assume any uplift to SFA in its original forecasts for 2021/22 and beyond although an estimate of the additional amount of SFA funding due was included in the updated budget figures presented in the December 2020 Cabinet Report. Following the publication of the 2021/22 Local Government Finance Settlement this figure has increased slightly by £0.028M and it is effectively received as additional Top-Up Grant.

1.6.13 As already mentioned, the SFA figures include the Government's estimate for retained business rates as opposed to the City Council's own estimate. The Government's estimated business rates income figure is important because it sets the baseline against which any safety net calculation will be made. However, in setting its budget the City Council will make its own estimate of forecast business rates income which may be higher or lower than the Government's baseline figure. Business rates income will be examined in the relevant section below.

1.6.14 The table below compares Liverpool's SFA in 2020/21, under the 100% pilot scheme, to what it would have been under the 50% national scheme. It shows that the overall funding is the same although a larger element is derived from retained business rates under the pilot.

Table 3: Comparison of 2021/22 SFA Under 50% & 100% Schemes

Breakdown of SFA Per 2020/21 Settlement	Based on 50% Retention £M	Based on 100% Retention £M
Retained Business Rates (Government Baseline)	98.538	199.086
Top-Up	78.169	66.014
RSG	53.452	
Improved Better Care Fund	34.941	
Total SFA + Improved BCF	**265.100**	**265.100**

Funding for Social Care

1.6.15 Nationally, the 2021/22 Settlement includes an additional £300M for social care in addition to rolling forward the social care grants from 2020/21. The City Council anticipated that the amounts included in the 2020/21 Settlement would continue but did not anticipate any additional funding for social care. The additional allocation to Liverpool is £7.098M bringing the total Social Care Grant to £26.625M.

1.6.16 Improved Better Care Funding totalling £34.941M in 2020/21 has been rolled forward into 2021/22 but with no inflationary uplift. As illustrated in the tables above, this is incorporated into Liverpool's Business Rates Retention figures under the terms of the current 100% City Region Pilot Scheme. Funding for social care will be examined further in the relevant section below.

New Homes Bonus

1.6.17 The Government's intention is to review the New Homes Bonus (NHB) with a view to exploring the most effective way to incentivise housing growth. The intention had been for this to be done in time for the 2021/22 Settlement, but it will now be postponed until next year with any changes planned to take effect from 2022/23.

1.6.18 The 2021/22 Settlement confirms that the NHB will continue on the same basis as in 2020/21. The same baseline will continue to apply which means that the first 0.4% of any growth in housing stock is disregarded for the purposes of calculating the amount of bonus payable. Legacy payments in relation to previous years' NHB, apart from 2020/21, will continue to be paid but the allocations relating to 2021/22 will not result in legacy payments being made in future years.

1.6.19 The actual amount of NHB due for 2021/22 is £5.458M. This is £3.314M less than the amount received in 2020/21 and £1.203M less than the amount previously anticipated. NHB will be examined further in the relevant section below.

Lower-Tier Services Grant

1.6.20 The Settlement for 2021/22 includes a new, one-off, unringfenced grant for lower tier authorities with responsibility for lower tier services such as homelessness, planning, recycling and refuse collection, and leisure services. The total available nationally is £111M and Liverpool's allocation is £1.162M.

Covid-19 Funding for Local Government in 2021/22

1.6.21 Alongside the publication of the Provisional Local Government Finance Settlement for 2021/22 on 17 December 2020, the Government also announced further support measures in relation to Covid-19 pressures in 2021/22. A total of £1.55 billion of additional unringfenced grant funding will be distributed in a fifth tranche of Covid-19 Emergency Funding using the Relative Needs Formula used to distribute the third and fourth tranches in 2020/21. Liverpool's allocation in 2021/22 is £20.304M and this will be used to fund additional Covid-19 pressures.

1.6.22 The Government also announced a total of £670M of new funding for 2021/22 in recognition of increased costs of providing local council tax support. Local Council Tax Support (LCTS) Grant is intended to meet the additional costs associated with increased caseloads and is unringfenced. The funding has been distributed on the basis of historic working-age claimant numbers and adjusted to take account of the average Council Tax bill per dwelling. Liverpool has been allocated £8.239M for 2021/22.

1.6.23 There is an estimated deficit on the Collection Fund for 2020/21 of £153.930M of which Liverpool City Council's share is £149.556M consisting of a business rates deficit of £132.325M and a council tax deficit of £17.231M (including £0.5M in relation to the Community Charge). This deficit would normally need to be funded in 2021/22 but the Government has introduced new regulations allowing certain elements of the 2020/21 Collection Fund deficit to be phased over the three years 2021/22 to 2023/24. The detailed Estimated Collection Fund Outturn Report 2020/21 is a separate report on this agenda.

1.6.24 A significant proportion of the deficit relates to additional business rates reliefs awarded in 2020/21 after local authorities had already submitted their NNDR1 Returns and set their budgets. The Council will receive additional Section 31 Grant to compensate for this loss, currently estimated at £119.655M, and this will reduce the deficit to be funded in 2021/22.

1.6.25 The Government also confirmed that it will fund 75% of any irrecoverable Collection Fund losses relating to 2020/21 that are not already being compensated by the additional Section 31 Grant. This 75% Income Guarantee Grant will be based on actual outturn figures but is currently estimated to be £8.899M for Liverpool. For budgeting purposes this grant can be phased over the same three-year period as the Collection Fund deficit which equates to £2.966M per year.

1.6.26 The net Collection Fund deficit to be funded, after taking account of the additional grant funding, is £10.313M in 2021/22 and £5.345M in each of 2022/23 and 2023/24.

1.6.27 Finally, the Government also announced that the Sales, Fees and Charges Support Grant would also continue for the first quarter of 2021/22. Under the terms of this grant, the Government will compensate local authorities for 75% of any relevant net losses of income from sales, fees and charges arising from government imposed restrictions during the Covid pandemic. However, the first 5% of any budgeted losses are discounted from the calculation.

<u>100% Rates Retention Pilot</u>

1.6.28 The Government confirmed that the pilot schemes introduced in 2017/18, including the Liverpool City Region Pilot Scheme, would continue to operate under the same terms in 2021/22.

1.6.29 Under the terms of the pilot scheme, the City Council is allowed to retain 99% of any net business rates income collected. Previously, under the standard scheme the City Council would have retained 49%; 1% would continue to be paid to Merseyside Fire and Rescue Authority. All other things being equal, this should result in the Council retaining an additional £100.549M in business rates income in 2021/22 using the Government's baseline figures. However, the Government insists that any pilot arrangements involving greater rates retention should be cost neutral to both local and central government. To achieve this the Government has withdrawn other grants to the value of the increase in retained business rates income. As shown above, under the pilot scheme, RSG (equating to £53.452M in 2021/22) will cease or effectively be rolled into the Business Rates Retention System. Similarly, social care funding equating to £34.941M in 2021/22 will also be incorporated into Liverpool's SFA. Finally, Liverpool's Top-Up grant will be reduced by £12.155M in order to ensure cost neutrality.

<u>Forecast Business Rates Income</u>

1.6.30 Although the Government assumes a certain amount of business rates income in its SFA calculations, this "baseline" figure represents the Government's assessment as at 2013/14, when the Business Rates Retention System was introduced. It is then uplifted for inflation each year, as described above. Their assessment was based on historic levels of business rates income at the time (based on the previous two years' data) and on national assumptions in relation to bad debts and appeals risk.

1.6.31 Each year, local billing authorities make their own assessment of the business rates income that they expect to generate in the forthcoming financial year. This is reported to Government via the NNDR1 Return in January each year and is based on the rateable value of non-domestic hereditaments recorded on the business rates system, adjusted for local knowledge of anticipated changes to the tax base and local assessment of losses due to non-collection or appeals. Consequently, this is a more accurate forecast than the historic baseline figure assumed by the Government in its SFA figures.

1.6.32 In 2021/22, the City Council is anticipating business rates income of £198.111M, compared to the Government's baseline figure of £199.086M. The City Council had previously forecast income of £202.057M for 2021/22 based on the amount forecast the previous year. In effect, no growth in the tax base was assumed due to uncertainty about the outcome of the reforms to the Business Rates Retention System and the Review of Relative Needs and Resources. The revised estimate is therefore £3.946M less than previously anticipated and £0.975M less than the Government's baseline figure.

1.6.33 This adverse variance is due to a combination of factors listed below. Note that the changes to mandatory and some discretionary reliefs are mostly compensated for by Section 31 grant.

- Reduced rateable value (RV) of businesses on the ratings list, effectively reducing the gross rates payable by about £1.6M;
- Increase in mandatory reliefs of about £2.5M;
- Reduction in discretionary relief awarded of about £4.3M (mainly due to the end of Retail Relief);
- Increase in bad debt provision of £5.9M;
- Reduction in appeals provision of £1.7M.

'No Detriment'

1.6.34 The Government has agreed that those authorities that have volunteered to take part in the 100% rates retention pilot schemes from 2017/18 will not incur any detriment as a result of doing so. For the Liverpool City Region this means that each local authority should be no worse off under the 100% pilot scheme (where they will retain 99% of collected rates) than they would have been had they remained part of the 50% scheme (retaining 49%). If an authority is deemed to be worse off, then it will receive a 'No Detriment' payment to make good the difference.

1.6.35 The calculation will be undertaken after the final outturn position on business rates has been audited, which means that any payment will be received during the following year if applicable. The calculation will compare the following:

- Amount of income that each local authority has received under the 100% scheme, plus the amount of Top-Up Grant and Section 31 business rates compensation grant, plus any Safety Net payment that it might be eligible for;

  Minus

- Amount of income that each local authority would have received under the 50% scheme, plus the amount of Top-Up, RSG and total Improved Better Care Fund that it would have received, plus the Section 31 business rates compensation grant, plus any Safety Net payment that it would have received if the 50% scheme had been in operation.

1.6.36 If this results in a positive balance then the local authority might be said to have gained as a result of participating in the pilot scheme. However, if the result is negative then the local authority will have suffered a loss as a result of taking part in the pilot scheme and a compensatory ‘No Detriment’ payment will be due.

1.6.37 However, the way in which the pilot scheme will operate is that, the result of the above calculation is aggregated for all six Liverpool City Region authorities and the Government will only provide a compensatory payment if there is an aggregate loss. This effectively means that gains made by some authorities may have to be used, in the first instance, to offset any losses incurred by others within the City Region. A mechanism for doing this has been agreed by the City Region authorities and MHCLG based on a straightforward transfer from each “gaining” authority pro-rata to the amount of any gain made. For example, if authorities X and Y each make gains of £1M each and authority Z makes a loss of £1M then authorities X and Y will each contribute £0.5M to authority Z.

1.6.38 The City Council is not anticipating any ‘No Detriment’ payment being due for 2021/22 based on the forecast business rates and Section 31 Grants reported in the NNDR1. Table 4 shows the forecast position for 2021/22 with regard to the ‘No Detriment’ calculation under the 100% Rates Retention Pilot Scheme. The City Council is forecasting a gain of £6.107M as a result of its participation in the pilot scheme. Liverpool’s retained business rates income would need to see a reduction of about £12.1M in order to trigger a ‘No Detriment’ payment from the other City Region authorities or from the Government.

Table 4: Forecast ‘No Detriment’ Position for 2021/22

Funding Source	Baseline Funding £M	NNDR1 / Budget £M
100% Pilot Scheme		
Retained Rates 99%	199.086	198.111
Top-Up	66.014	66.014
S.31 Grant	9.207	22.332
Total Income for Detriment Calculation, 100% Pilot	**274.308**	**286.458**
50% Scheme	**£M**	**£M**
Retained Rates 49%	98.538	98.055
Top-Up	78.169	78.169
Revenue Support Grant	53.452	53.452
Improved Better Care Fund	34.941	34.941
S.31 Grant	9.207	15.733
Total Income for Detriment Calculation, 50% Scheme	**274.308**	**280.351**
Gain	**0.000**	**6.107**

Safety Net

1.6.39 The Business Rates Retention System includes a 'Safety Net' mechanism whereby a Safety Net threshold is calculated by the Government for each local authority and if income from the Business Rates Retention System (including any Top-Up or Tariff) drops below this threshold then a Safety Net payment will be made by the Government to bring the income up to the threshold level. Under the 50%, Rates Retention Scheme this threshold is set at 92.5% of baseline funding (i.e. retained business rates, as estimated by the Government, plus or minus any Top-Up or Tariff).

1.6.40 However, under the 100% pilot scheme the safety net threshold has been set at 97% in recognition of the fact that local authorities have to shoulder the full burden of any losses as opposed to passing 50% of any losses on to the Government. The City Council would need to see a reduction in retained business rates income and associated Section 31 compensation grant of £19.445M (or 9%) in 2021/22 before a Safety Net payment would be triggered under the pilot scheme.

1.6.41 For the safety net calculation, we need to compare like with like and the Baseline Funding figures have not been uprated to take account of under-indexation whereas the Section 31 Grants include an adjustment for under-indexation. The current small business rates multiplier is 49.9 pence in the pound but if it had been increased each year in line with RPI it would be 26 pence higher. The Section 31 Grants are adjusted to reflect this additional 26 pence and this needs to be stripped out for comparison with the government's Baseline Funding figure for the safety net calculation. The amount of Section 31 Grant excluding any under-indexation element is £12.467M as opposed to the £22.332M that the City Council expects to receive. The table below compares the two figures.

Table 5: Reduction Required to Trigger a Safety Net Payment

Business Rates Related Income	**Amount £M**
Retained Business Rates	198.111
Top-Up	66.014
Section 31 Grant less Under-Indexation	12.467
Total Business Rates Related Income (A)	**276.593**
Baseline Funding	265.100
Safety Net (97% of Baseline Funding) (B)	**257.147**
Reduction Required to Trigger Safety Net (A – B)	**19.445**

1.6.42 It is interesting to compare the thresholds for triggering a safety net payment and a ‘No Detriment’ payment. As mentioned above, a safety net payment would be triggered if Liverpool’s business rates related income reduced by £19.4M. However, a ‘No Detriment’ contribution from either the other City Region authorities (if they were in a ‘betterment’ position, or from central government, would be triggered if Liverpool’s business rates related income reduced by £12.1M. This is the maximum loss that the City Council would have to bear before other support would be forthcoming.

1.6.43 A number of other government grants have also been allocated to the City Council and have been included in the Budget for 2021/22 and future years where appropriate. Section 2, Resources, contains more detailed information on government funding, council tax and business rates income.

1.7 Budget Adjustments and Pressures

1.7.1 Changes to the financial planning assumptions that underpin the MTFS, for example in relation to demand and price pressures, are detailed in the City Council Budget Report. National and local funding changes are analysed further in the next section.

2. Resources

2.1 Recent Changes to Local Government Funding

Business Rates Retention System

2.1.1 Local government funding was radically transformed in 2013/14 with the introduction of the Business Rates Retention System. Previously, Formula Grant had distributed funding to local authorities via a complex formula that took into account the relative needs of each local authority area and the ability to raise income from local council tax (relative resources). It was primarily financed from business rates, which were collected by local authorities and paid into a national pool from where they were redistributed as part of Formula Grant, which also included an additional element of funding from general taxation.

2.1.2 Under the Business Rates Retention System, local authorities are allowed to retain up to 50% of any business rates collected, known as the "Local Share", with the balance, known as the "Central Share", paid into a national pool as before. Up until 2017/18, the City Council retained 49% and paid 1% to Merseyside Fire & Rescue Service with the remaining 50% paid into the pool. An adjustment was then made via a system of 'Top-Ups' and 'Tariffs' which aimed to replicate the amount of funding that each local authority would have received had 50% of all business rates nationally been redistributed on a relative needs basis as at 2013/14. Some authorities, such as Liverpool City Council, receive a Top-Up grant from the Government because the amount of business rates that they retain, their Local Share, is deemed to be less than the amount that they would have received if this funding had been allocated in line with relative needs and resources. Other authorities that retain more in business rates than is deemed to be required, according to their needs assessment, have to pay a Tariff to the Government. Top-Ups and Tariffs are self-balancing and merely serve to redistribute the Local Share amongst local authorities.

2.1.3 The Central Share of business rates paid into the national pool is distributed to local authorities in the form of RSG (or other grants) on the basis of the government's relative needs assessment as at 2013/14 (or using separate criteria for other grants). The original intention was that business rates would increase annually in line with RPI inflation. Likewise, the amount of any Top-Up received or Tariff payable would also increase in line with RPI.

2.1.4 This all means that it is the RSG element of funding that is cut each year in order to ensure that overall spending nationally is contained within the local government spending control total. This has implications for those authorities, such as Liverpool City Council, that have historically been most dependent upon RSG as opposed to those that obtain most of their funding from locally retained business rates and council tax.

2.1.5 As RSG is reduced, an increasing proportion of each local authority's funding becomes dependent upon the amount of business rates income that is collected. However, the Business Rates Retention System includes a

Safety Net mechanism, which is intended to mitigate the impact of any major reduction in locally retained business rates income (see above).

2.1.6 The funding for the Safety Net was initially proposed to come from a Levy on excessive business rates growth. However, in practice, the demand for Safety Net payments initially outstripped the amount generated from the Levy. As a result, the government has held back, or top sliced, funding that would have been available to be distributed as RSG and has used this to meet the additional demand for Safety Net payments. In 2017/18, the amount held back to fund the Safety Net was £25M. In 2018/19, a total of £35M was held back. However, for 2019/20, there was no requirement to hold back any additional funds and in fact, the Government announced that there was a surplus on the "levy account" of £195M. It was decided to return £180M of this surplus to local government during 2018/19 (Liverpool's share was £2.668M) and the remaining £15M was carried forward to fund any Safety Net requirement in 2019/20.

2.1.7 In 2020/21 and 2021/22, the Government has decided that there is no requirement to top slice RSG to fund the Safety Net, as the balance on the levy account should be sufficient to fund it. It is not expected that there will be any surplus available for redistribution in 2021/22.

Changes to Business Rates since 2013/14

2.1.8 The Government has implemented a number of measures since the introduction of the Business Rates Retention System in 2013/14. These measures have a negative impact on the amount of business rates income collected by local authorities and consequently the Government has agreed to provide compensatory funding in the form of a Section 31 Grant paid each year. A number of these measures will continue to have an impact on local authority income in 2021/22. These measures are summarised below:

- The proposed increase in business rates of 3.2% in line with RPI was capped at 2% in 2014/15. This has an ongoing impact on the subsequent value of the business rate multipliers;
- The proposed increase in business rates of 2.3% in line with RPI was capped at 2% in 2015/16. Again, this has an ongoing impact on the subsequent value of the business rate multipliers;
- Both of the above also impact on the value of any Top-Up received or Tariff paid in all subsequent years as these should also increase in line with RPI but were capped at 2% in both years;
- From 2018/19, business rates have been increased in line with the CPI inflation rate rather than by RPI. This change had been planned from 2020/21 but was brought forward in the Autumn Budget 2017. This also impacts on the amount of Top-Up or Tariff receivable or payable. As a result of this change, in 2018/19 business rates increased by just 3% CPI rather than 3.9% RPI anticipated. The increase in 2019/20 was based on 2.4% CPI as opposed to 3.3% RPI and in 2020/21 it was based on 1.7% CPI as opposed to 2.4% RPI. In 2021/22, the business rates multiplier was frozen, resulting in no increase to business rates bills. However, RPI was 1.1% in September 2020.

- Small Business Rates Relief (SBRR) was introduced in 2005 and set at 50%. Since 2010, it has been doubled temporarily each year to 100%. It was permanently doubled from April 2017;
- The thresholds for qualifying for SBRR also changed from April 2017. Previously, businesses with a Rateable Value (RV) of £6,000 or less qualified for the full SBRR. Those with a RV of between £6,000 and £12,000 received a tapered amount of relief. From April 2017 the full 100% relief applied where RV is less than £12,000 and a tapered amount of relief applied where the RV is between £12,000 and £15,000;
- Businesses in receipt of SBRR can retain the relief on their first property for 12 months if they take on an additional property;
- The threshold at which businesses pay rates based on the standard multiplier, as opposed to the lower small business multiplier, increased from a RV of £18,000 to £51,000 from April 2017;
- Support for small businesses available to those ratepayers facing large increases as a result of the loss of SBRR or Rural Rate Relief due to the revaluation. This relief took effect from April 2017 for a period of five years;
- At the Autumn Budget 2018, the Government announced that eligible retailers with a rateable value below £51,000 will receive a one-third discount on their business rates bills. This scheme was only intended to run in 2019/20 and 2020/21, however, as a result of the Covid-19 pandemic, the Government extended this relief to 100% and expanded its scope to cover all small businesses and businesses in the retail, hospitality and leisure sectors. Any decision to extend this relief will not be taken until the national Budget on 3 March 2021, after local authorities have already set their budgets. However, as in 2020/21, full compensation for any income loss arising will be compensated for by additional Section 31 Grant.

2.1.9 The discounts and reliefs above are all subject to state aid limits and, as stated, the government has undertaken to fully compensate local authorities for any loss in revenue arising from the changes. This compensation is paid via a Section 31 Grant and this is paid during the year based on the estimates provided by each local authority in their NNDR1 Returns. A final reconciliation is made once the final audited outturn position on business rates has been reported via the NNDR3 Return.

Section 31 Grant – Business Rates Compensation

2.1.10 As mentioned above, the Government provides compensation to local authorities for measures introduced since 2013/14 which impact on the amount of business rates income collectable by local authorities under the Business Rates Retention System. The measures impacting upon 2021/22 were outlined in the previous section. The amount of grant due is estimated by the City Council and is linked to its estimate of business rates income reported in January each year via the NNDR1 Return. Table 6 below compares the amount of Section 31 Grant previously assumed within the City Council's MTFS with the latest forecast amounts:

Table 6: Estimated Business Rates Compensation Grant

Grant Element	2021/22 Previous Forecast £M	2021/22 Revised Forecast £M	Variance £M
Retail Discount	-4.458		4.458
Additional - Supplementary Multiplier	-0.770	-0.740	0.030
Changes to Small Business Relief	-11.310	-12.220	-0.910
Small Business Relief – First Property	-0.077	-0.063	0.014
Supporting Small Business Relief	-0.127	-0.094	0.033
Locally Administered Relief	-0.034		0.034
Enterprise Zone Qualifying Relief	-0.084	-0.059	0.025
Under-Indexation of Multiplier	-8.098	-10.322	-2.224
Under-Indexation Impact on Top-Up	-2.634	-3.440	-0.806
Adjustment – Pilot Authorities Only	3.531	4.606	1.075
Total	**-24.062**	**-22.332**	**1.730**

2.1.11 The forecast amount of Section 31 Grant payable in 2021/22 is £1.730M less than previously anticipated in the MTFS forecast. This is mainly due to the end of Retail Relief from 2021/22 (which in theory means that the amount of retained business rates income should have increased due to this relief not being awarded) and additional grant due to compensation for under-indexation.

2.1.12 The amount of Section 31 Grant is closely correlated to business rates income overall. If there is an increase in the number of businesses paying business rates, then there will also be an increase in the number that will likely qualify for some of the reliefs for which local authorities are subsequently compensated. The converse is true if there is a reduction in the tax base.

2.1.13 The overall position in relation to retained business rates income, including the compensatory Section 31 Grants and redistributed business rates (Top-Up) is a forecast reduction of £5.381M compared to 2020/21, as shown below:

Table 7: Income from Business Rates Retention

Funding Element	2020/21 Previous Forecast £M	2021/22 Revised Forecast £M	Variance £M
Retained Business Rates	-202.057	-198.111	3.945
Top-Up	-65.720	-66.014	-0.294
S.31 Grant	-24.062	-22.332	1.730
Total	**-291.839**	**-286.458**	**5.381**

Localisation of Council Tax Support

2.1.14 The SFA for each local authority also incorporates funding for Council Tax Support that was previously provided to local authorities via Council Tax Benefit Subsidy. Council Tax Benefit was abolished with effect from 2013/14 and replaced by localised Council Tax Support schemes under which claimants receive a discount in their council tax, thus reducing the income collected by the local authority. In order to compensate local authorities for this loss of council tax income, the Government included an amount for Council Tax Support within the SFA for each authority in 2013/14. However, the amount provided included a 10% reduction in funding which local authorities had to either pass on to working-age claimants or absorb. The funding for Council Tax Support is therefore locked into the baseline figures under the Business Rates Retention System and this means that it is now susceptible to fluctuations in business rates income and has effectively been reduced as RSG has been cut. In other words, the funding for Council Tax Support is no longer linked to the number of eligible claimants and the risk associated with any increase has been passed from central to local government.

2.1.15 In 2013/14, the Government provided a one off Transitional Grant to local authorities whose Council Tax Support schemes protected claimants from any excessive increases in Council Tax in the first year of operation of the new scheme. However, from 2014/15, this funding was withdrawn and local authorities have been faced with the choice of passing on the full reduction in funding to working-age claimants or absorbing it by finding alternative savings.

2.1.16 Table 8 below shows how the funding allocated by the Government for Council Tax Support has effectively reduced each year as the SFA has been cut. Based on the Settlement figures for 2021/22, funding for Council Tax Support has effectively been cut by £21.048M or 44.8% since 2013/14.

Table 8: Liverpool City Council - Reduction in Local Council Tax Support Funding

	LCTS Allocation £M	Annual Reduction £M	Cumulative Reduction £M	Cumulative Reduction
2013/14	46.995			
2014/15	41.781	-5.214	-5.214	-11.1%
2015/16	34.675	-7.106	-12.320	-26.2%
2016/17	31.545	-3.130	-15.450	-32.9%
2017/18	28.782	-2.763	-18.214	-38.8%
2018/19	27.300	-1.482	-19.695	-41.9%
2019/20	25.492	-1.808	-21.503	-45.8%
2020/21	25.907	0.415	-21.088	-44.9%
2021/22	25.947	0.040	-21.048	-44.8%

2.1.17 In 2021/22, the estimated cost of the Council Tax Support Scheme (i.e. the amount of Council Tax income lost due to the awarding of discounts under the scheme) is £62.216M (excluding precepts). The effective amount of funding provided within the SFA is only £25.947M, which means that the City Council now must fund £36.269M worth of Council Tax Support costs that would have previously been funded via Council Tax Subsidy.

Funding for Schools

2.1.18 Since 2018/19 the Dedicated Schools Grant (DSG) has been allocated in four blocks:

- Schools Block;
- Schools Central Block;
- High Needs Block;
- Early Years Block.

2.1.19 Each block is determined by a separate funding formula from 2018/19.

Schools Block

2.1.20 On 25 November 2020, the Government announced a one-year Spending Review to set the expenditure limits for public spending. This followed a similar one-year Spending Review in 2019 which did, however, include increases to the schools budget up to 2022/23. A full multi-year spending review is again anticipated for autumn 2021. The 2019 settlement included:

- A commitment to increase the schools budget by £7.1 billion (£4.6 billion above inflation) by 2022/23, compared to 2019/20 funding levels - the schools budget will rise by £2.6 billion in 2020/21, £4.8 billion in 2021/22 and £7.1 billion in 2022/23, compared to 2019/20 funding levels;

- Separate to this, each year the Government will provide almost £1.5 billion of funding to compensate schools for the increased cost of employer pensions contributions;

- The government will use part of this funding to continue to implement the schools National Funding Formula. The Government will ensure that per pupil funding for all schools will rise in line with inflation in 2021/22. For schools already on their National Funding Formula allocation, the per pupil values in the formula will increase by at least 4% in nominal terms in 2021/22;

- The minimum per pupil amount for 2021/22 will increase to £4,180 for primary schools and £5,415 for secondary schools.

2.1.21 Following consultation with Schools Forum, Liverpool is now aligned to the National Funding Formula methodology but with a level of protection, ensuring that the schools receive a minimum increase in per pupil funding. Schools Forum has also agreed that any school gaining under the formula should receive the full benefit of that gain in 2021/22 without any capping.

Central Services Block

2.1.22 In 2017/18, the Education Services Grant (ESG) was phased out with a small element for retained duties being transferred to the ringfenced DSG to fund central support services to all schools. Schools Finance Regulations were amended to enable local authorities to charge such expenditure to DSG, which from 2018/19 is funded by the Schools Central Block. This is to be used to meet the continued obligations that the City Council will have to both academies and maintained schools, including:

- School attendance;
- Statutory and regulatory duties, such as school planning, admissions, Director of Children's Services;
- Asset management.

2.1.23 For 2021/22, local authority costs totalling £2.257M per annum (for Liverpool City Council) will be funded by DSG following explicit agreement by the Schools Forum in January 2021. In addition to this Liverpool Schools Forum has agreed to £3.637M of DSG funding for 'historic commitments' following a planned 20% reduction in DSG funding by the DfE; reducing the Schools Central Block to £5.894M in 2021/22.

2.1.24 A new School Improvement Monitoring and Brokering Grant was introduced in 2017/18, aimed at funding some of the responsibilities previously funded by ESG. The allocation to the City Council in 2020/21 was £0.513M; the amount for 2021/22 has yet to be announced.

High Needs Block

2.1.25 Following significant pressure from local authorities the Government has recently announced a significant increase in the DSG High Needs Block funding for 2021/22. For Liverpool, this means an extra 16.46% DSG funding. The ring-fenced DSG High Needs Block funding remains a significant risk given the number of pupils assessed with SEND and increased demand for support and specialist provision; including special school places, non-maintained independent schools, post 16 colleges and alternative provision.

2.1.26 A Comparison of the anticipated total DSG High Needs funding for 2021/22 to current expenditure forecasts has highlighted a potential budget gap of approximately £4.3M. This, a result of increased demand pressures and additional school places to meet the assessed needs of SEND pupils and planned investment to support the priorities within the Education Improvement Plan. Work is ongoing to address the contributing factors to the increased demand and to bring forward proposals to mitigate the cost pressure on the High Needs budget. The DSG ring-fenced grant will be used to ensure a balanced position with any deficit carried forward to be funded from the future years' allocations.

Early Years Block

2.1.27 The Chancellor announced an extra £66M in 2021/22, to increase hourly rates paid to childcare providers through the Government's free hours offer. This increase equates to 8p per hour per child or 1.8%. Given the cost pressures faced by the sector, in particular the increase in the National Living Wage, this represents a real terms funding reduction to the Early Years providers.

2.1.28 The maintained nursery schools in Liverpool currently receive supplementary funding under the Early Years funding formula in recognition of the additional costs of maintained nurseries to other providers. Liverpool receives £1.5M in supplementary funding for the five maintained nursery schools in the city. The Department for Education has confirmed that supplementary funding for Maintained Nursery Schools will be continued through the summer term of 2021 to enable local authorities to provide them with reassurance while the Department confirms a long-term solution; however, the final allocation has yet to be announced.

2.1.29 Finally, as schools opt to become academies, they also qualify for 80% mandatory charity relief on their business rates liability, which reduces the amount of income available to local authorities under the Business Rates Retention System. Maintained schools in Liverpool currently pay approximately £2.5m each year in business rates. If all Liverpool schools were to convert to academies the City Council, which currently retains 99% of this amount under the pilot scheme, would see a reduction in income from business rates of £2M (80%).

Health & Social Care Changes

2.1.30 Since 2011/12, a number of funding streams have been introduced to encourage closer working between local authorities and the NHS and a number of new burdens and responsibilities have also been transferred. Some of this funding is currently ringfenced, for example, Public Health Grant, and some of it comes via the NHS and takes the form of a pooled budget, which has to be spent in line with jointly agreed priorities, for example, Better Care Fund. The Better Care Fund, is not new money to the local health and care economy, but rather represents a requirement to re-focus existing resources towards more integrated out-of-hospital care and to reduce avoidable hospital admissions and focus on a sustainable reduction in delayed transfer of care from hospital to community settings.

2.1.31 In the Spending Review 2020, the Government announced additional adult social care funding of £1.7 billion for 2021/22. The 2021/22 Settlement confirmed Liverpool's share of this to be £7.098M. Existing social care related grants have also been rolled forward into 2021/22. The additional grant has been distributed in line with the Adult Social Care Relative Needs Formula, adjusted to take account of the amount that each local authority can raise from the Adult Social Care Precept. The table below summarises the additional grant funding for Social Care since 2017/18:

Table 9: Liverpool City Council – Additional Social Care Grant Funding

	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M	2021/22 £M
Improved Better Care Fund (iBCF)	3.747	16.787	27.795	27.795	27.795
Supplementary iBCF	14.392	8.483	4.189	4.189	4.189
ASC Winter Pressures Grant				2.957	2.957
Total Improved Better Care Fund	**18.139**	**25.270**	**31.984**	**34.941**	**34.941**
Adult Social Care Support Grant	2.970	1.848			
ASC Winter Pressures Grant		2.957	2.957		
Social Care Support Grant			5.052		
Social Care Grant				19.527	26.625
Total Additional SC Funding	**21.109**	**30.076**	**39.993**	**54.468**	**61.566**

2.1.32 Under the agreed terms of the Liverpool City Region Business Rates Retention Pilot Scheme, the Improved Better Care Fund has been incorporated into the SFA figures for each participating authority from 2018/19. This means that the total Improved Better Care Fund (including ASC Winter Pressures Grant from 2020/21) will effectively be received as additional retained business rates income or Top-Up Grant. However, there is an expectation that an amount equivalent to the allocations above will be spent on adult social care.

2.1.33 The Spending Review 2015 also announced that local authorities with adult social care responsibilities would be allowed greater flexibility to increase council tax by an additional amount without triggering a referendum, as long as this additional funding is used to finance adult social care. Further details are set out below in section 2.4 on Council Tax.

Public Health Grant

2.1.34 Public Health Grant is a ringfenced grant introduced in 2013/14 following the transfer of public health responsibilities to local government. In October 2015, there was a further transfer of responsibilities in relation to 0 to 5-year olds. The grant is currently ringfenced, but the intention is that it will be incorporated into the Business Rates Retention System.

2.1.35 The allocation in 2020/21 was £44.684M, however, the allocation for 2021/22 has still to be announced by the Government.

Independent Living Fund

2.1.36 Following a decision by the Government, the Independent Living Fund (ILF) was closed on 30 June 2015; this followed the introduction of the Care Act 2014, which ensures that the key features of ILF support, namely personalisation, choice and control, are now part of the mainstream adult social care system.

2.1.37 In announcing the decision to close the ILF, the government stated that funding in respect of former ILF users was to be distributed between councils in England in a way that reflected the earlier forecast expenditure in each area at the point of closure.

2.1.38 The total value of the grant in 2021/22 will be maintained at the 2020/21 value, with the same approach to individual local authority allocations. The allocation to the City Council is therefore expected to be £4.312M in 2021/22. Funding beyond 2021/22 remains uncertain.

New Homes Bonus (NHB)

2.1.39 NHB is an unringfenced grant introduced in 2011/12. The aim was to provide a financial incentive to reward and encourage local authorities to help facilitate housing growth. Each additional home added to the council tax base, after deducting demolitions, results in an authority receiving an annual bonus payment. Payments are based on the national average council tax band relevant to each property and were originally paid annually for six years (this was subsequently reduced five and then four years, and for 2020/21 and 2021/22 there are no 'legacy' payments – see below). The payment recognises newly built properties and conversions as well as long term empty properties brought back into use. There is also an additional payment for each affordable home delivered of £350 per year, again originally paid for six years but now reduced to just the one year.

2.1.40 Under the previous Formula Grant system, the amount of grant received by each local authority took account of the ability of each authority to raise income from council tax. Therefore, as the council tax base increased, the amount of Formula Grant was scaled back and this, according to the government, meant there was little incentive for local authorities to promote housing growth. The introduction of the NHB aimed to offset this reduction in Formula Grant. However, with the introduction of the Business Rates Retention System in 2013/14, the amount of government grant received by each local authority is no longer affected by changes in the council tax base. This is now only taken into account when the whole system is reset and new baselines are calculated. The original rationale for the introduction of NHB therefore no longer exists.

2.1.41 The first payment of the 'Bonus' was made to local authorities in the financial year 2011/12 when the grant was funded entirely from central government (around £200M). In subsequent years, the majority of the funding for the NHB has come from funding that would otherwise have been distributed as RSG.

2.1.42 Changes to NHB were introduced in 2017/18 which scale back the amount of NHB payable and therefore reduce the amount required to be top sliced from RSG. This saving was used to part fund the additional social care grants from 2017/18. The changes to NHB were as follows:

- Rather than payments being made for a total of six years, the payment term was reduced to five years in 2017/18 and to four years from 2018/19. In 2020/21 and 2021/22, no legacy payments will be made in future years.

- A threshold for housing growth of 0.4% was introduced from 2017/18. This means that the first 0.4% of any growth is not rewarded under the NHB. The rationale behind this is that the Government believes that a certain amount of growth would have occurred regardless of the incentive supposedly provided by the NHB.

2.1.43 However, as mentioned above, the amount saved from NHB nationally was recycled as Adult Social Care Support Grant in 2017/18 and 2018/19 and is also part-funding Improved Better Care Fund from 2017/18. This funding is being distributed in line with the Adult Social Care Relative Needs Assessment as used when setting the baselines for the Business Rates Retention System in 2013/14. The Improved Better Care Fund also takes account of the amount that each authority can raise from the Adult Social Care Precept.

2.1.44 The City Council will actually benefit as a result of this redistribution of funding because it has a high adult social care needs assessment and is limited in the amount it can raise from the adult social care precept due to the composition of its tax base (see below).

2.1.45 In 2021/22, the City Council is set to receive £5.458M in NHB, which is £1.203M less than the amount previously estimated in the MTFS (£6.662M). This mirrors the reductions nationally as the changes above have come into effect. The total amount of NHB to be distributed across England in 2021/22 is £622M. This compares to over £900M in the previous three years, over £1.2 billion in 2017/18 and almost £1.5 billion in 2016/17.

2.1.46 As mentioned above, NHB is now predominantly funded from RSG, which means that funding which would have been distributed to local authorities based on relative needs, is instead distributed in line with growth in council tax base. This has a negative impact on those authorities that have historically been most dependent upon RSG and on those that have less scope to grow their council tax base, for example, in more deprived areas where developers might be unwilling to build new homes or in areas where land is expensive to develop.

2.1.47 For information, building one new home that is valued in the highest council tax band H will attract three times more in NHB (as well as in council tax) as a new house valued in the lowest band A. Also, having to demolish large numbers of old uninhabitable homes to make way for more desirable new ones will also impact on the net growth in the tax base and upon the amount of bonus payable.

2.1.48 The future of NHB beyond 2021/22 is being considered as part of the Review of Relative Needs and Resources and the Reforms to the Business Rates Retention System.

2.2 Impact on Liverpool City Council

2.2.1 Analysing the impact of all of the various changes to government grant funding since 2010/11 is complex. Many grants received in 2010/11 either ceased from 2011/12, were consolidated to form new grants or were rolled into Formula Grant. A number of additional grants have been introduced in order to fund new burdens and responsibilities transferring to local authorities and some of these grants, including Formula Grant, were in turn incorporated into the SFA at the outset of the Business Rates Retention System in 2013/14. Support for Council Tax Benefit, previously fully funded via government subsidy, was also included in the SFA from 2013/14.

2.2.2 In order to undertake year on year comparisons the government introduced the concept of 'Revenue Spending Power' in 2011/12. This aimed to capture all of the various government grants that are available to fund General Fund services together with council tax income. In theory, this should be a good way to compare funding across different years and for different local authorities. In practice the government's figures have been calculated on an inconsistent and sometimes misleading basis due to the following:

- A number of Area Based Grants (ABG) received in 2010/11 were excluded from the calculation in 2011/12 thus understating the real reduction that year;
- Funding for some New Burdens from 2011/12 onwards has been included even though some of this is ringfenced (e.g. Public Health Grant) or can only be spent in conjunction with, and following approval by, local Health and Wellbeing Boards (e.g. Better Care Fund);
- The Revenue Spending Power figures for 2013/14 did not include the 10% reduction in Council Tax Support funding and also understated the real reduction in Early Intervention Grant (EIG) which was rolled into the SFA from 2013/14;
- The figures for 2015/16 did not include the reduction in Education Services Grant.

2.2.3 The situation is further complicated from 2016/17 onwards as the Government has replaced Revenue Spending Power with a new measure referred to as 'Core Spending Power'. As with Revenue Spending Power, Core Spending Power includes SFA (i.e. RSG, Top-Up or Tariff and retained business rates) and also council tax income. However, it only includes the following grants:

- New Homes Bonus;

- Improved Better Care Fund from 2017/18 and Supplementary Improved Better Care Fund from 2018/19 (but not the main Better Care Fund included in previous years);
- Adult Social Care Support Grant in 2017/18 and 2018/19;
- Adult Social Care Winter Pressures Grant in 2018/19 and 2019/20;
- Social Care Support Grant in 2019/20;
- Social Care Grant in 2020/21 and 2021/22;
- Section 31 Grant re: Under-Indexation of the Business Rate Multiplier;
- Rural Services Delivery Grant (not applicable to Liverpool City Council);
- Transition Grant in 2016/17 and 2017/18 only (not applicable to Liverpool City Council).

2.2.4 Thus, Core Spending Power excludes a number of grants, including Public Health Grant and the main Better Care Fund, which had previously been included in Revenue Spending Power. It also includes an estimate of council tax income based on the following:

- Annual tax base growth in line with the average annual growth (for each individual authority) based on the period 2016/17 to 2020/21;
- Increases in council tax each year in line with the maximum allowed before triggering a referendum;
- Where applicable, an estimate of the maximum amount that can be raised from the Adult Social Care Precept.

2.2.5 However, even using the Government's own published Revenue and Core Spending Power figures; from 2010/11 to 2021/22, the City Council's spending power will have reduced by 12.4% compared to an average of just 0.4% for England as a whole. Had the City Council received a cut in its Revenue and Core Spending Power in line with the national average then it would have been almost £80M better off in 2021/22.

2.2.6 The inclusion of council tax in the government's calculations masks the full reduction in government grant. The table below compares the City Council's Core Spending Power as per the 2021/22 Settlement to the Government's adjusted Core Spending Power figure for 2015/16 (i.e. the year prior to the last Four-Year Settlement offer when the concept of Core Spending Power was first introduced). As mentioned above, for the City Council, Core Spending Power includes the SFA, NHB, Improved Better Care Fund, the other additional social care grants from 2017/18 and Council Tax income including the Adult Social Care Precept (where applicable). The Improved Better Care Fund figures are shown separately in the table below but are incorporated into the SFA as part of the 100% rates retention pilot scheme.

Table 10: Core Spending Power Figures for Liverpool

	2015/16 £M	2021/22 £M	Variance £M
Settlement Funding Assessment	299.172	230.159	-69.013
S.31 Grant (Under-indexation only)	2.339	9.207	6.868
Improved Better Care Fund		34.941	34.941
New Homes Bonus	7.892	5.458	-1.918

Social Care Grant		26.625	26.625
Total Excluding Council Tax	**309.403**	**307.553**	**-1.850**
Council Tax	130.782	199.582	68.800
Core Spending Power	**440.185**	**507.135**	**66.950**

2.2.7 In overall terms, Core Spending Power appears to have increased by £66.950M in 2021/22 compared to 2015/16. However, if we exclude the Government's assumed council tax income then there is a reduction of £1.850M over this period. In effect, the burden of funding local government services has been transferred from central government to local taxpayers. The SFA (which includes income from the business rates retention system and RSG) is forecast to reduce by £69.013M in 2021/22 whilst income from council tax is forecast to increase by £68.800M (or £61.924M if we use the City Council's own forecast for 2021/22). There is also an extra £61.566M in Social Care grants in 2021/22 compared to 2015/16 which illustrates the extent to which the Government has had to intervene to fund increasing demands for social care which otherwise would not have been met under the normal operation of the Business Rates Retention System. It also illustrates how far things have moved on since the last relative needs assessment used to set the baselines for the rates retention system in 2013/14.

2.2.8 The Core Spending Power figures include the Government's estimate of council tax income for 2021/22. This is based on assumed growth in the tax base in line with the average growth in each authority's tax base from 2015/16 to 2020/21 and also assumes that council's will increase council tax by the maximum amount allowed without triggering a referendum. This results in an estimated council tax income of £199.582M for Liverpool City Council in 2021/22 compared to the Council's own estimate of £192.706M. The Government's Core Spending Power figures for Liverpool are therefore overstated by £6.876M in 2021/22.

2.2.9 Since the introduction of the Business Rates Retention System, the proportion of local government funding provided by general government grant has reduced whilst the amount dependent upon local taxation has increased. The transfer of funding from government grant to business rates carries significant risk for the City Council given the volatile nature of business rates income. Furthermore, this increased dependence upon business rates income coincides with the increased importance of council tax as a proportion of local authority income. The remainder of Section 2 will focus on these two sources of local taxation income before considering the financial sustainability of the City Council over the longer term.

2.3 Business Rates

2.3.1 Since 2013/14, local authorities have retained an element of business rates after allowing for reliefs, losses on appeal, bad debts and costs of collection.

2.3.2 Each year in January, the City Council has to submit an estimate of the business rates income that it expects to collect during the forthcoming financial year. This is based on the number of business premises in the area that are liable for business rates (known as ‘hereditaments’), the rateable value of those premises (set by the Valuation Office Agency), the rate currently set by the government (known as the ‘multiplier’), the amount of mandatory and discretionary relief that might have to be granted, a provision for losses in collection (bad debts) and for losses due to successful appeal. The estimate is based on an initial snapshot but includes adjustments for any known or forecast growth or decline in the business rates tax base.

2.3.3 The amount of business rates income forecast by the City Council for 2021/22 was discussed above in section 1.6 in relation to the amount assumed by the Government in its SFA calculations. This section also discussed the amount of compensatory Section 31 Grant due in relation to business rates measures introduced by the Government since 2013/14. The table below shows how the forecast for retained business rates income in 2021/22 has been arrived at (2020/21 figures are also shown for comparison):

Table 11: Business Rates Forecast 2020/21 and 2021/22

	2020/21 £M	2021/22 £M
Gross Rates		
Total Rateable Value (RV) of Properties on Valuation List	543.134	540.623
Small Business Rates Multiplier (Pence in the Pound)	0.499	0.499
Gross Rates Yield (Based on Total RV x Multiplier)	271.024	269.771
Estimated Growth or Decline in Gross Rates	1.660	1.320
Forecast Gross Rates Payable (Before Reliefs and Other Costs)	272.684	271.091
Net Rates		
Mandatory Relief - Small Business	-16.681	-17.796
Mandatory Relief - Small Business Supplement	5.474	5.375
Mandatory Relief - Net Cost of Small Business Rate Relief	-11.207	-12.421
Mandatory Relief - Charities	-21.653	-21.340
Mandatory Relief - Community Amateur Sports Clubs	-0.005	-0.005
Mandatory Relief - Empty Premises	-10.729	-12.047
Mandatory Relief - Estimated Growth or Decline in Above	-3.450	-3.700
Total Mandatory Relief	-47.044	-49.513
Discretionary Relief - Charities	-0.018	-0.001
Discretionary Relief - Non-Profit Making Bodies	-0.015	-0.000
Discretionary Relief - Other Ratepayers	-0.084	-0.059
Discretionary Relief - Estimated Growth or Decline in Above	0	-0.100
Discretionary Relief - Funded Through Section 31 Grant	-4.481	-0.090
Total Discretionary Relief	-4.599	-0.250
Forecast Net Rates Payable (After Reliefs)	221.040	221.328
Other Costs		

Estimated Losses in Collection (Bad Debts)	-6.639	-12.581
Estimated Adjustments Due to Appeals (Current Year Only)	-9.523	-7.841
Forecast Collectable Rates	204.878	200.906
Adjustments		
Allowance for Cost of Collection	-0.780	-0.794
Net Rates Yield (After Reliefs and Other Costs)	204.098	200.113
Allocation of Net Rates Yield		
Amount Payable to Merseyside Fire & Rescue Authority (1%)	2.041	2.001
Local Share Retained by Liverpool (Excluding Cost of Collection)	**202.057**	**198.111**

2.3.4 The forecasting of future business rates income is a major risk to local authority financial planning. It is complicated by the impact of periodic revaluations (the most recent of which came into force from April 2017), valuation appeals, the awarding of mandatory and discretionary reliefs, the level of bad debts, costs of collection and the impact of economic factors generally. The associated increase in risk to local authorities requires them to have a higher level of financial reserves in order to deal with any volatility in business rates income. Prior to the introduction of the Business Rates Retention System, this risk was borne by the government, which is able to borrow to fund demand-led expenditure, or to smooth fluctuations in taxation revenue.

2.3.5 The situation relating to business rates appeals is especially concerning as they are completely outside of the control and influence of local authorities. From 2017/18, the Government introduced a new ‘Check, Challenge and Appeal’ system, which was intended to reduce the volume of appeals by making it harder for businesses to lodge speculatory appeals with little evidence to substantiate them.

2.3.6 Judging by the low number of checks, challenges and appeals it would appear that the new system is reducing a lot of the more speculative checks and challenges that previously would have clogged the appeals system up. However, the requirement to ensure that any challenges are fully supported with appropriate evidence may be slowing the process down. It is also likely that the more complex cases are amongst those that are still outstanding. However, the fact that they may be more complex does not necessarily mean that they have a greater likelihood of success. The situation continues to be monitored closely.

2.4 Council Tax

2.4.1 In developing a council tax strategy, the City Council has to balance between the needs of service users, who are often some of the most vulnerable people in our society, and the burden of the council tax on local council taxpayers. Given the severe reductions in the level of general grant support from 2010/11, the burden of financing increasing service demand has fallen primarily upon the level of council tax.

2.4.2 Since 2012/13, local authorities have been required to seek approval via a local referendum for Council Tax increases above a certain threshold. From 2013/14, that threshold was set at 2%, which effectively meant that the maximum council tax increase allowable before triggering a referendum was 1.99%.

2.4.3 For the period 2016/17 to 2019/20, local authorities with adult social care responsibilities were allowed to charge an additional 'Adult Social Care Precept', which was originally set at 2% per annum. This meant that in 2016/17, for example, the City Council was able to increase council tax by 3.99% without breaching the referendum threshold.

2.4.4 In December 2016 the Government announced that local authorities would be allowed to charge an Adult Social Care Precept of 3% for both 2017/18 and 2018/19 but, if they chose to do so, they would not be able to charge any additional amount in 2019/20. In effect, the Government allowed authorities to bring forward the additional increases for adult social care. Consequently, the City Council increased council tax by 4.99% in 2017/18 and planned a similar increase in 2018/19 and a 1.99% increase in 2019/20.

2.4.5 The Finance Settlement for 2018/19 included increased flexibility for local authorities to increase the core rate of council tax by up to 3% in 2018/19 and 2019/20 rather than the previous 2% cap. This effectively meant that local authorities with adult social care responsibilities could increase council tax by a maximum of 5.99% in 2018/19 (i.e. 2.99% maximum on the core element plus 3% adult social care precept). If authorities chose to apply the maximum 3% social care precept in 2017/18 and 2018/19 (which Liverpool City Council did) then the maximum council tax increase in 2019/20 would be 2.99%.

2.4.6 As part of the 2020/21 Settlement the Government set a core council tax principle of 2% which meant that the maximum increase allowed without triggering a referendum is reduced back down to 1.99%. Where relevant an Adult Social Care Precept of 2% also applied. Liverpool City Council, therefore, increased council tax by the maximum 3.99% in 2020/21. The Government's Core Spending Power figures assume that all local authorities will increase council tax by the maximum amount allowed.

2.4.7 The City Council had previously assumed an increase in council tax of 1.99% in its MTFS for 2021/22, with growth in the tax base of an additional 500 band D equivalent properties. However, due to increased uncertainty following the Covid-19 pandemic, it was subsequently decided not to assume any increase or growth in the tax base. The estimated tax base for 2021/22 has now been set at 106,969 representing a reduction of 2,043 band D equivalent properties compared to the previous year. This reduction was due to two factors in particular: an increase in the forecast number of Council Tax Support claimants and a reduction in the estimated collection rate from 94% to 93%.

2.4.8 The Local Government Finance Settlement for 2021/22 also confirmed that an increase of 2% or more in core council tax would trigger a local referendum. An Adult Social Care Precept of 3% would also be allowed, meaning that the maximum increase without having to hold a local referendum is 4.99% in 2021/22.

2.4.9 The current forecast council tax income for 2021/22 based on a 4.99% increase is £192.706M resulting in a band D charge of £1,801.52 for the City Council element of the Council Tax bill. This equates to an additional £57.08 per year (or £1.10 per week) for a band A property or an additional £66.59 per year (or £1.28 per week) for a band B property. The table below summarises the proposed increase per council tax band. The charges from the preceptors are added to this once they have been determined.

Table 12: Liverpool City Council - Impact of a 4.99% Increase

Council Tax Band	2020/21 £	2021/22 Based on 4.99% Increase £	Annual Increase £	Weekly Increase £
Band A	1,143.94	1,201.02	57.08	1.10
Band B	1,334.59	1,401.18	66.59	1.28
Band C	1,525.25	1,601.35	76.10	1.46
Band D	**1,715.90**	**1,801.52**	**85.62**	**1.65**
Band E	2,097.21	2,201.86	104.65	2.01
Band F	2,478.52	2,602.19	123.67	2.38
Band G	2,859.84	3,002.54	142.70	2.74
Band H	3,431.80	3,603.04	171.24	3.29

Liverpool's Tax Base Compared to England Average

2.4.10 Due to the composition of Liverpool's tax base with a high proportion of properties in the lower bands A to C, the amount of income that can be raised from council tax is much lower than would otherwise be the case if the composition were more in line with the national average. The table below compares Liverpool's tax base in 2021/22 to the average for England as a whole in 2020/21 (latest available comparator figures).

Table 13: Proportion of Chargeable Dwellings in Each Council Tax Band 2021/22

Council Tax Band	Liverpool %	England %
Band A	59.13%	24.2%
Band B	17.61%	19.6%
Band C	12.28%	21.9%
Band D	**6.86%**	**15.5%**
Band E	2.27%	9.7%
Band F	1.02%	5.1%
Band G	0.76%	3.5%
Band H	0.05%	0.6%
Total	**100.00%**	**100.00%**

2.4.11 Just under 60% of chargeable dwellings in Liverpool are classed as being in Band A for council tax purposes. Almost 77% are in bands A and B, and 89% are in the lowest three bands (A to C). Nationally, the average for England is 24% of properties in band A; 44% in bands A and B; and 66% in bands A to C.

2.4.12 In addition, Liverpool is also disadvantaged as a result of the number of residents who qualify for discounts and exemptions. Liverpool's tax base in 2021/22 is reduced by 35% due to the impact of council tax discounts and exemptions whereas the average reduction across England is 19%.

2.4.13 If Liverpool's tax base had been comprised of the same proportion of dwellings in each tax band as the national average, and if it had the same proportion of discounts and exemptions as the national average, then, instead of generating £192.706M in council tax income in 2021/22, it would have generated £291.094M (i.e. an additional £98.388M).

Adult Social Care Precept

2.4.14 As mentioned above, since 2016/17 when the additional council tax flexibilities were introduced, Liverpool's council tax has increased by 3.99% in 2016/17, 4.99% in 2017/18, 5.99% in 2018/19, 2.99% in 2019/20 and 3.99% in 2020/21. The forecast increase in 2021/22 is 4.99%. These increases include the Adult Social Care Precept, which was 2% in 2016/17, 3% in 2017/18 and 2018/19, 2% in 2020/21 and 3% in 2021/22. In 2021/22, the band D council tax rate for Liverpool City Council will be £212.53 higher due to the cumulative impact of the Adult Social Care Precept since 2016/17. This equates to a total increase of £2.72 per week for a band A property and £3.18 per week for a band B. This helped to raise an additional £22.734M for adult social care in 2021/22 alone. A total of £75.524M will have been raised for adult social care over the six-year period 2016/17 to 2021/22. The table below shows the impact of the Adult Social Care Precept each year.

Table 14: Income from Adult Social Care (ASC) Precept

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Tax Base for Council Tax Setting Purposes	102,236	103,324	104,171	105,960	109,012	106,969
ASC Precept - Initial Flexibility	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%
ASC Precept - Revised Flexibility	2.00%	3.00%	3.00%		2.00%	3.00%
	£	**£**	**£**	**£**	**£**	**£**
Band D Council Tax If No ASC Precept*	1,412.08	1,440.18	1,483.24	1,527.59	1,557.99	1,588.99
Actual Band D Including ASC Precept	1,439.77	1,511.61	1,602.16	1,650.06	1,715.90	1,801.52
Increase in Band D Due to ASC Precept	27.69	71.43	118.92	122.47	157.91	212.53
Additional Income from ASC Precept (£M)	**2.831**	**7.380**	**12.388**	**12.977**	**17.214**	**22.734**

**Assumes 1.99% increase in 2016/17 and 2017/18, 2.99% increase in 2018/19 and 2019/20 and 1.99% increase in 2020/21 and 2021/22.*

2.5 Local Taxation and Government Funding Summary

2.5.1 The table below summarises some of the main government revenue grants received by the City Council (where known) and also forecast receipts from local taxation. In some instances, where allocations have not yet been confirmed, latest estimates have been used. The table excludes most funding, which is essentially passed on to a third party (for example, Dedicated Schools Grant and Housing Benefit Subsidy).

Table 15: Local Taxation and Government Grants (General Fund)

	2021/22 £M
Local Share of Business Rates (LCC Estimate)	198.111
Top-Up	66.014
Settlement Funding Assessment (LCC Estimate)	**264.125**
Council Tax	192.706
Collection Fund Balance	-10.313
Total Council Tax / Collection Fund	**182.393**
Section 31 Grant re: Business Rates Measures	22.332
New Homes Bonus	5.458
Lower-Tier Services Grant	1.162
Local Council Tax Support Grant	8.239
Covid-19 Emergency Funding – Tranche 5	20.304
School Improvement Monitoring & Brokering Grant	0.532
Social Care Grant	26.625
Lead Local Flood Authority Grant	0.021
Inshore Fisheries Conservation Authority Grant	0.055
Public Health Grant	44.684
DoH Revenue Grant	
Social Care in Prisons Revenue Grant	0.311
Local Reform and Community Voices	0.424
War Pensions Scheme Disregard	0.226
Independent Living Fund	4.312
HB Admin Grant	2.365
CTS Admin Grant	1.025
Flexible Homelessness Support Grant	0.736
PFI Grant	12.005
Total Other Grants Above	**150.816**
TOTAL (Excluding Schools Related)	**597.334**

2.5.2 A number of grant allocations are not announced or confirmed until part way through the financial year. Therefore, some of the figures above are estimates based on current assumptions. The figures for council tax and retained business rates represent the estimates incorporated into the budget, not actual amounts collected for the year.

2.6 Sustainability and Forecasting Beyond 2021/22

2.6.1 Financial planning beyond 2021/22 is very challenging due to a number of factors, which are detailed below.

2.6.2 The 2021/22 Settlement essentially rolled forward the 2020/21 Settlement (albeit with additional funding). No indicative figures have been provided by the Government for 2022/23 and beyond.

2.6.3 Since 2017/18, the City Council, together with the other City Region Authorities, has been piloting a new 100% business rates retention system, which was initially planned to run until 2019/20 when the new reformed system was scheduled to be rolled out nationally. This was put back to 2020/21 following the outcome of the 2017 General Election and the loss of the government's parliamentary majority. It was put back a further year, to 2021/22, due to continued parliamentary deadlock over the UK's exit from the European Union and the decision to call a General Election on 12 December 2019. The uncertainty caused by the current Covid pandemic has resulted in the pilot being extended for another year in 2021/22. Once again, the forthcoming financial year is expected to be the last year of the current pilot scheme which allows Liverpool to retain 99% of any business rates income.

2.6.4 The last multi-year government Spending Review was in 2015 and covered the period 2016/17 to 2019/20. The next Spending Review was scheduled for 2019 and should have covered the period from 2020/21. However, this was delayed, initially until 2020 and then until 2021, due to the factors outlined above. Instead, the Government issued a one-year Spending Review for both 2020/21 and 2021/22. It is unclear how many years the next multi-year review will cover but based on previous reviews, it is likely to cover 2022/23 and at least two future years. This would take us up to 2024/25 and would cover the year that the next General Election is due to take place (i.e. by December 2024).

2.6.5 The 2021 Spending Review will determine how much funding is allocated to individual government departments and therefore how much will be available for distribution to local government. It will highlight which areas of government spend are to be prioritised or protected from further budget cuts and give an indication of the government's approach to spending generally over the next few years and the emphasis it places on continued deficit reduction. Press reports in late 2018 indicated that unprotected government departments (including local government and public health) could face cuts of 5% in the next Spending Review, which at the time was scheduled for autumn 2019. However, the world has changed significantly since then due to the Covid-19 pandemic. Government borrowing and total debt have grown significantly due to additional spending and reduced revenue from taxation during 2020/21 and the impact is expected to continue in 2021/22 and possibly beyond. The Government will need to put measures in place to address the public finances at some point, but it is likely that these will be delayed until the effects of the pandemic have receded, in order not to stifle any economic recovery. Furthermore, it is likely that these measures will involve more tax rises, as opposed to spending cuts, than was the case after the financial crash.

2.6.6 The Covid pandemic has also exposed the weaknesses and fragmented nature of much of the UK's public infrastructure, especially in the realms of public health, health care generally, social care and homelessness services and welfare support, especially for people who are unable to work. The scope to inflict further public spending cuts in already deprived areas must be greatly reduced following ten years of austerity measures.

Reforms to the Business Rates Retention System

2.6.7 A reformed Business Rates Retention System is planned to be introduced from 2022/23 and the latest proposal is that it will be based upon 75% rates retention rather than the 50% as per the current national scheme or 100% per the Liverpool City Region pilot scheme. If Fire Authorities continue to be part of the scheme, then this would mean that the City Council would retain up to 74% of business rates income from 2022/23 with at least 1% continuing to be paid to the Fire Authority and 25% payable to the Government.

2.6.8 The government has not ruled out the possibility that some authorities could be allowed to retain a higher proportion of business rates income, even up to 100% as per the current pilot scheme. However, if Liverpool opted to continue to retain 100% then it is unlikely that the current 'no detriment' arrangement would continue to apply, as we would no longer be participating in a pilot.

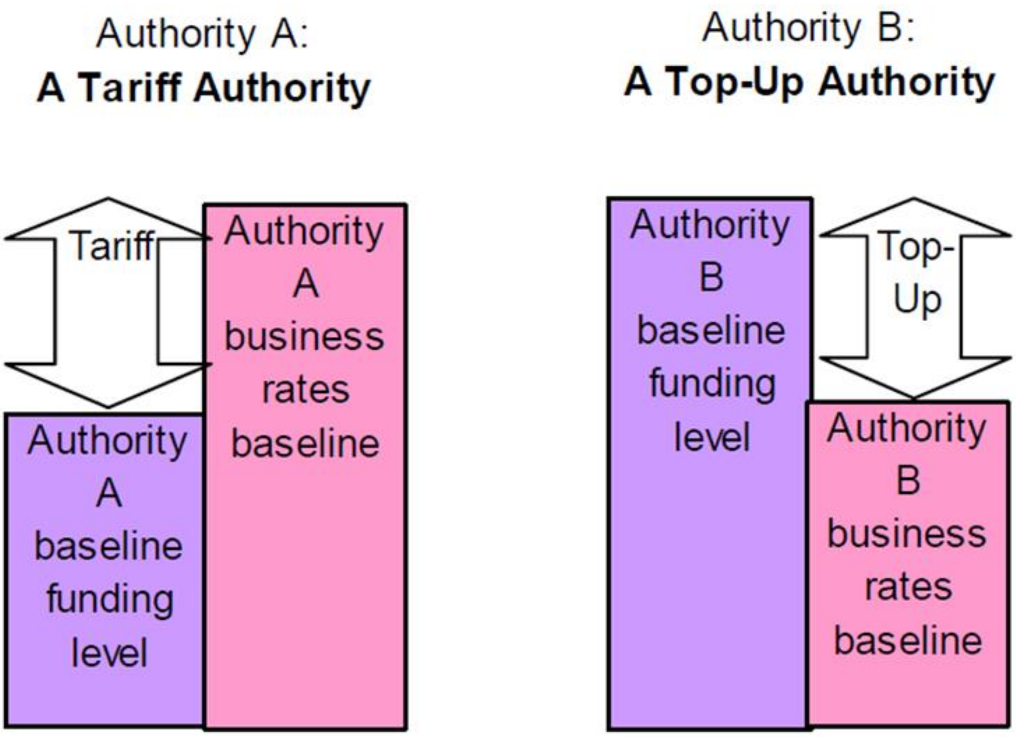
2.6.9 The new system is also likely to have very different design features compared to the existing system and this could include:

- The way in which valuation appeals are treated (in effect they could be removed from the system and treated as a central cost);
- The transfer of some hereditaments between the central and local rating lists;
- The proportion of rates income retained by different tiers of local government (e.g. between district and county councils);
- The level of the safety net and how it should be funded;
- The removal or replacement of the levy on excessive growth;
- The way in which business rates baselines are calculated;
- The frequency of any resets and the amount of growth that can be retained following any reset.

Resetting the Business Rates Retention System

2.6.10 The Business Rates Retention System was introduced in 2013/14 and it had always been the intention that the system should be reset periodically and that the first reset would likely be 2020/21 with subsequent resets every 5 years thereafter. This reset has now been postponed until 2022/23, which will coincide with the introduction of the new 75% Rates Retention System.

2.6.11 Resetting the system involves calculating new ‘Baseline Funding Levels’ and new ‘Business Rates Baselines’ and therefore results in new Top-Up and tariff amounts as illustrated below:



2.6.12 The ‘Baseline Funding Level’ is an authority’s share of the national total amount of rates income that can be retained by local government (75% of the total collectable from 2022/23) if this were to be distributed in accordance with the Government’s calculation of relative needs and resources. The ‘Business Rates Baseline’ is the actual amount that the Government estimates an authority will retain from business rates locally. Any shortfall in business rates income compared to the Baseline Funding Level results in a ‘Top-Up’ grant being paid and any excess results in a ‘Tariff’ having to be paid to the government. Top-Ups and Tariffs are therefore a mechanism for redistributing business rates income between authorities based on relative needs and resources. They are recalculated every time the system is reset and are effectively fixed until the next reset (apart from being uplifted in line with inflation each year).

2.6.13 The major issue with resetting the system is that any business rates growth achieved in the previous period is potentially lost as it is effectively redistributed across all authorities. However, if an individual authority’s growth is less than the growth that has been achieved nationally then that authority should gain overall as a result of any reset. It is expected that Liverpool City Council would gain from a full reset of the business rates retention system.

Review of Relative Needs and Resources

2.6.14 As stated above, it is proposed that the Rates Retention System will be reset from 2022/23. To coincide with this the Government proposes to review the methodology used to assess relative needs and resources which has not changed since it was introduced in 2006/07 and has not been updated since the introduction of the Business Rates Retention System in 2013/14.

2.6.15 The Government embarked on a process of consultation and collaboration with the local government sector in 2016 as it sought to undertake what it called a 'Fair Funding Review' of the way in which local government funding is distributed. The review is ongoing and will focus on the following areas:

- The measurement of relative needs, involving identification of appropriate cost drivers;
- The assessment of relative resources including income from council tax;
- The transitional arrangements that will apply in order to smooth out any significant changes in funding for authorities that may arise from the review.

2.6.16 The Government now aims to complete the Review of Relative Needs and Resources in time to allow implementation of the new methodology from 2022/23, which will coincide with the resetting of the system and the introduction of the new 75% retention system.

2.6.17 It is proposed that the new funding formula will be comprised of the following elements:

- Specific formula for Adults' Social Care;
- Specific formula for Children's Social Care;
- Specific formula for Public Health (from 2022/23, Public Health Grant will no longer be paid as a separate ringfenced grant but will be rolled into the new rates retention scheme);
- Specific formula for Highways;
- Specific formula for Fire and Rescue Services;
- A 'Foundation Formula' covering all other services.

The relative weighting of the different elements above will also need to be set.

2.6.18 Each of the above formulae will aim to focus on the relevant cost drivers for each service area. Measures of population (or relevant population) and deprivation are expected to feature prominently although some press reports during 2019 speculated that deprivation might not be weighted as heavily as it has been previously. The impact of population density versus sparsity has also been subject of much debate.

2.6.19 As mentioned above, from 2022/23 Public Health Grant will no longer be paid as a separate ringfenced grant but will be rolled into the new rates retention system. The government intend to consult on the implications of this change for the delivery of public health services.

2.6.20 The Section 31 Grants currently paid to compensate local authorities for the various business rates measures introduced by the government since 2013/14 will also likely cease when the system is reset in 2022/23. The permanent doubling of Small Business Rates Relief and the threshold changes from 2017/18 will be taken into account when recalculating Business Rates Baselines and so there will not be a need for any separate compensatory grant. Likewise, it is unlikely that the government will continue to compensate local authorities for under-indexation of the business rates multiplier after the new baselines have been set although business rates income will continue to be below the level that it would have been had the multiplier been uplifted in line with RPI each year as originally intended. The question remains as to whether the government will continue to provide compensation for under-indexation in previous years.

2.6.21 Improved Better Care Funding is currently incorporated into the rates retention system for the Liverpool City Region Pilot Authorities. There is no indication that this funding will continue from 2022/23, as the amount of funding required for adult social care should be determined by the new relative needs and resources formula. This additional funding was only introduced because of increased cost and demand pressures, which were not reflected in the original needs assessment when the baselines were set for the Rates Retention System in 2013/14. Given the scale of the additional funding that has been provided for social care since 2017/18 and the impact that any withdrawal of this funding would have upon the provision of social care services, it is unlikely that this funding would not be added to the total amount available for distribution via the new funding formula.

2.6.22 Without pre-empting the outcome of the Review of Relative Needs and Resources, it is widely anticipated that population will be a key determinant of the distribution of funding under the new methodology. Liverpool’s population, as outlined above in section 1.5, is projected to increase by 12.6% by 2043 according to the latest ONS projections. The population growth for England is projected to grow by 10.3% over the same period. This means that Liverpool’s population, as a proportion of the total, is projected to increase. If borne out this should ultimately have a positive impact on the distribution of funding.

2.6.23 However, again as outlined in section 1.5, Liverpool remains one of the most deprived areas in the country and factors associated with deprivation are anticipated to be an important determinant of future funding allocations, especially in relation to Social Care and Public Health. Previous press reports based on an analysis of the proposed Adult Social Care formula by the Local Government Association (LGA) indicate that Liverpool City Council could lose £26.5M as a result of the introduction of this new formula. However, the analysis did not take all factors into account, for example, the overall quantum of funding that will be made available, the weighting of the different formulae, and the adjustment for the amount that can be raised from council tax and the transitional arrangements that might apply. Nevertheless, for future forecasting purposes it would be difficult to assume anything better than a neutral impact on Liverpool in relation to the outcome of the Review of Relative Needs and Resources.

2.6.24 Business Rates were revalued with effect from 1st April 2017 and the next revaluation was planned to take effect from 2022/23 but was brought forward to 2021/22 as part of the Government's plans to move to three-yearly revaluations, as opposed to the current five-yearly cycle. This has now been delayed and the new valuations will not come into effect until 2023/24.

2.6.25 The Government has also indicated that any future resetting of the Business Rates Retention System (i.e. after that now planned for 2022/23) should coincide with the revaluation cycle if possible, to avoid significant changes within reset periods. Options for 3, 6 or 9-year resets will be considered as part of the ongoing consultation process.

2.6.26 Given that the next business rates revaluation has been delayed until 2023/24, it is possible that the resetting of the Business Rates Retention System, and indeed the reforms to that system and the review of the funding formula, will also be delayed until 2023/24. The Government would also hope that the economy will have returned to a more normal state by then.

2.6.27 The length of any reset period is important because longer periods result in less frequent recalculation of the relative needs and resources assessment. This can be crucial if spending pressures increase at a faster rate than business rates income. On the other hand, any business rates growth, or a proportion of it at least, may be lost following a reset of the system. This can have unintended consequences as local authorities may seek to delay new developments until after any imminent reset in order not to lose the associated income gains.

2.6.28 Generally, as mentioned above, it is expected that Liverpool would gain significantly from any reset of the system because business rates income nationally has grown at a faster rate than it has in Liverpool. So, whilst Liverpool might lose the benefit of any growth in business rates income over recent years, it is likely that this would be offset by gains arising from the redistribution of growth elsewhere.

2021 Spending Review

2.6.29 Whilst the distribution of government funding is clearly important, the actual quantum of funding available for distribution is equally so. The next multi-year Spending Review is now anticipated to be in 2021 and is likely to cover the period at least up to the scheduled end of the current parliament in 2024 when the next general election is due to take place (i.e. it should cover the three-year period 2022/23 to 2024/25).

2.6.30 The next Spending Review will need to deal with the fall-out from the Covid-19 pandemic in terms of unprecedented levels of government debt and the longer-term structural impacts associated with the growth of the digital economy and the decline of traditional high street retail outlets. In addition, the rise in people working from home will impact on the need for commercial office premises and on the number of people travelling to and from work. The business rates system itself has been increasingly exposed as being not fit for purpose and an unsuitable mechanism for funding demand led local government services.

2.6.31 In addition, challenges posed by the UK's exit from the EU following the end of the transition period on 31st December 2020, are becoming more apparent, especially in relation to border delays and increased costs and impediments to importing and exporting goods and services. This is all in addition to addressing the pre-existing structural problems with the UK economy including the disparity in investment across different parts of the country, low productivity and spending pressures relating to an ageing population and the consequent increase in the costs of providing health, social care and pensions and how these will be funded. The Government has also promised to 'level-up' areas in the north of England (the so-called former 'red wall' constituencies) that are perceived as having been left behind in recent decades as older manufacturing and mining industries have declined or been transferred to areas of the world with lower wage costs.

2.6.32 Accepting that there is great uncertainty in relation to the forecasting of future funding for local government, the planning assumptions below are thought to be realistic without being overly pessimistic. They will undoubtedly need to be reviewed as more information becomes available during 2021/22. The current planning assumptions in relation to funding are listed below and summarised in the following table:

- No growth in the council tax base (the assumption is that any growth due to new housing will be offset by problems with collection and by increased numbers of Council Tax Support claimants;

- Increases in council tax of 1.99% per annum (excluding any social care precept this is the maximum currently allowed without triggering a referendum);

- No additional precept for adult social care (there is no guarantee that this will continue so it is prudent to assume that it will not);

- No inflationary uplift to baseline funding;

- No growth or decline in the business rates tax base (business rates income is inherently volatile and the outlook for the global, national and therefore local economy is uncertain and a number of business sectors, e.g. retail, are already struggling. Growth in some areas could be offset by decline elsewhere and so a neutral approach seems prudent);

- Revenue Support Grant to continue on a cash frozen basis with no assumption of any cuts. (In both 2020/21 and 2021/22 RSG was rolled forward without any cut and, in fact, was uplifted in line with CPI);

- New Homes Bonus to cease from 2022/23. Whilst it is likely that this funding will be recycled into a replacement scheme or will be available for distribution as part of the SFA, it seems prudent to assume something to cover any overall cut in funding;

- Additional social care funding of £61.566M to continue as part of SFA but no inflationary uplift assumed going forward. It is considered unthinkable that the Government would withdraw this funding given the widely acknowledged pressures faced in social care;

- It is assumed that the outcome of the Review of Relative Needs and Resources and the resetting of the Business Rates Retention System will be neutral as far as Liverpool City Council is concerned. It is difficult to justify any other assumption and there are likely to be transitional arrangements in place which should minimise any sudden and significant negative changes in funding and allow authorities time to amend their plans should this be required;

- Public Health Grant is due to be incorporated into the SFA from 2022/23 and funds will be allocated as part of the new funding formula. In line with the assumption above in relation to the Review of Relative Needs and Resources, no growth or decline in public health funding is assumed.

Table 16: Forecast Funding Assumptions 2021/22 and 2022/23

Funding Stream	**2021/22 £M**	**2022/23 £M**
Council Tax	192.706	196.541
Retained Business Rates (based on 99%)	198.111	198.111
Top-Up / Revenue Support Grant	66.014	66.014
Section 31 Grant – Business Rates Compensation	22.332	22.332
Social Care Grant	26.625	26.625
New Homes Bonus	5.458	0.000
Lower-Tier Services Grant	1.162	0.000
Total Core Spending Power	**512.408**	**509.623**
Reduction		-2.785
Reduction %		-0.2%

2.6.33 The forecast funding figures above could change significantly if any of the assumptions turn out to be different. However, it is worth noting that any reduction in Core Spending Power would represent the first reduction since 2016/17 when Core Spending Power reduced by 2.25%. In 2017/18 to 2019/20 it increased by an average of 1.9% per annum and in 2020/21 and 2021/22 it increased by 7% and 4.1% respectively. If we exclude council tax income, then the reduction equates to £6.620M in 2022/23 or 2.1%.

2.6.34 The table below illustrates the sensitivity of some of the Council's forecast funding figures to even small variations. A credit figure will reduce any budget gap whilst a debit figure will increase it.

Table 17: Sensitivity Analysis

	2022/23 £M
Additional +500 in CT Base	-0.919
Additional 2% Social Care Precept on Council Tax	-3.854
Additional 1% Growth in Business Rates Income	-1.981
Additional 1% Cut in SFA	2.651

2.6.35 The MTFS forecast for 2022/23 include a range of other planning assumptions including:

- A 3% increase in local government pay;
- An increase in the National Living Wage based on the forecasts included in the Government's last Spending Review;
- An increase in the Waste and Transport Levies of 2%;
- Increases in contract and utility costs based on inflation forecasts and demand pressures due to population growth;
- Changes to capital financing costs to reflect the City Council's capital programme and wider strategy;
- Impact of one-year only savings in 2021/22 and other one-off adjustments to reserves in 2021/22 that will not impact on 2022/23;
- No additional Collection Fund deficit is anticipated in 2022/23 apart from the element relating to 2020/21 that was spread over three years.

2.6.36 As a result, the City Council is forecasting a budget gap of £21.350M in 2022/23 as shown in Table 18 below:

Table 18: Financial Planning Assumptions

	2022/23 £M
Previous Budget Gap (March 2020)	**58.901**
National Funding Changes	
Top-Up (Assume Roll Forward of 2021/22)	-27.323
New Homes Bonus	5.334
Social Care Support Grant	-7.098
Total National Funding Changes	**-29.087**

Local Funding Changes	
Council Tax Income (Assume 2021/22 Level)	3.652
Council Tax Income (Assume 1.99% Increase)	-3.835
Business Rates Income (Assume 2021/22 Level)	3.945
S.31 Grant - Business Rates Compensation (Assume 2021/22 Level)	1.730
Collection Fund Deficit (Spread of 2020/21 Deficit)	8.312
Drawdown from Reserve - 75% Income Guarantee	-2.966
Total Local Funding Changes	**10.837**
Directorate Budget Pressures	
Shaw Care Home Pressure	0.750
No Recourse to Public Funds	0.555
Children's Centres Funding	4.000
Libraries Review	0.380
Bulky Bobs Charging	0.260
Public Protection Staffing	0.359
Arboriculture Team Resilience	0.100
Markets	1.000
Equalities Post	0.050
Capital Programme Revenue Consequence	3.100
Total Directorate Budget Pressures	**10.554**
Other Planning Assumptions	
Waste Levy Adjustment (Assume 2% increase)	-2.777
Transport Levy Adjustment (Assume 2% increase)	-2.030
Ongoing Impact of Pay Freeze 2021/22	-4.500
National Living Wage	-9.000
Fees from Capital Receipts	0.250
Arena Car Park – Business Rates	0.800
Investment in Services	1.000
Culture and Arts Investment Programme	0.750
Capital Financing Costs	-3.100
Project Feasibility Budget	0.250
Development Budget	2.000
Recovery Budget	1.500
Total Other Planning Assumptions	**-14.857**
Budget Saving Options	
Ongoing Impact of 2021/22 Options	-14.998
Total Budget Saving Options	**-14.998**
Total Adjustments Above	**-37.551**
Revised Forecast Budget Gap	**21.350**

2.7 Total General Fund Resources

2.7.1 The forecast level of overall general fund resources available to the City Council in 2021/22, including SFA (which, under the 100% rates retention pilot scheme, includes Improved Better Care Fund) and council tax income, is as follows:

Table 19: Total Forecast General Fund Budget

	2021/22 £M
City Council Net Budget	323.898
Funded By:	
Retained Business Rates	-198.111
Top-Up	-66.014
Collection Fund Balance	132.934
Council Tax Requirement	**192.706**
Less Council Tax Income	-192.706
Forecast Budget Gap	0.000

2.7.2 The net budget figure appears to be low because it includes £122.621M drawn down from reserves relating to additional grant funding received in 2020/21. An alternative presentation, showing these reserve drawdowns as part of the funding is shown below.

Table 20: Total Forecast General Fund Budget

	2021/22 £M
City Council Net Budget	446.519
Funded By:	
Retained Business Rates	-198.111
Top-Up	-66.014
Collection Fund Balance	132.934
Reserve – Additional S.31 Grant	-119.655
Reserve – 75% Income Guarantee	-2.966
Council Tax Requirement	**192.706**
Less Council Tax Income	-192.706
Forecast Budget Gap	0.000

3. Working Balances and Earmarked Reserves

3.1 Review of Earmarked Reserves and Provisions

3.1.1 To support the 2021/22 budget process a detailed review of earmarked reserves and provisions has been undertaken and has identified that these sums are adequate, whilst also ensuring that the City Council is holding resources which could assist either current budgetary challenges or indeed helps improve the economic wellbeing of communities in the city.

3.1.2 The City Council creates reserves to prudently plan for future expenditure and to strike a balance between the needs of current and future taxpayers**.** Certain reserves are held to mitigate specific risks that have been identified as part of the budget planning and risk management processes. In addition, the City Council maintains a general reserve to provide resilience against financial uncertainty, this is of particular importance in the current climate of reduced funding levels and the reforms introduced to local government finance that have seen a transfer of risk from central government to local government. It should be noted that, in the event that reserves are used to support the City Council's budget position, they will only be able to be used on a temporary, one off basis and not provide a permanent budget solution to the financial challenge faced. Once a reserve has been spent, it cannot be used again.

3.1.3 The creation of reserves is considered fundamental to the financial resilience and wellbeing of the City Council and acts to mitigate financial risks identified as part of the budget monitoring process. Not all earmarked reserves are available to fund City Council services as a number have been created to satisfy specific statutory and legal provisions. Detail of the levels of earmarked reserves held by the City Council are in the Adequacy of Provisions and Reserves Report on this agenda.

3.2 General Fund Balance

3.2.1 It is essential in setting a balanced budget that the City Council has money available in the event of unexpected spending pressures. The "balances" need to reflect spending experience and risks to which the City Council is exposed.

3.2.2 Based upon the latest budget monitoring position at Month 9 it is envisaged that at the end of 2020/21 there will not be a call on general reserves.

3.2.3 The calculated level of risk-based balances needed in the following year, 2021/22 is £20M and reflects an assessment of known risk. This is detailed in the Adequacy of Provisions and Reserves Report which accompanies the Budget Report on this agenda.

4. References and Further Information

National and International Influences

Jonathan Cribb and Paul Johnson (IFS) - "*10 years on – Have we recovered from the financial crisis?*" - 12 September 2018

IFS Briefing Note – "Tax Revenues and Spending on Social Security Benefits and Public Services since the Crisis" – 17 November 2019

'Coronavirus: Economic Impact' – House of Commons Briefing Paper – 18 January 2021

The City of Liverpool

Office for National Statistics (ONS) – 2018-Based Subnational Population Projections – 24 March 2020

The City of Liverpool – Key Statistics Bulletin – Issue No. 30 – January 2020
http://liverpool.gov.uk/council/key-statistics-and-data/