

Local government finance settlement 2022-23 and future of funding reform

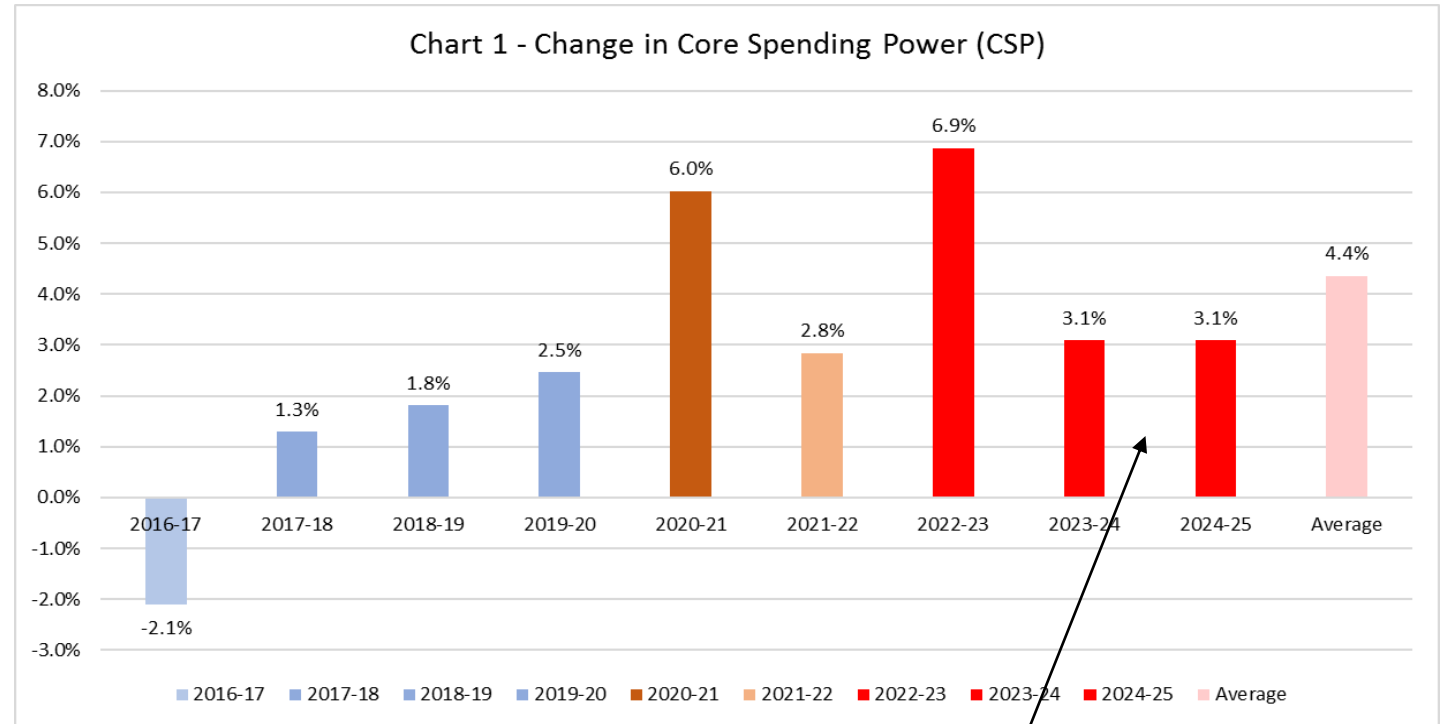
Adrian Jenkins

21 January 2022



Core spending power increases

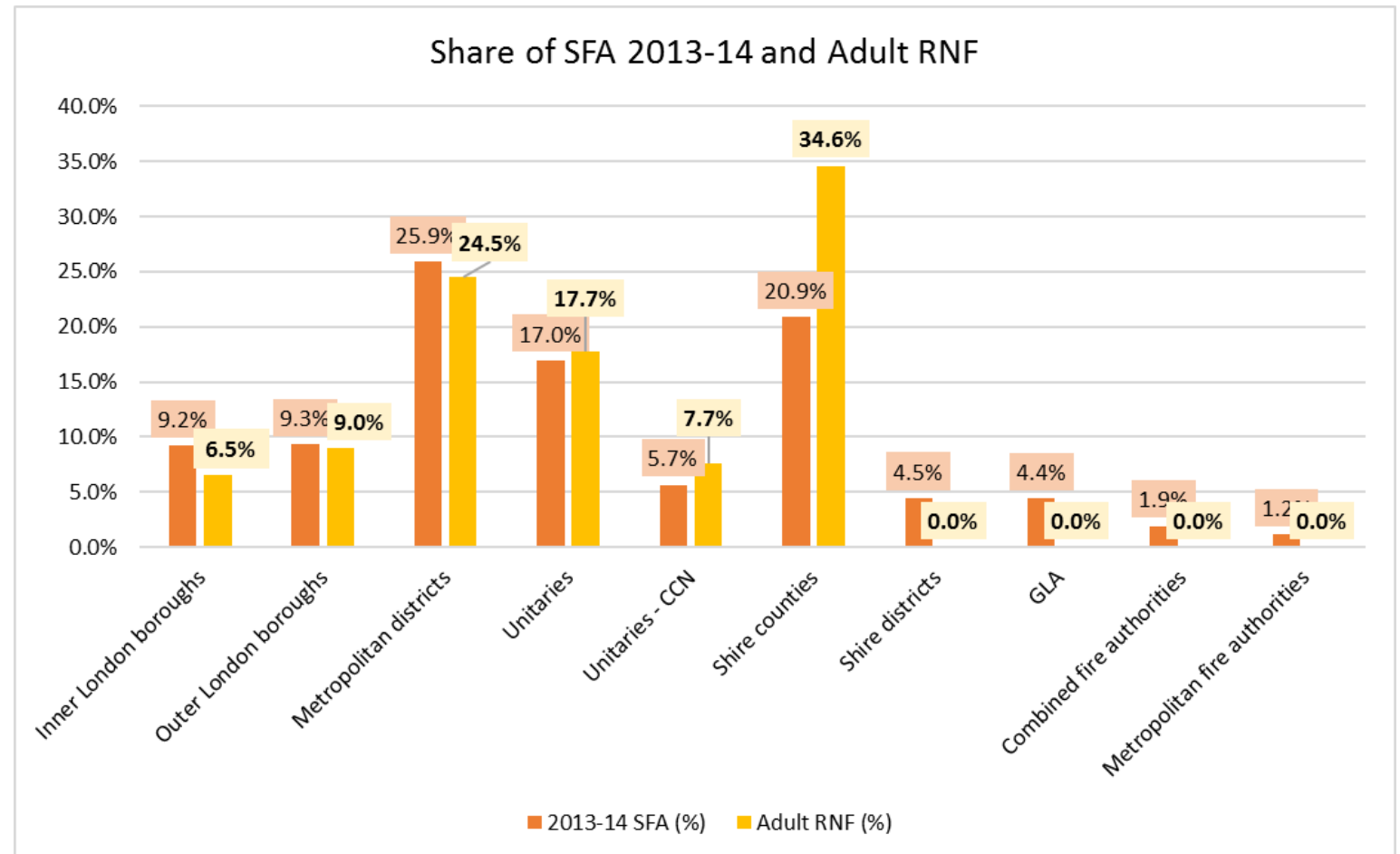
- 6.9% real terms increase in Core Spending Power
- £3.5bn increase in resources, of which £2.1bn from grants and £1.4bn from council tax increases
- Only £1.5bn is “new” money (announced in SR21)
- £162m for social care reforms
- **Increases compare well with previous settlements**
- **But increases in resources in 2023-24 and 2024-25 unlikely to exceed inflation**
- **Future growth in resources reliant on council tax increases**



Flat funding makes major reform more difficult to implement

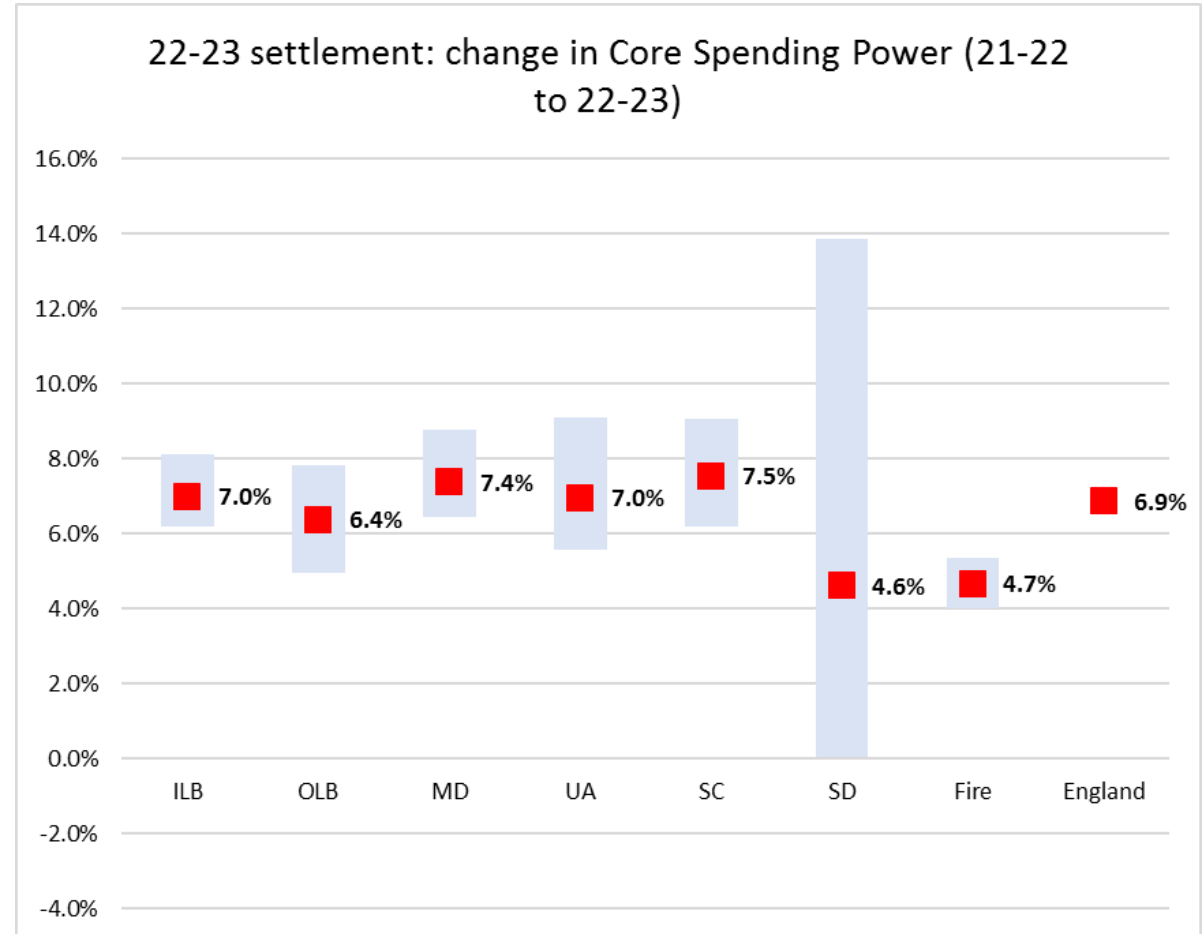
SFA/ Adult RNF shares (by class)

- Two primary drivers of funding distribution in settlement:
- SFA 13-14
- Adult RNF (2013-14)
- **Choices about how to allocate funding to SFA-related or social care grants have distributional consequences**
- Shire counties get a much larger share from Adult RNF
- Mets and London get more from SFA than Adult RNF
- **Only distributing 40% of the £1.5bn through Adult RNF – less than expected**



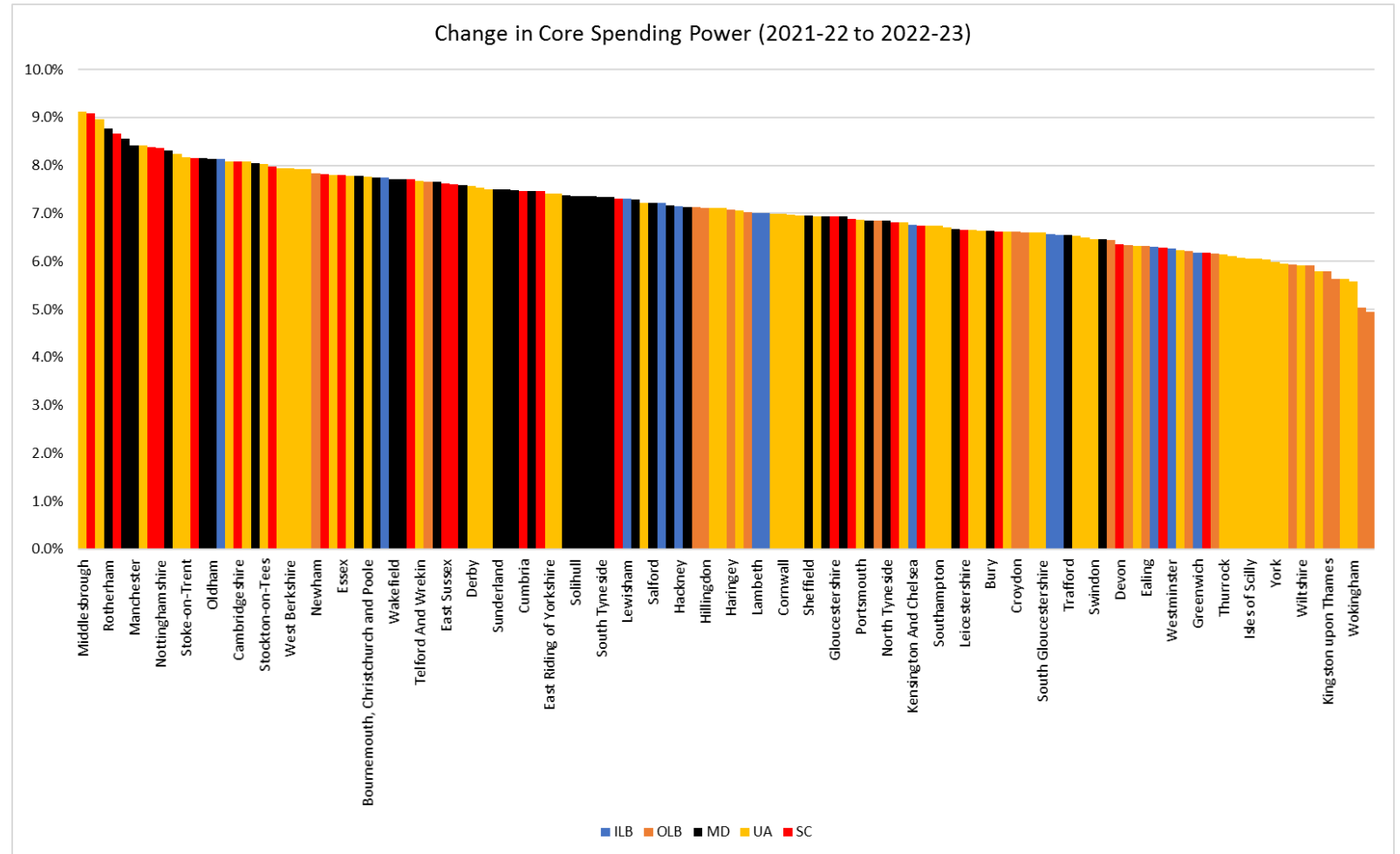
Change in Core Spending Power (by class)

- 6.9% average increase in CSP
- Highest for social care authorities (between 6.4% outer London boroughs to 7.5% shire counties)
- Lower in shire districts (4.6%) because no social care grants or precept
- Very wide range of CSP change in districts – from 0% (LTSG floor) to 13.9% (Spelthorne)
- Similar increase in CSP in fire authorities (same Band D as districts, plus share of SG)

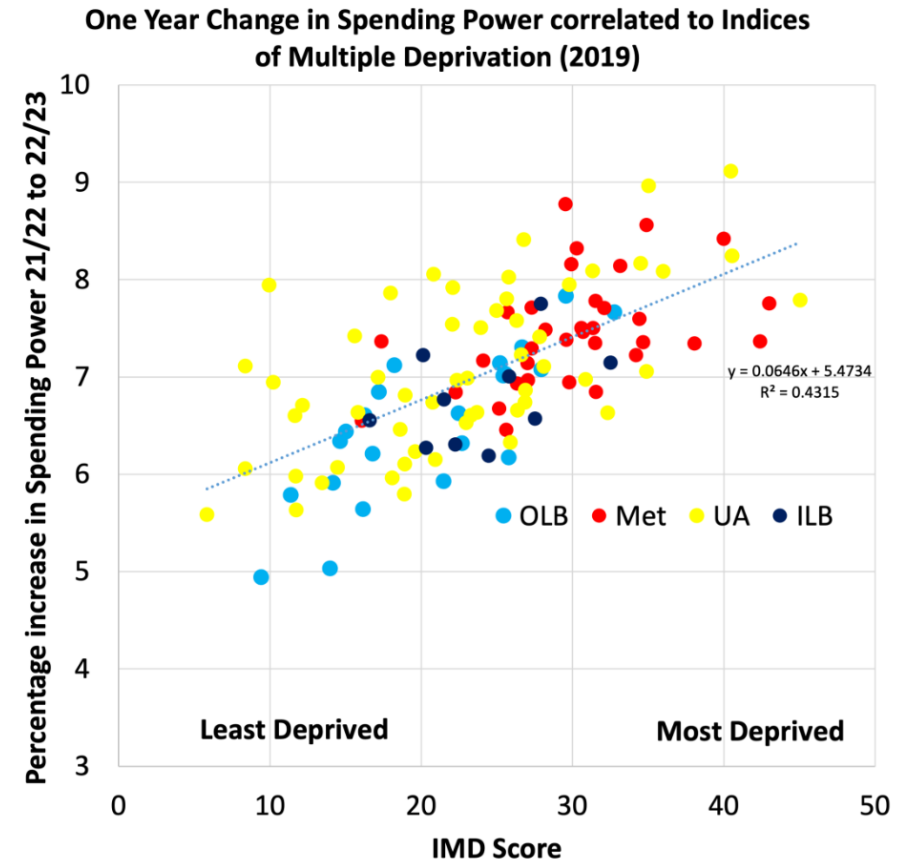
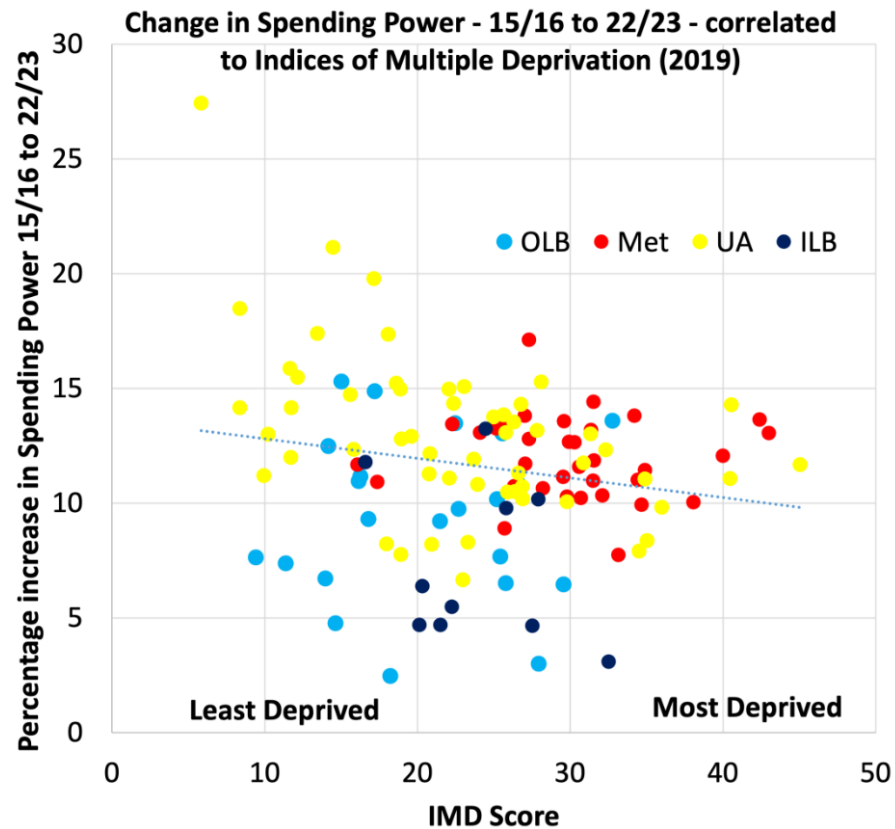


Change in Core Spending Power (by class)

- Largest increases in Middlesbrough (9.1%) and Hartlepool (9.0%) (the “Teesside levelling-up effect”)
- Gains clearly highest in higher-need authorities (levelling up)
- Many shire counties also doing well (Lincolnshire 9.0%, Derbyshire 8.7%, Warwickshire and Nottinghamshire 8.0%)
- Lowest increases in Richmond upon Thames (4.9%) (levelling down!!!), followed by Sutton and Wokingham



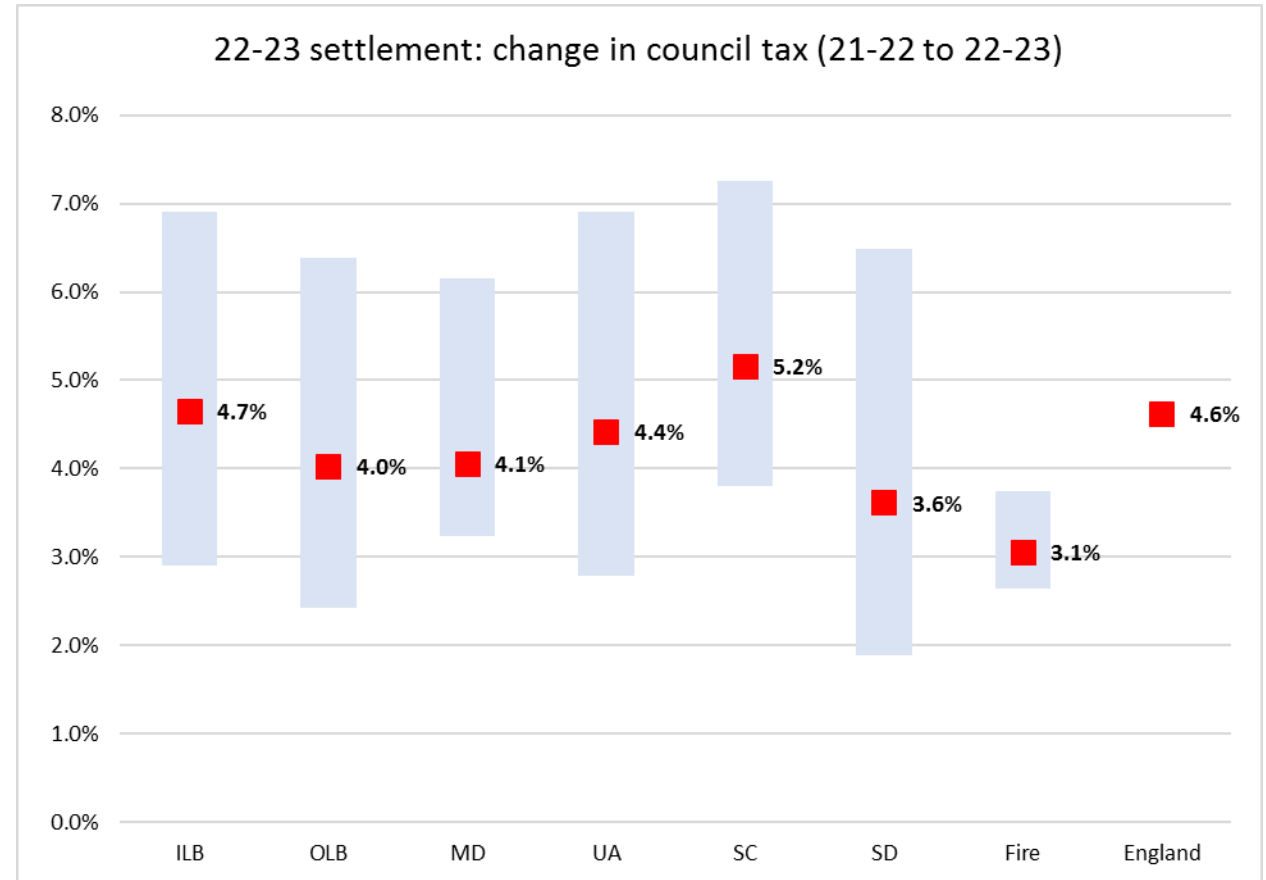
Has levelling-up already begun?



- Since 2015-16, higher increases in CSP in less-deprived authorities (cuts in grant funding, higher taxbases)
- Change of direction in 2022-23, with clear distribution towards more-deprived authorities
- Shire counties not included because difficult to present like-for-like

Change in council tax (by class)

- Shire counties have highest increase in council tax, driven by deferred precept increases from 2021-22
- Stronger taxbase growth in inner London than other single-tier councils (settlement assumes average growth between 2017-18 and 2021-22)
- Fire authorities still lagging behind (effect of £5 is not that strong on the average)
- **Gove is looking at authorities with “more resilient” taxbases**



Impact assessment for ASC reform funding

- £162m in 2022-23 for “market sustainability and Fair Cost of care”, and further £600m in each of 2023-24 and 2024-25
- Total £3.6bn will be available through the settlement for the reforms (£1.4bn in 2023-24 and £2.0bn in 2024-25)
- Impact assessment of preferred costs, NPV based on 2021 prices:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1044903/adult-social-care-charging-reform-impact-assessment.pdf
- Are these estimates realistic?
- Costs grow over time, and we assume future funding will as well

	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30
COSTS								
Charging Reform - 86k Cap, 20k LCL, 100k UCL	0.00	0.57	1.27	1.34	2.03	2.68	2.97	3.17
Older Adults	0.00	0.41	0.89	0.87	1.51	2.15	2.42	2.60
Adults under 65	0.00	0.17	0.38	0.46	0.52	0.54	0.56	0.57
Total FCC and MMF	0.57	0.63	0.69	0.70	0.95	1.06	1.03	1.06
FCC	0.54 ¹	0.56	0.57	0.59	0.61	0.63	0.65	0.68
Interaction of FCC with Charging Reform	0.00	0.04	0.07	0.07	0.30	0.39	0.33	0.34
Market Management Function	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Implementation Costs	0.03	0.17	0.00	0.00	0.00	0.00	0.00	0.00
Trailblazer Costs	0.01	0.05	0.08	0.00	0.00	0.00	0.00	0.00
Total Care and Support Costs	0.62	1.42	2.04	2.04	2.98	3.74	4.00	4.23

Settlement update

- No announcements yet for Public Health grant, Supporting Families programme, Independent Living Fund, Highways Maintenance (Capital) or Fire grants. Allocations for 2022-23 will be confirmed shortly.
- **Flexible use of capital receipts.** Extension of the flexibility for a further 3 years was announced in the final settlement in February 2021. Details on the conditions for extending the flexibility beyond 31 March 2022 are still being finalised. The impact of the flexibility has to be assessed, and this has taken longer than expected because of the spending review and other changes. Details will be published shortly.
- **Homelessness Prevention Grant.** Allocations were announced shortly before Christmas. <https://www.gov.uk/government/publications/homelessness-prevention-grant-2022-to-2023/homelessness-prevention-grant-2022-to-2023-technical-note>
- **£60m adult social care grant.** A further grant to support local authority COVID responsibilities was announced on 29 January 2021. https://www.gov.uk/government/news/an-extra-60-million-for-adult-social-care-over-january-2022?utm_medium=email&utm_campaign=govuk-notifications&utm_source=3e0b9464-6726-485b-a056-932eed27e4c7&utm_content=daily

Michael Gove, select committee, 8 November 2021

- “Councils with the **most resilient council tax base and the highest proportion of business rates are relatively speaking in a stronger position**”
- “Not moving precipitately in that direction.”
- “**headroom** we have for a redistribution of funding to better reflect the additional needs and responsibilities”
- “not as crude as seeking to help local authorities in the north”
- “117 different pots for which local authorities are encouraged to bid”
- “some in have articulated in local government that the NHS has grabbed the lions share”

Michael Gove, settlement statement, 16 December 2021

“my priority is to provide stability in the immediate term so I can work closely with local government and other partners on options to update our assessment of local authority needs and resources”

“committed to ensuring that funding allocations for councils are based on an **up-to-date assessment of their needs and resources**”

“data used to assess this has not been updated in a number of years, **dating from 2013-14 to a large degree, and even as far back as 2000**”

“Over the coming months, we will **work closely with the sector** and other stakeholders to update this and to look at the challenges and opportunities facing the sector before **consulting on any potential changes.**”

“As part of this we will look at options to support local authorities through transitional protection. Councils should note the one-off 2022/23 Services Grant provided in the Local Government Finance Settlement in 2022/23 will be excluded from potential transitional protections.”

Kemi Badenoch, LGA Conference, 13 January 2022

- “we want to ensure that funding allocations are based on an up-to-date assessment of needs and resources”
- “One challenge is that the data used to make this assessment has not been updated in several years – a lot of it is coming from 2013/14, nearly 10 years ago, and some even as far back as the turn of the millennium. I don’t want to say ‘pre-historic’ but it’s difficult to properly forecast using data that came before Windows XP!”
- **Consultation paper promised for Spring (April?) and then Summer consultation likely – very short timescales**

What can we expect from funding reform

- Time limited – short timescales for delivery
- Existing research and formulas – much of the work already completed, possibly higher weighting for deprivation
- Council tax equalisation – THE major driver of redistribution, not reset since 2013-14, and now much large in relative terms
- Business rates reform – baseline reset seems very likely, but no move to 75% retention, end of pilots
- Uncertainty continues for high-growth authorities (those with large retained business rates growth)
- Potential “headroom” – using existing resources to redistribute (NHB, baseline reset, cap compensation)
- Damping – design of transitional system very important, pace of change, CSP only or BRRS as well

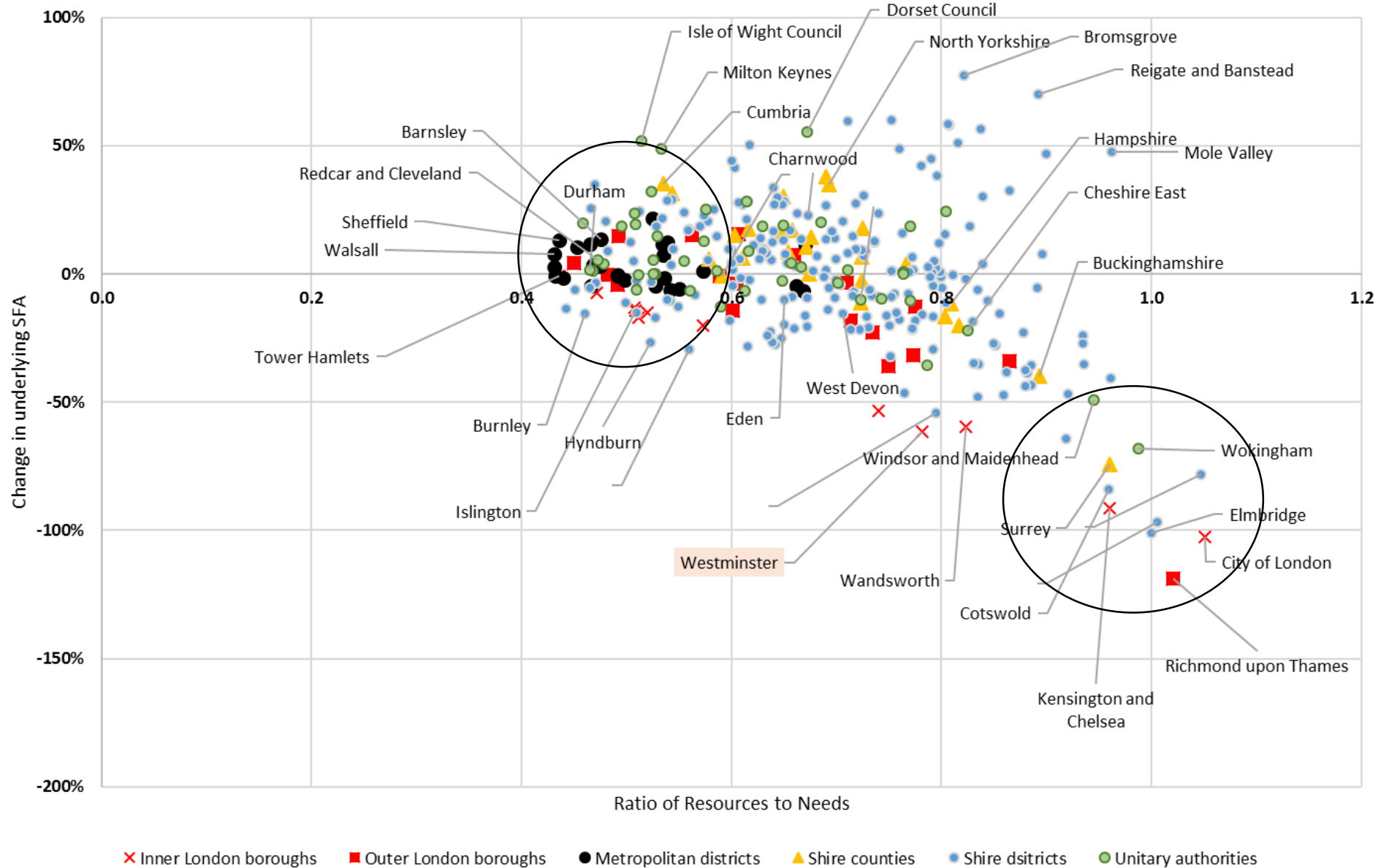
Potential scenarios...

- **Full reform package**, including FFR, baseline reset and NHB reform
- **Cut-down funding reform package** (data updates, some formula change, equalisation)
- Create “**headroom**” pot for levelling-up, and minimal change to funding formulas

Fair Funding Review – pre-pandemic

- **Flatter funding** (foundation formula, highways maintenance) – also simpler, fewer indicators
- **Adult and Children’s RNF** – new formula based on multi-level modelling
- Removal of many **urban factors**
- Replacement of density and sparsity with **travel time indicator**
- Minimal **deprivation** factors
- Council tax **equalisation** (how much?) and **transitional support**
- **How appropriate is this approach now? Does it fit with “levelling up”?**

Chart 1 - Change in underlying SFA vs Ratio Resources-vs-Needs



Resilient business rates and council taxbases

- **Michael Gove is using argument around disproportionate business rates gains to justify abandoning 75% business rates retention**
- Proportion of business rates NOT higher in South-East BUT council taxbase is high
- London has very high share of business rates (moderate council taxbase)
- Strong argument for resetting business rates baseline – and council tax equalisation
- **Council tax equalisation is a very serious threat to counties in South-East**

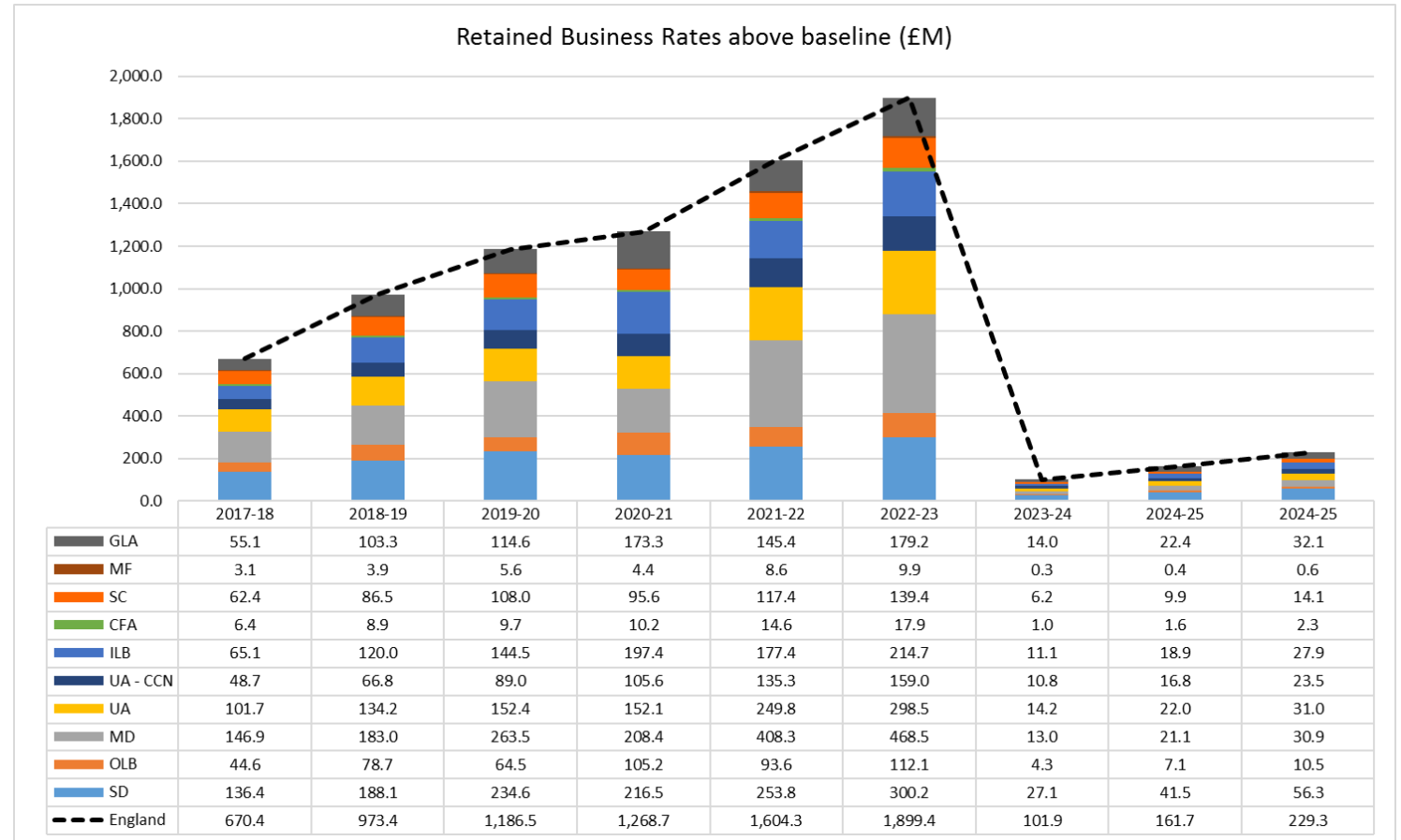
	Rateable value (£ per head)	Pre-levy retained business rates (2021-22) (£ per head)	Post-levy retained business rates (2021-22) (£ per head)	Council taxbase (Band D per head)
South East	1039.42	22.05	14.46	0.369
North West	922.96	30.96	27.07	0.289
East Midlands	748.46	31.31	23.05	0.301
East of England	947.79	25.77	17.52	0.346
London	2256.53	51.05	37.44	0.337
Yorkshire & Humberside	889.17	16.96	15.69	0.288
South West	907.48	22.33	17.78	0.349
West Midlands	886.68	31.19	26.09	0.290
North East	812.45	11.72	11.72	0.272
ENGLAND	1128.14	29.04	22.39	0.322

Options for headroom...

- **Needs-based formula (SFA? Levelling Up Fund?) with council tax equalisation**
- SR21 funding in settlement (£822m Services Grant)
- New Homes Bonus (NHB) (£750m)
- Baseline reset (£1.6bn to £1.9bn)

NNDR3 2020-21

- <https://www.gov.uk/government/statistics/national-non-domestic-rates-collected-by-councils-in-england-2020-to-2021>
- Growth rate in BR retention reduced – but no significant BR losses at national level
- Growth in cash and real terms in 2020-21
- NNDR1 2021-22 already suggested retained growth largely unaffected over medium term – short-term losses



Transitional support (damping)

- **Essential** part of funding reform but no detail
- **Scope** – Core Spending Power, excl 22-23 Services Grant?
Business rates growth? Other grants, e.g. social care and public health?
- **Pace of change** – maximum annual reduction in resources, losses spread over fixed period (4-5 years)?

Pixel work programme for 2022

- Keep up-to-date with latest proposals and consultations
- Update our Fair Funding model and MTFP model
- Regular webinars and briefings