

Pixel/ LG Improve

The Pre-Settlement Session!

Adrian Jenkins/ Dan Bates

1 December 2021



Agenda

- Latest on the provisional settlement (Gove, funding reform scenarios, distributing the £1.5bn, what is in the £1.5bn, council tax thresholds)
- Social care reforms – funding and costing
- Council taxbase 2021-22 and 2022-23
- NNDR3 business rates outturn 2020-21

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”

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 (£1.5bn)
- New Homes Bonus (NHB) (£750m)
- Baseline reset (£1.6bn to £1.9bn)

Local government reform – scenarios

1. Implement full reform package in 2023-24 (Fair Funding Review, baseline reset) – major redistribution, benefits most counties and Red Wall, but severe losses in SE counties
2. Headroom redistribution in 2023-24 (use existing resources for levelling up) – less disruptive and less redistributive, delivers levelling up, avoids losses in SE counties
3. Delay until 2025-26 – allows multi-year settlement but unlikely

Some thoughts...

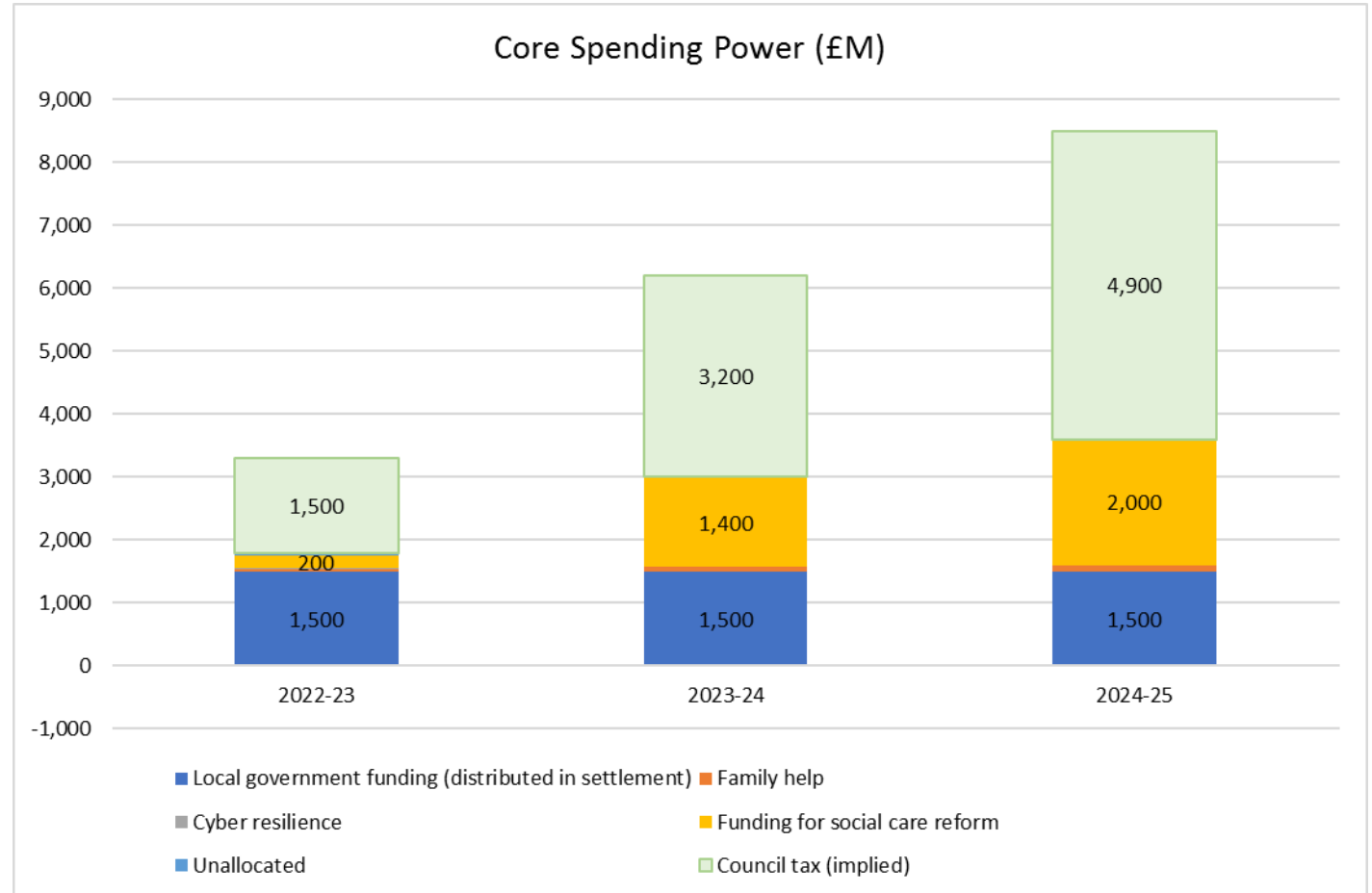
- Uncertainty continues for high-growth authorities (those with large retained business rates growth) 
- Without transfers into SFA, is major change to SFA difficult to achieve unless ministers prepared to accept “negative RSG”?
- Will there be damping for any changes? Either from FFR or baseline reset?
- Any reforms will now be judged by whether they deliver “levelling up” – opportunity for some authorities that wasn’t there two years ago

Provisional local government finance settlement 2022-23

- Settlement date between 6 and 16 December (parliamentary recess)
- One-year or multi-year allocations? Depends on ministerial decision on reforms – but one-year settlement looks very likely
- Allocation of £4.8bn (SFA, social care grants, other grants)
- Allocation of £3.6bn social care reform grants
- Council tax thresholds (2% core, 1% social care precept) – “expected”
- New Homes Bonus
- Other grants (homelessness, troubled families, etc)
- Ongoing COVID pressures

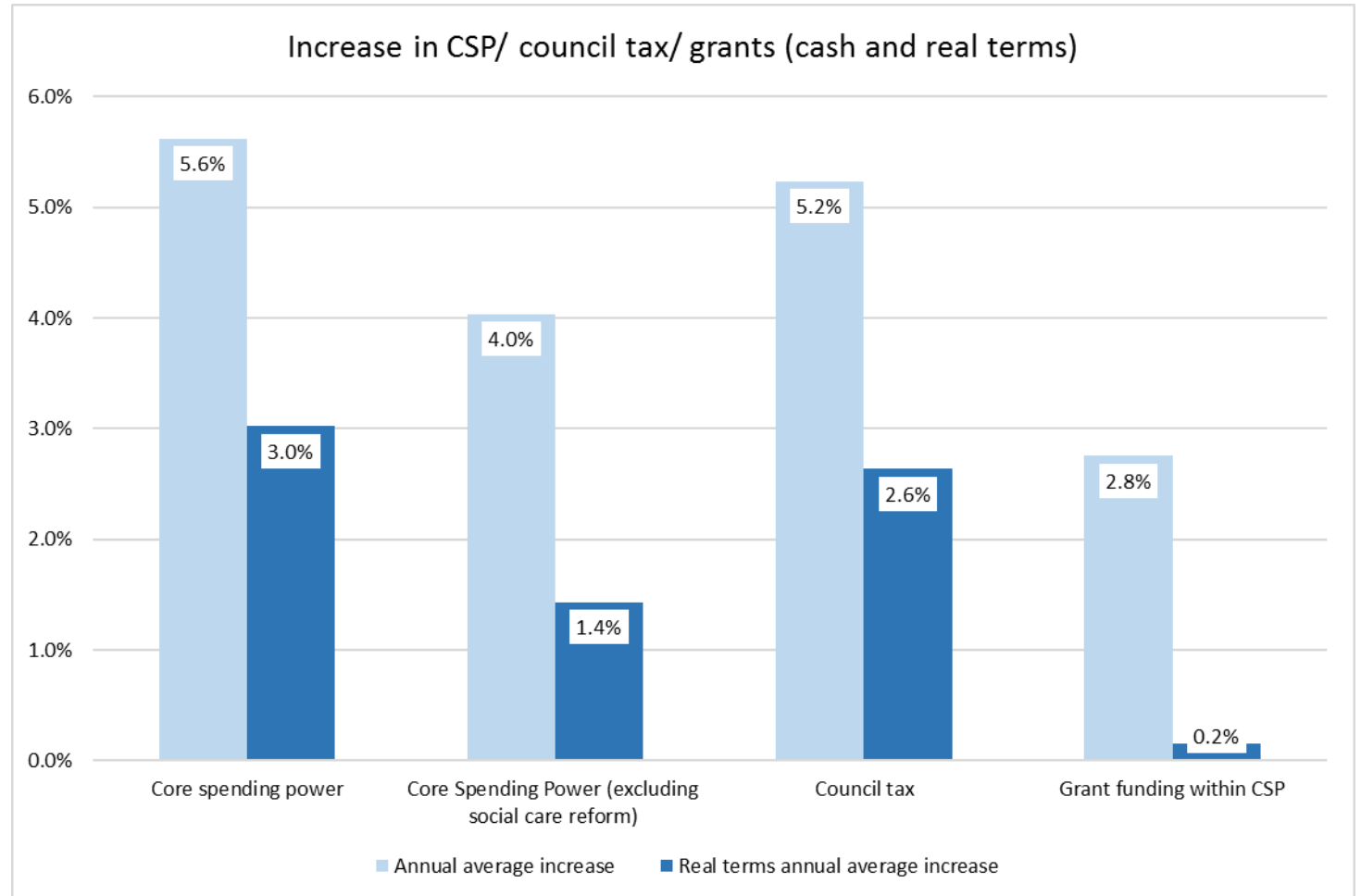
Core Spending Power (CSP) – elements of change

- **Growth is front-loaded, then cash-flat**
- Flat £1.5bn in each financial year
- Growing funding for social care reform (from £200m to £2bn)
- **Growth in resources from 2023-24 from council tax**
- Two-thirds of additional CSP is council tax (assumes maximum council tax increase)
- Similar to previous settlements, and shows increasing dominance of council tax
- **Suggests pressure to increase council tax (and lift thresholds) in 2023-24 and 2024-25**



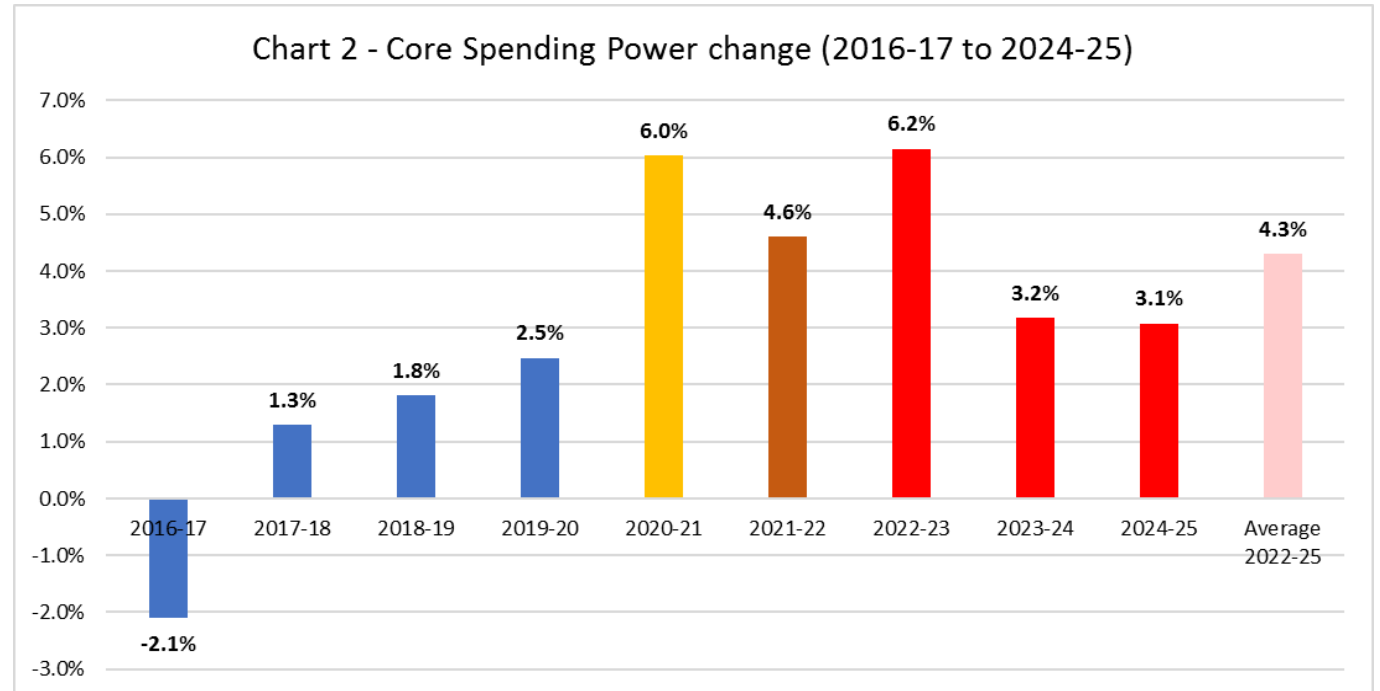
Growth in local government funding

- Treasury headline: “*estimated average real-terms increase of 3% a year in core spending power*” – but includes £3.6bn grant funding for social care reform
- Real terms growth in CSP excluding funding for social care reform is only 1.4% (in real terms)
- Growth in CSP is largely driven by council tax increases (2.6% real terms annual increase)
- Grant funding is increasing in real terms (but only 0.2%)



How does this compare to previous SRs?

- Cash terms change in CSP (settlement or SR figures, assumes full council tax increases; excludes new social care reform funding 2022-25)
- 2015-19 was very poor (but better than 2010-15)
- Cash-terms cuts in grant funding but offset by council tax growth; cuts were front-loaded
- Much better funding in two recent one-year SRs (new social care funding in each, £1.3bn in 2020-21 and £292m in 2021-22) but also very high council tax growth



- **Continued trend of real-terms growth in funding (and CSP)**
- **SR21 compares well with previous years but less-good than SR19 or SR20**

Paragraph 4.54 The government is providing councils with £4.8 billion of new grant funding over the SR21 period for social care and other services. This represents the largest annual increases in local government core funding in over a decade.

“largest sustained rise in core spending power in more than a decade, building on year-on-year real-terms increases for local government since SR19”

Only CORRECT because of the word “sustained”

INCORRECT!

Allocating the £4.5bn (SFA and social care)

- Scenario 1 – 2021-22 approach
 - Inflation applied to RSG (only 0.55%) (no uplift for authorities with “negative RSG”)
 - Surplus NHB reallocated via various grants (RSDG, LTSG, social care)
 - Cap compensation paid via s31 grant (effectively inflation on BFL)
- Scenario Scenario 2 – MTFP model v5.0
 - Split funding between SFA and social care (input assumptions in MTFP model) – see scenarios 1a and 1b
 - Allocate SFA funding pro rata to 2021-22 SFA (ignores “negative RSG”)
 - Allocate social care funding using Adult RNF and equalisation of ASC precept
 - Cap compensation paid via s31 grant (effectively inflation on BFL)
- 3 – Levelling-up “headroom”
 - Available funding used as “headroom” for levelling-up
 - £1.5bn from SR21 plus £750m NHB (different allocation basis?)
 - Cap compensation paid via s31 grant (effectively inflation on BFL)

Scenario 1 – 2021-22 methodology

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Change in 2020-21	Change in 2020-21
	£m	£m	£m	£m	£m	£m	£m	£m	%
Settlement Funding Assessment	21,250	18,602	16,633	15,574	14,560	14,797	14,810	13	0.1%
Compensation for under-indexing the business rates multiplier	165	165	175	275	400	500	650	150	30.0%
Council Tax	22,036	23,247	24,666	26,332	27,768	29,227	30,397	1,170	4.0%
New adult social care precept							749	749	n/a
Improved Better Care Fund	0	0	1,115	1,499	1,837	1,837	1,837	0	0.0%
The Adult Social Care Support Grant	0	0	241	150	0		0	0	n/a
Winter pressures Grant	0	0	0	240	240	240	240	0	0.0%
Social Care Support Grant	0	0	0	0	410	1,410	1,710	300	21.3%
Lower Tier Support Grant							111	111	n/a
New Homes Bonus	1,168	1,462	1,227	947	918	907	622	-285	-31.4%
New Homes Bonus returned funding	32	23	25	0	0			0	n/a
Rural Services Delivery Grant	16	81	65	81	81	81	85	4	4.9%
Transition Grant	0	150	150	0	0			0	n/a
Core Spending Power	44,666	43,730	44,296	45,098	46,213	48,999	51,210	2,211	4.5%

- Indexation applied to RSG and through the cap compensation scheme
- Negative RSG authorities still received indexation (just not through the RSG)
- No returned NHB surplus, all allocated to other grants: social care (£150m), RSDG (£5m), RSG (£13m) and LTSG (£111m, o/w £25m for “damping”)
- Additional one-off NHB payment made in 2021-22
- **Much more funding in 2022-23 (additional £1.5bn plus phase-out of NHB)**

Scenario 2 – modelling assumptions

- Scenario 2a – MTFP model v5.0
 - Split funding between SFA and social care (input assumptions in MTFP model)
 - Allocate SFA funding pro rata to 2021-22 SFA (ignores “negative RSG”)
 - Allocate social care funding using Adult RNF and equalisation of ASC precept
 - Might allow some of early allocations to be badged as “COVID” support

- Scenario 2a – MTFP model v5.0
 - Split funding between SFA and social care (input assumptions in MTFP model)
 - But front-loaded to both SFA and social care

- We expect social care funding to be at least 50% of total

<u>Change in SFA in percentage terms</u>	2021-22	2022-23	2023-24	2024-25	2025-26 onwards
Change in SFA	0.55%	2.70%	1.97%	1.93%	2.00%
Spending Review 2021					
<i>Settlement Funding Assessment (EM) 2021-22</i>					
SFA growth	300	600	900		1,800
Family help	40	70	90		200
Cyber resilience	12	13	13		38
Unallocated	48	17	-3		62
<i>Change in SFA per SR21</i>	400	700	1,000		2,100
Settlement Funding Assessment (SFA) (£M)	15,210	15,510	15,810		
Social care grants (£M) (from the £4.8bn in SR21)	1,200	900	600		2,700
Increased funding for SFA and social care grants	1,600	1,600	1,600		4,800

<u>Change in SFA in percentage terms</u>	2021-22	2022-23	2023-24	2024-25	2025-26 onwards
Change in SFA	0.55%	4.73%	0.00%	0.00%	2.00%
Spending Review 2021					
<i>Settlement Funding Assessment (EM) 2021-22</i>					
SFA growth	600	600	600		1,800
Family help	40	70	90		200
Cyber resilience	12	13	13		38
Unallocated	48	17	-3		62
<i>Change in SFA per SR21</i>	700	700	700		2,100
Settlement Funding Assessment (SFA) (£M)	15,510	15,510	15,510		
Social care grants (£M) (from the £4.8bn in SR21)	900	900	900		2,700
Increased funding for SFA and social care grants	1,600	1,600	1,600		4,800

Scenario 2 – Harrogate

	2021-22	Scenario 2a 2022-23	Scenario 2b 2022-23	
Council tax	16.055	16.547	16.547	Maximum increase in council tax, plus taxbase growth
Cap compensation	0.170	0.277	0.277	Paid on TT and actual rates; figure in CSP based on BFL alone
Baseline Funding Level	3.743	3.743	3.743	No change - multiplier is frozen
Revenue Support Grant	0.000	0.101	0.177	Modelling assumption: SFA increase distributed pro rata
Rural Services Delivery Grant	0.252	0.252	0.252	Modelling assumption: no change
Returned NHB	0.000	0.158	0.158	Modelling assumption: share of unused NHB
Lower Tier Services Grant	0.159	0.551	0.493	Modelling assumption: payment to ensure CSP does not fall in cash terms
Improved Better Care Fund (Original Allocation)	0.000	0.000	0.000	n/a
Improved Better Care Fund (Budget 2017)	0.000	0.000	0.000	n/a
Winter Pressures grant	0.000	0.000	0.000	n/a
Social Care Support grant (SR19 and SR20)	0.000	0.000	0.000	n/a
Social Care Grants (Spending Review 2021)	0.000	0.000	0.000	n/a
Social Care Grants (reforms £3.6bn over 3 years)	0.000	0.000	0.000	n/a
Social care grants	0.000	0.000	0.000	
New Homes Bonus	1.670	0.481	0.481	Final NHB payment
Core Spending Power	22.049	22.110	22.127	
Change in Core Spending Power (cash terms) (%)		0.3%	0.4%	

Cap compensation effectively funds inflation on BFL

No inflation paid on BFL (multiplier is frozen)

No inflation on RSG in 2021-22 (negative RSG) but if there is in 2022-23, then some will represent real terms growth

In any case, LTSG ensures overall CSP allocation does not reduce in cash terms

Very little difference between in overall CSP allocations in scenarios (or to 2021-22) because of LTSG

- Will LTSG continue? Could be very important for some “negative RSG” district councils
- Funding from various sources can deliver real-terms increase in grants

Negative RSG

- 168 local authorities now in “negative RSG”
- Mostly shire districts but some unitaries, counties and outer London boroughs
- Possible to reconstruct “real” SFA position – but messy!

Scenario 2 – Enfield

	Scenario 2a		Scenario 2b	
	2021-22	2022-23	2022-23	
Council tax	133.108	138.378	138.378	Maximum increase in council tax, plus taxbase growth
Cap compensation	3.786	5.978	5.978	Paid on TT and actual rates; figure in CSP based on BFL alone
Baseline Funding Level	74.164	74.164	74.164	No change - multiplier is frozen
Revenue Support Grant	17.668	20.148	22.008	Modelling assumption: SFA increase distributed pro rata
Rural Services Delivery Grant	0.000	0.000	0.000	Modelling assumption: no change
Returned NHB	0.000	3.128	3.128	Modelling assumption: share of unused NHB
Lower Tier Services Grant	0.624	0.000	0.000	Modelling assumption: payment to ensure CSP does not fall in cash terms
Improved Better Care Fund (Original Allocation)	8.249	8.249	8.249	Assume no change in 2021-22 allocations
Improved Better Care Fund (Budget 2017)	1.834	1.834	1.834	Assume no change in 2021-22 allocations
Winter Pressures grant	1.299	1.299	1.299	Assume no change in 2021-22 allocations
Social Care Support grant (SR19 and SR20)	9.393	9.393	9.393	Assume no change in 2021-22 allocations
Social Care Grants (Spending Review 2021)		6.617	4.994	Adult RNF and full equalisation of ASC precept
Social care grants	20.774	27.392	25.769	
New Homes Bonus	0.608	0.077	0.077	Final NHB payment
Core Spending Power	250.733	269.266	269.503	
		7.4%	7.5%	

Cap compensation effectively funds inflation on BFL

No inflation paid on BFL (multiplier is frozen)

Inflation and growth on SFA depending on split with social care

No LTSG unless some is allocated to lower tier authorities (who have increase in CSP)

Very little difference between in overall CSP allocations in the two scenarios (share of Adult RNF and SFA not dissimilar)

- For most upper tier authorities, split between SFA, social care and other grants should not make too much difference – but will at the extremes (e.g. v high taxbase)

Allocating other SR21 amounts

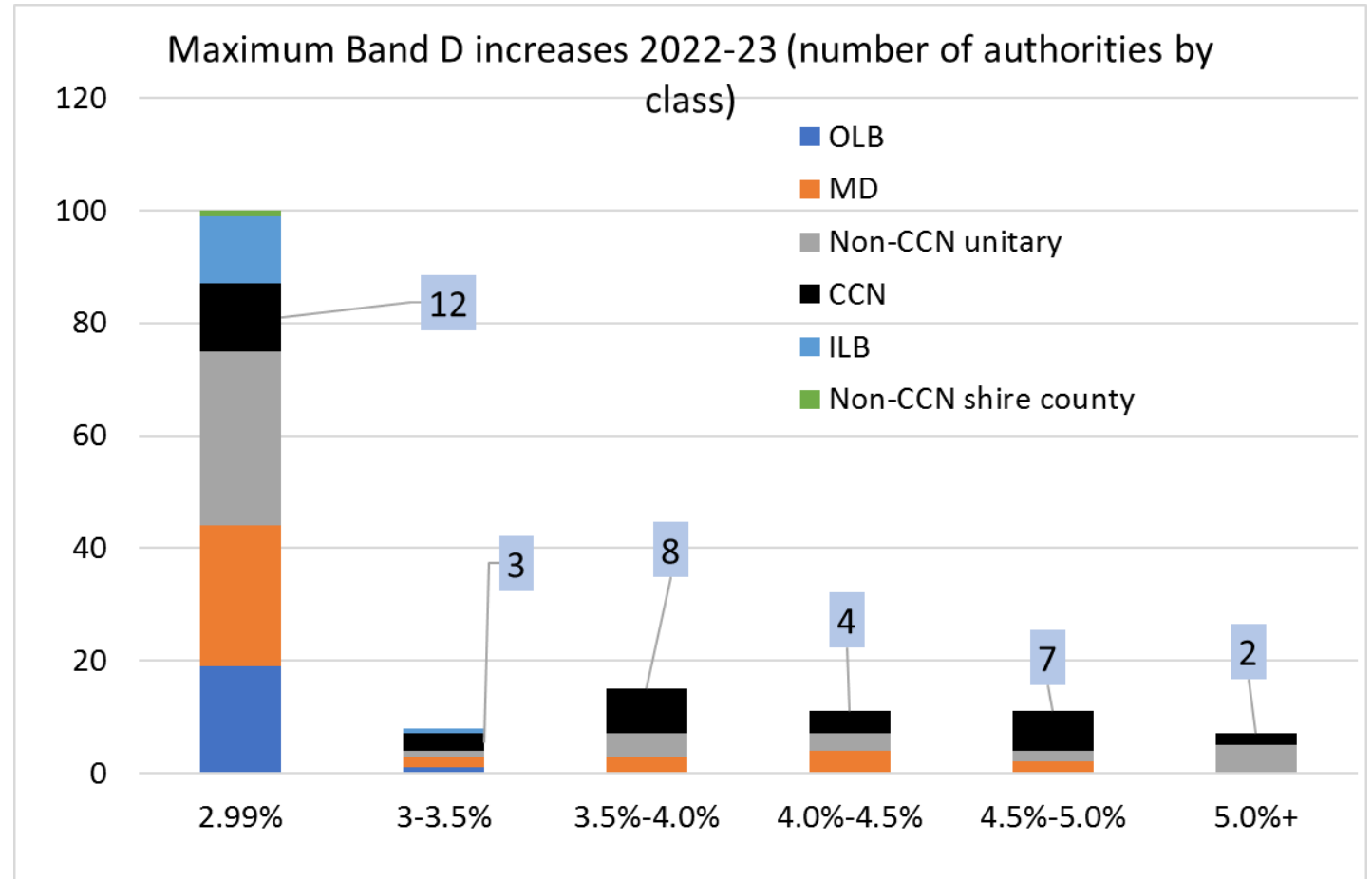
- Family Help (£200m)
 - Cyber Resilience (£38m)
 - Unallocated (£63m?)
-
- No indications of how these allocations will be distributed

What is funded by the £4.8bn?

- **Local Government Pay award**: “return to a normal pay setting process” for public sector workers, with the government seeking “recommendations from Pay Review Bodies where applicable” **YES**
- **National Living Wage**: increased to £9.50 per hour from April 2022, a 6.6% increase. This is a real-terms increase in pay, and “is consistent with the government’s long-term ambition for the NLW to reach two-thirds of median earnings and apply to workers aged 21 and over by 2024, provided economic conditions allow” (para 2.96). **YES**
- **Health and Social Care Levy**: National Insurance Contributions (NICs) 1.25% percentage points from April 2022 onwards to fund the NHS and social care reform. Treasury has set aside £1.7bn to £1.8bn every year to pay compensation (p.134) **YES**
- **Audit fees**: new burdens funding for increase in audit fees (per Public Sector Audit Appointments). **YES**
- **Cap compensation** (est. £450m). Business rates multiplier will be frozen in 2022-23, and local government will receive compensation. **NO**

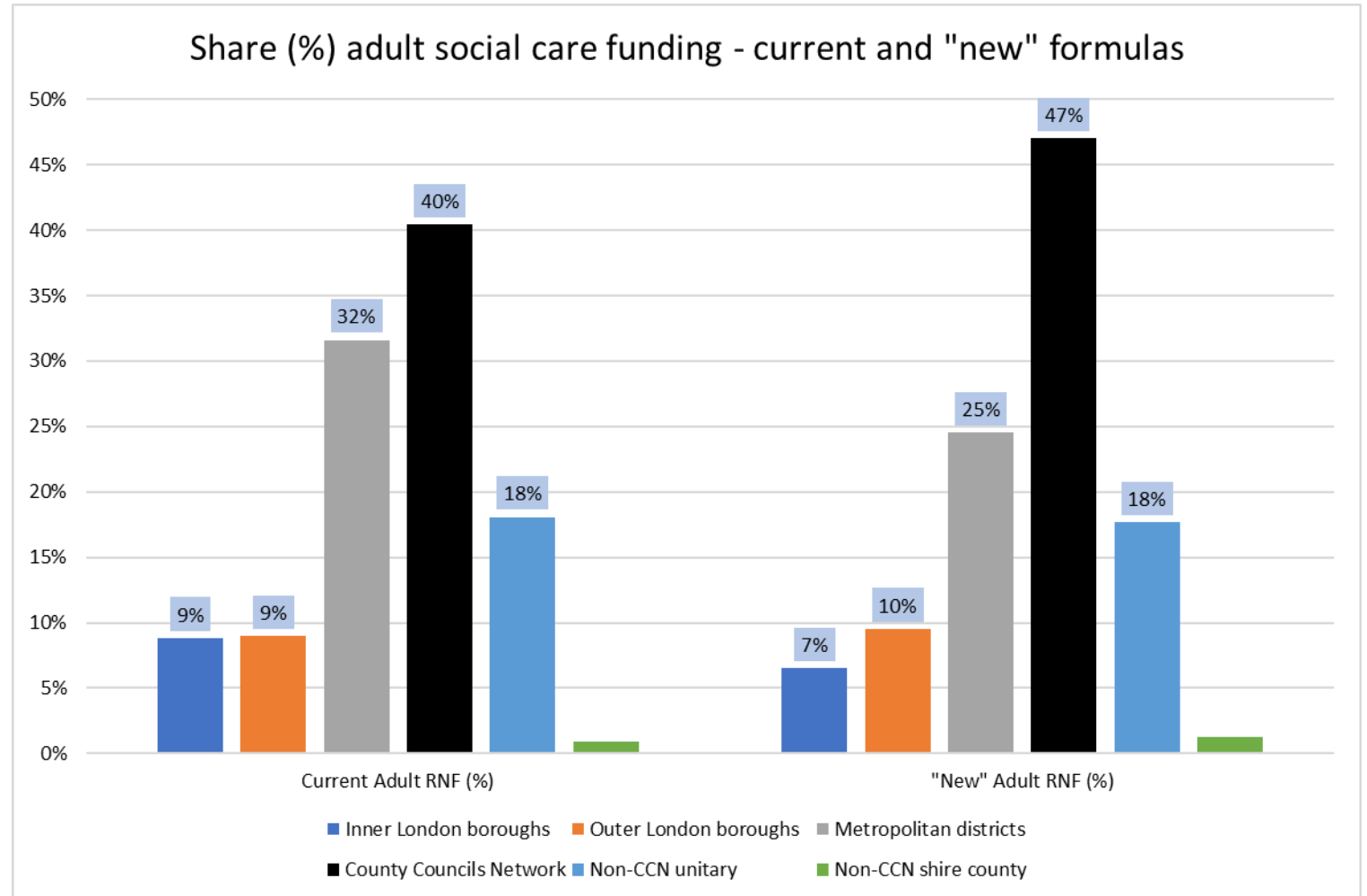
Council tax thresholds

- Core increase 2%, social care precept 1%, district higher of 2% or £5, fire authorities 2%, police and crime commissioners £10
- These are the “expected” thresholds but will be confirmed in the provisional settlement (and probably revised in future years)
- 2021-22 social care precept was 3%, and could be deferred to 2022-23
- 52 out of 152 social care authorities did not use the full increase (some will be able to increase council tax by 6% in 2022-23)
- **Most of those deferring all or part of 3% were county authorities (local elections in 2020)**



Funding for social care reform

- Additional £5.4bn over 3 years
- £3.6bn allocated through the settlement but distribution not known (Adult RNF or new RNF possible)
- “New” Adult formula was developed for Care Act reforms (not yet fully developed)
- **Our modelling suggests new formula would be very redistributive (move from Mets/ inner London to more-affluent counties)**
- £1.7bn held back by DHSC:
- £500m for workforce reform (“qualifications, skills and wellbeing across the adult social care workforce”)
- £1.2bn to be allocated (“to improve the wider social care system, including the quality and integration of care”)



Social care reform – preparation

- Have any authorities made progress with costing the reforms?
- Reform package based on Dilnot Report but not yet settled
- Amendments to the Care Act framework to be enacted through a new clause in the Health and Social Care Bill
- <https://commonslibrary.parliament.uk/research-briefings/cbp-9315/>
- Changes to the scheme will affect both overall cost and distribution of cost between authorities
- Proposal that local authority contributions will not count towards the “care cap” will reduce benefits to many living in “north/ midlands” – but will also reduce the cost of the cap for those authorities

Social care – white paper?

- Long-awaited white (green?) paper on reform to existing social care system
- Reports that white paper will be issued this afternoon (1 December 2021)



Laura Kuenssberg  @bbclaurak · 2h

...

Hearing Social Care White Paper likely to emerge after [#pmqs](#) tmrw - likely to be about how extra 1.7bn will be divvied up, with various pilots of things that might work in future, eg different kinds of housing, but not a big bang reform to 'fix' the system..



LG Improve

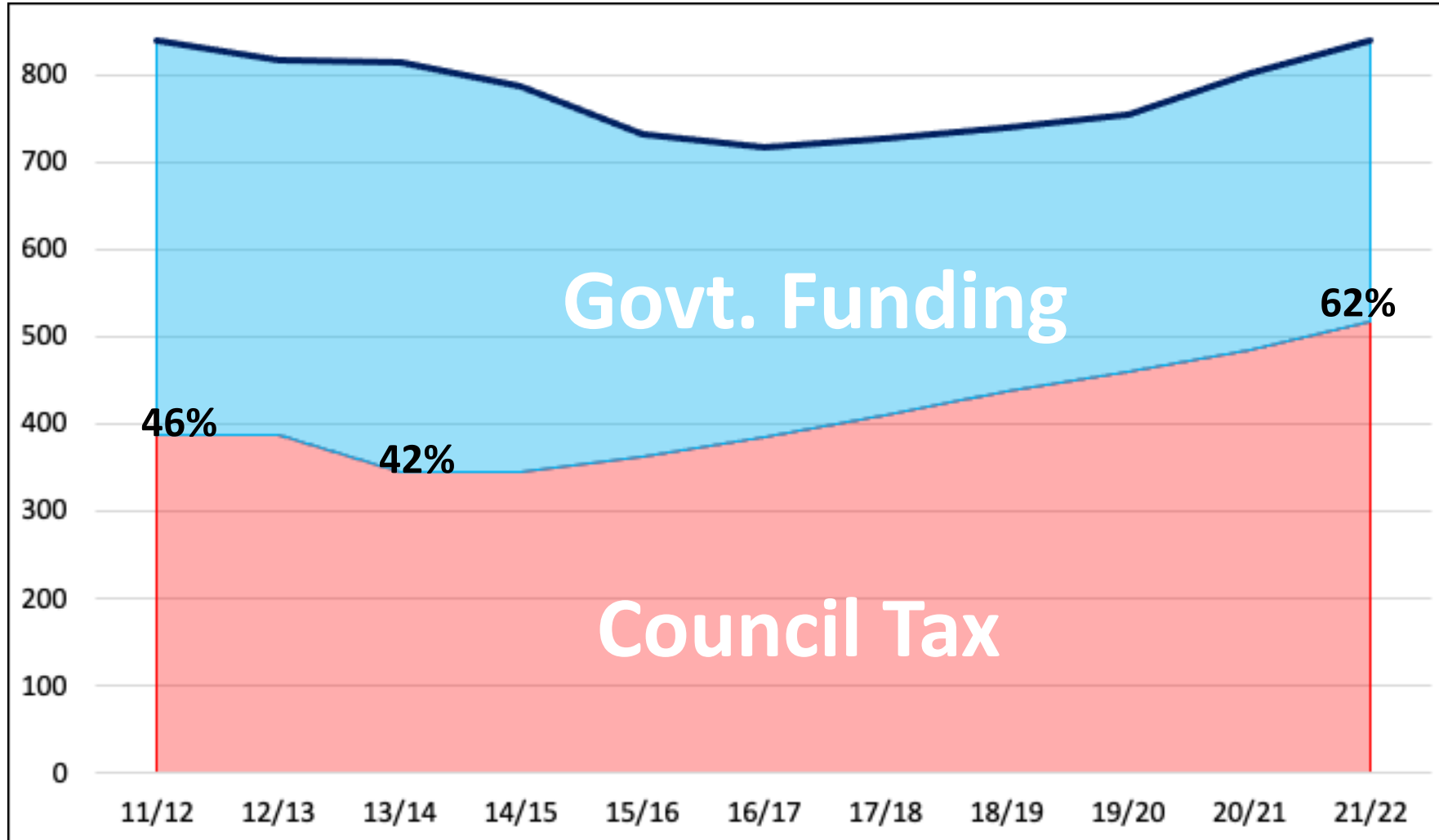
Delivering Excellence in
Local Government

CTB1 Analysis

Dan Bates
December 2021

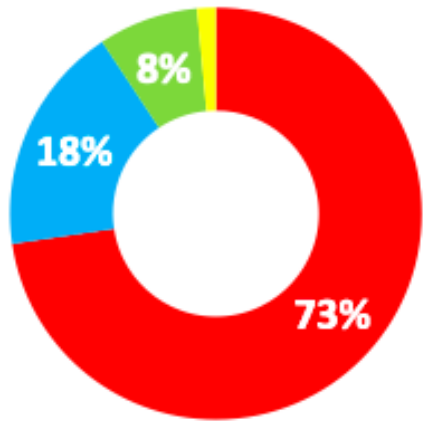
FINANCIAL RESILIENCE ● DELIVERY SUPPORT ● INFORMATION MANAGEMENT

Increasing Importance of Council Tax in Spending Power

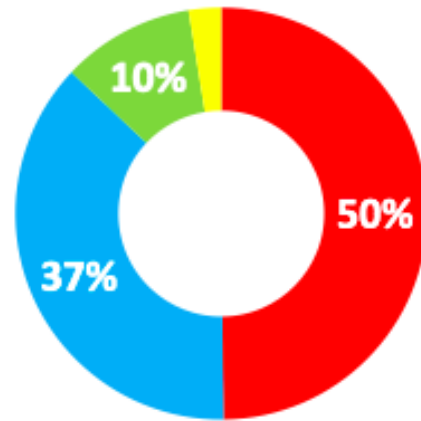


- Despite the £1.6bn extra funding, trend will continue

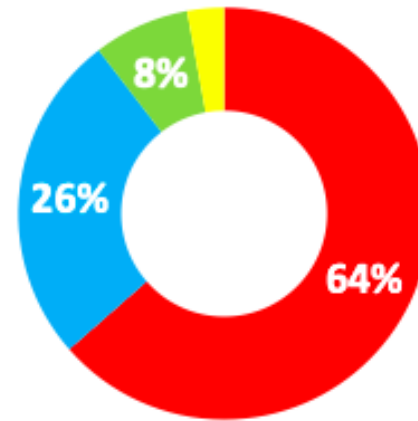
Counties



Mets



Unitaries



Spending Power Break Down

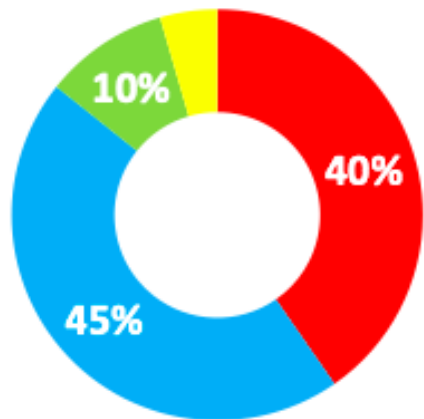
Council Tax income in red

SFA in blue

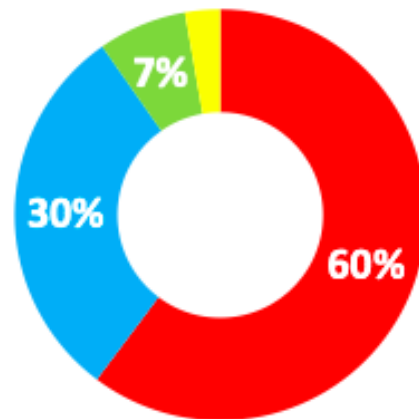
Social Care grants in green

Other grants (mainly NHB and LTSG) in yellow

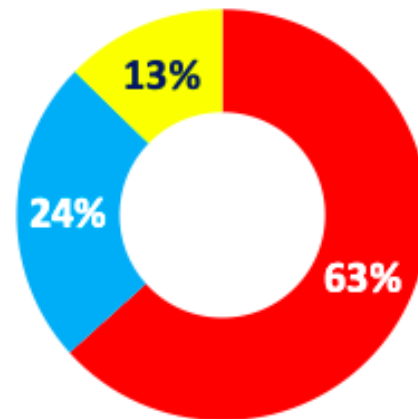
ILB



OLB



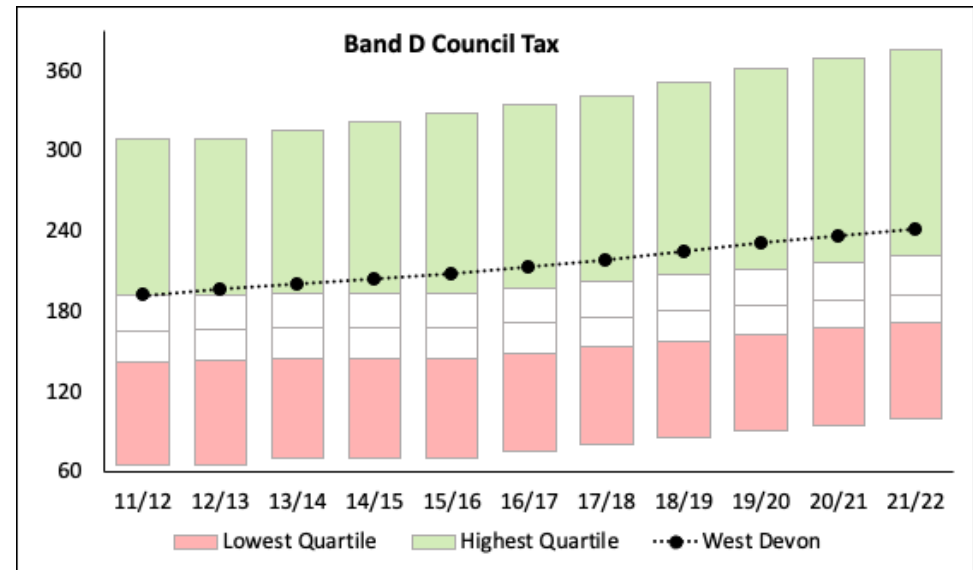
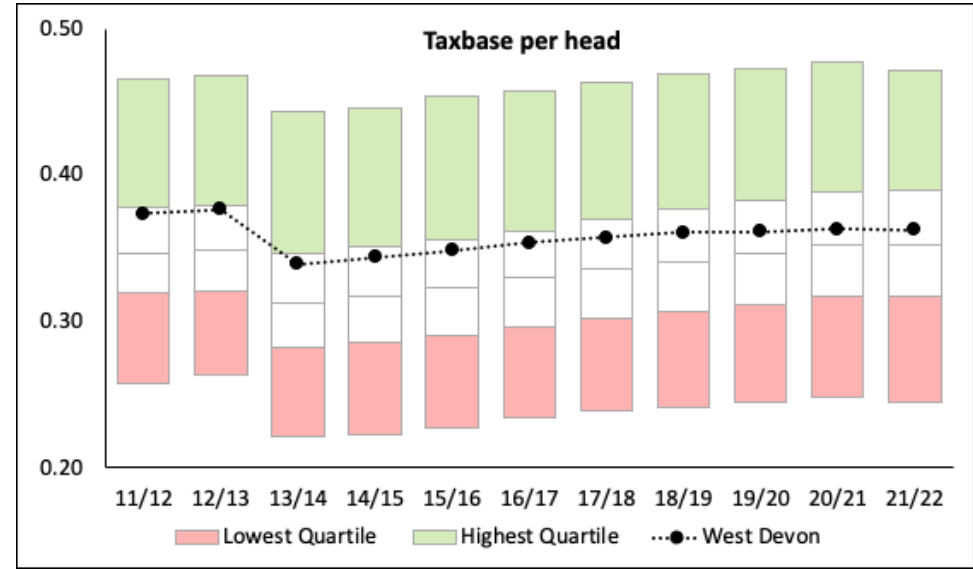
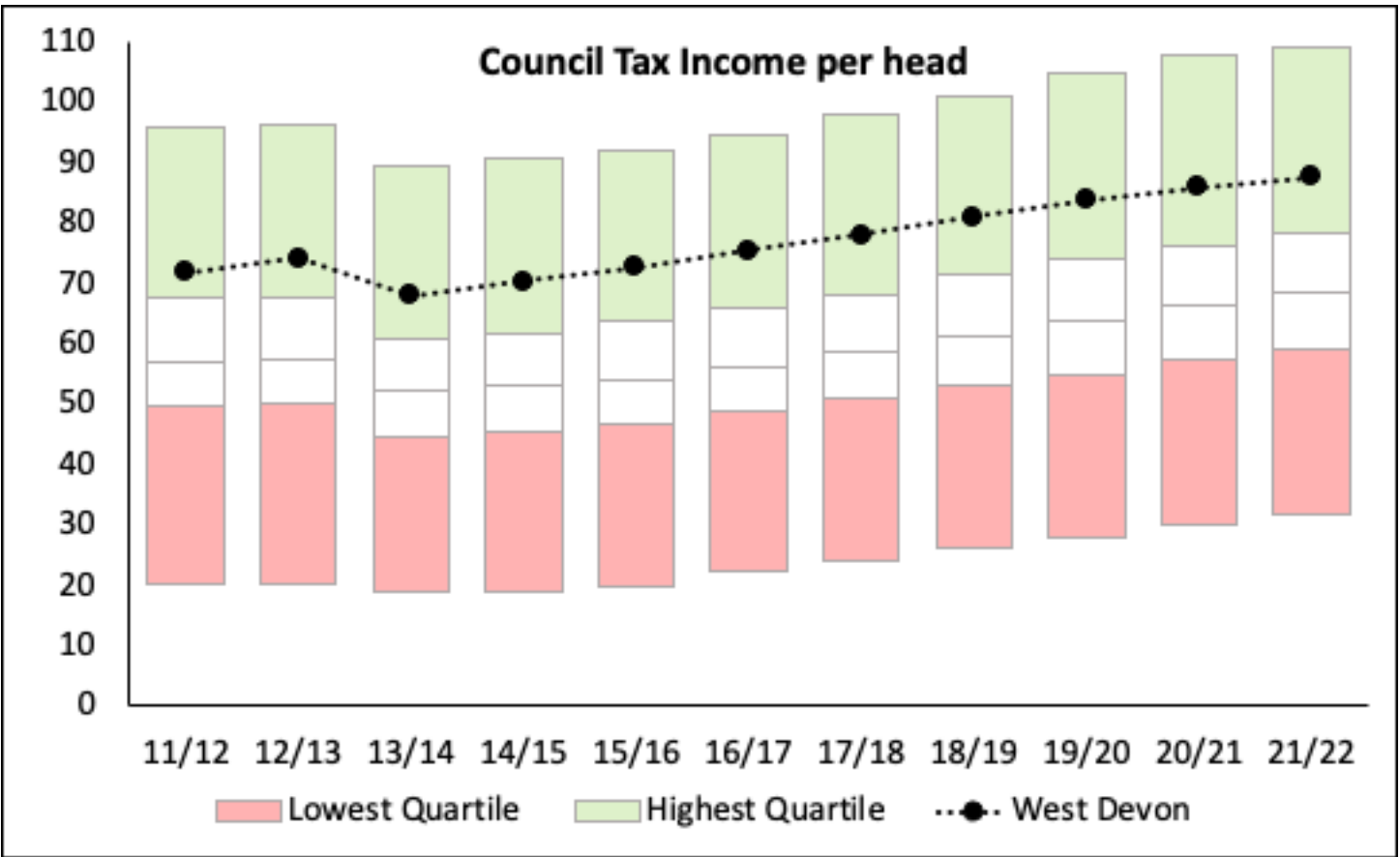
Districts



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”

Council Tax Income is a product of taxbase and Band D Council Tax set by the council (from CTR)



Council Tax Variables

- Band D Council Tax
- Taxbase

- Estimated Collection Rate

CTR (March)

- Number of Band D Equivalents (housing growth)
- Council Tax Support (reduction in taxbase)

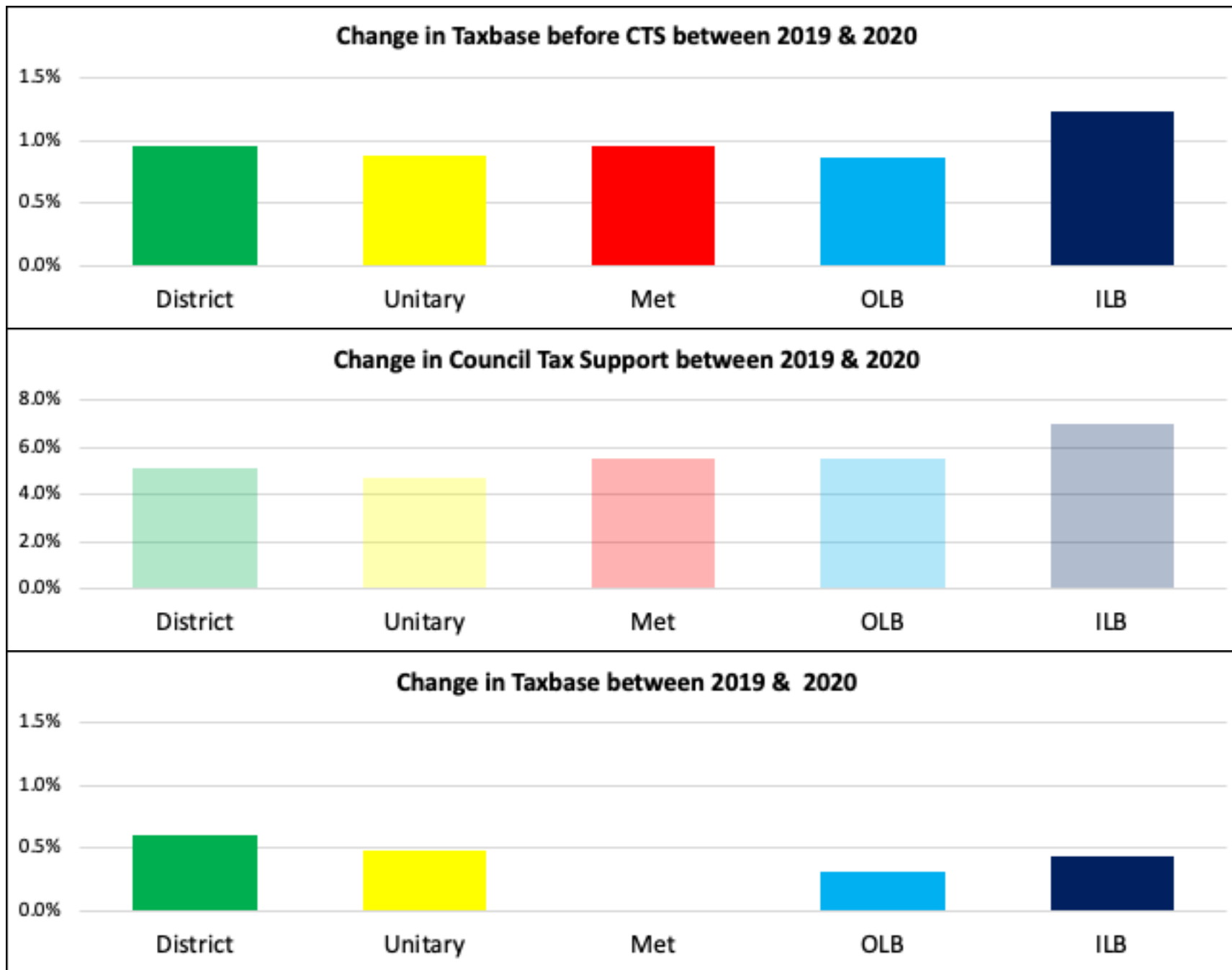
CTB1 (October)

CTB1 Analysis

- Quick Look at 2020 CTB1 – impact of COVID
- More detailed look at 2021 CTB1 – signs of recovery from COVID?
- Taxbase changes since 2015 with limited resources equalisation

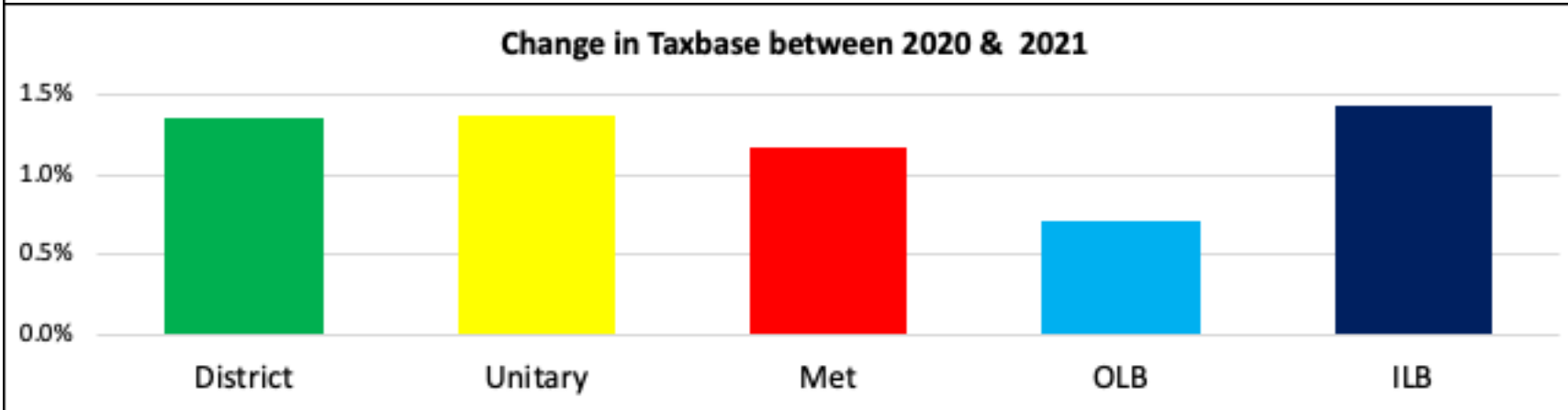
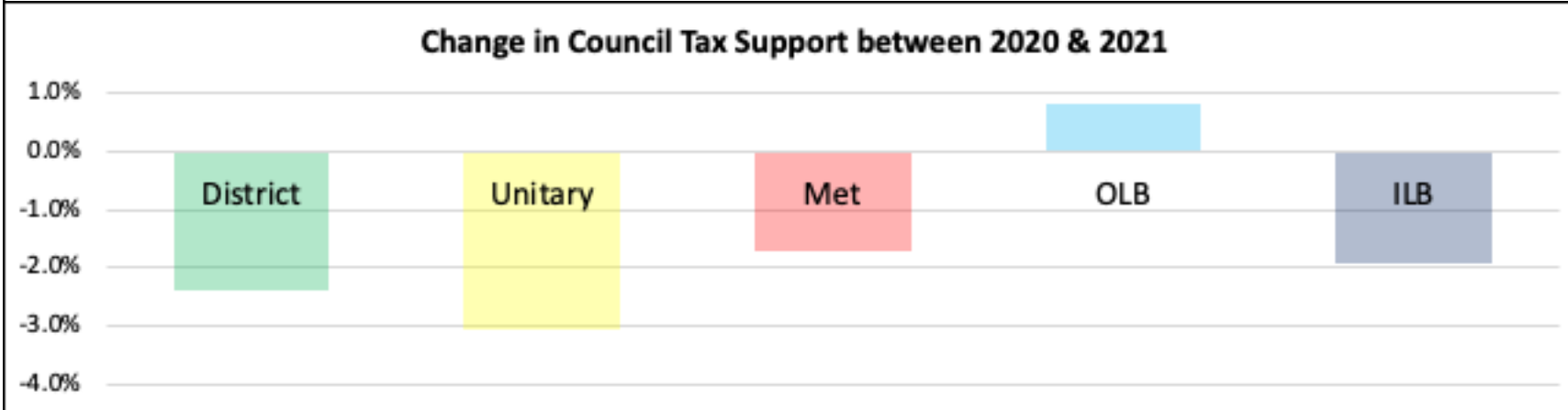
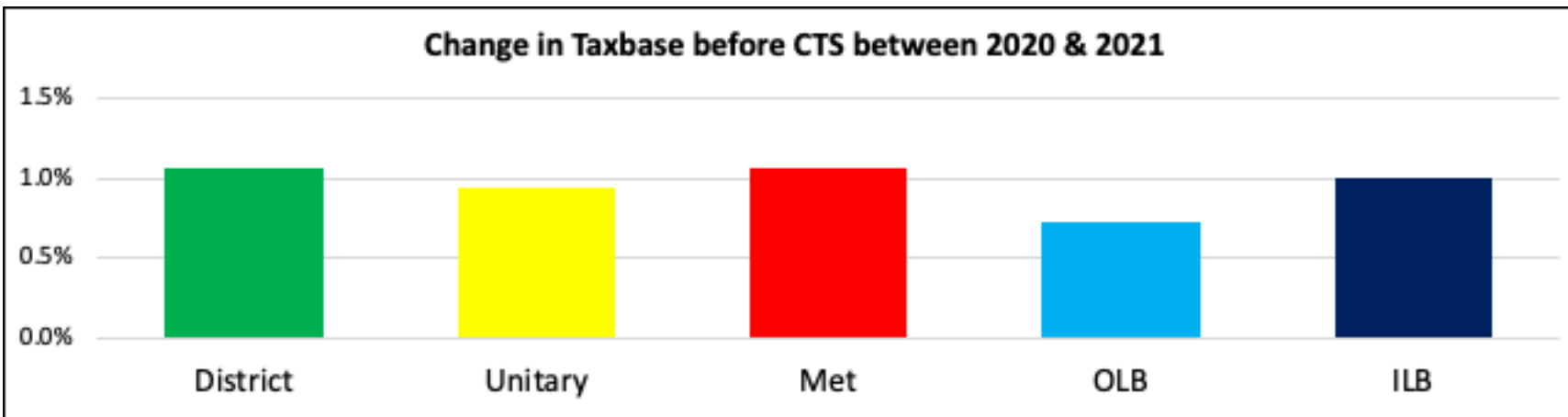
- Look at 3 main parts of CTB1
 - CTB before CTS – band D equivalents – takes accounts of housing growth
 - Council Tax Support – reduction in taxbase for CTS
 - Final taxbase as at October 2021

Change in Taxbase Oct 19 to Oct 20



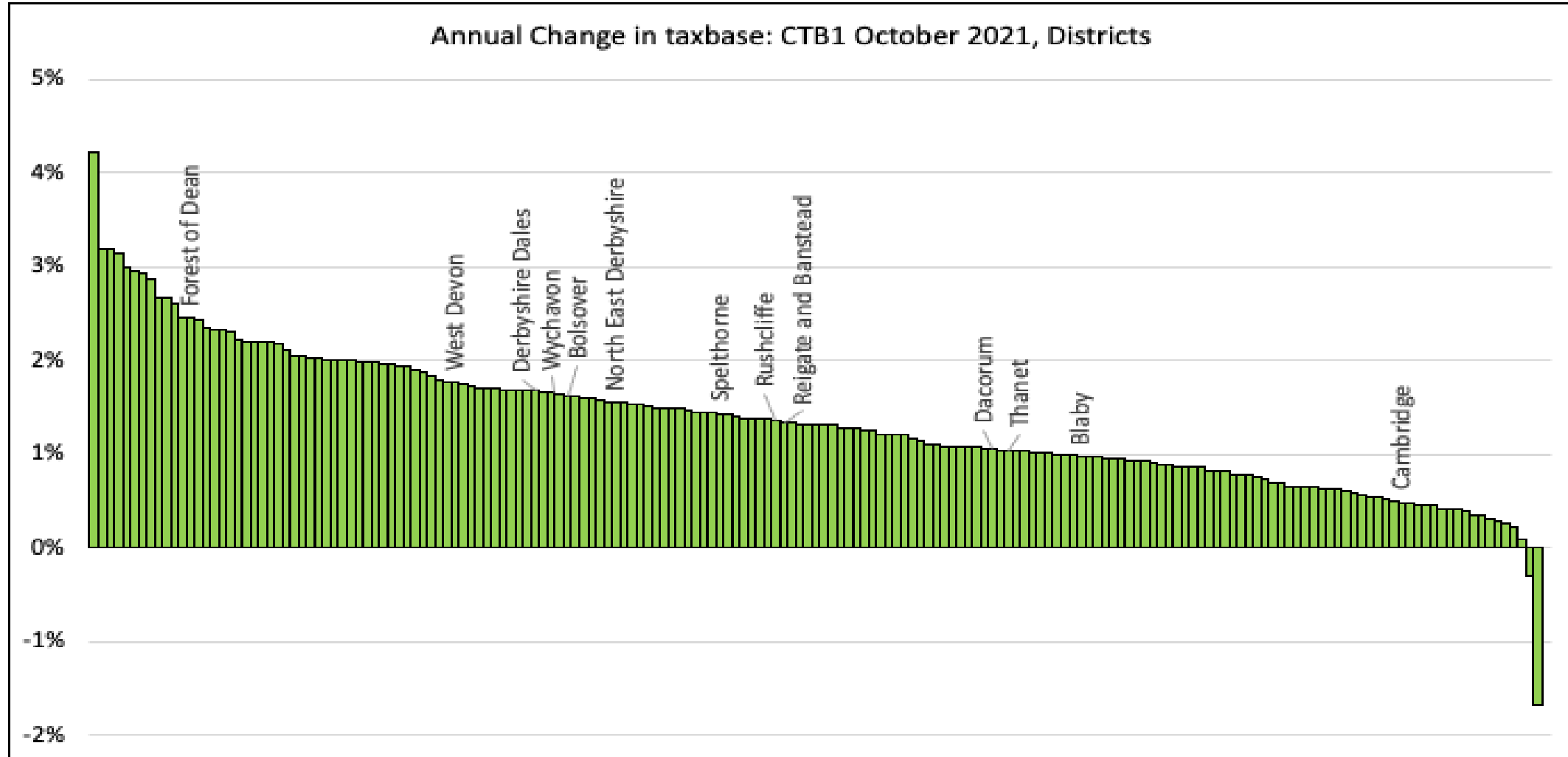
- COVID clearly had an impact in 20/21 as large increases in Council Tax Support during the year
- Overall low increases in council taxbase
- Mets aggregate taxbase reduced by 0.01% between Oct 19 and Oct 20

Change in Taxbase
Oct 20 to Oct 21

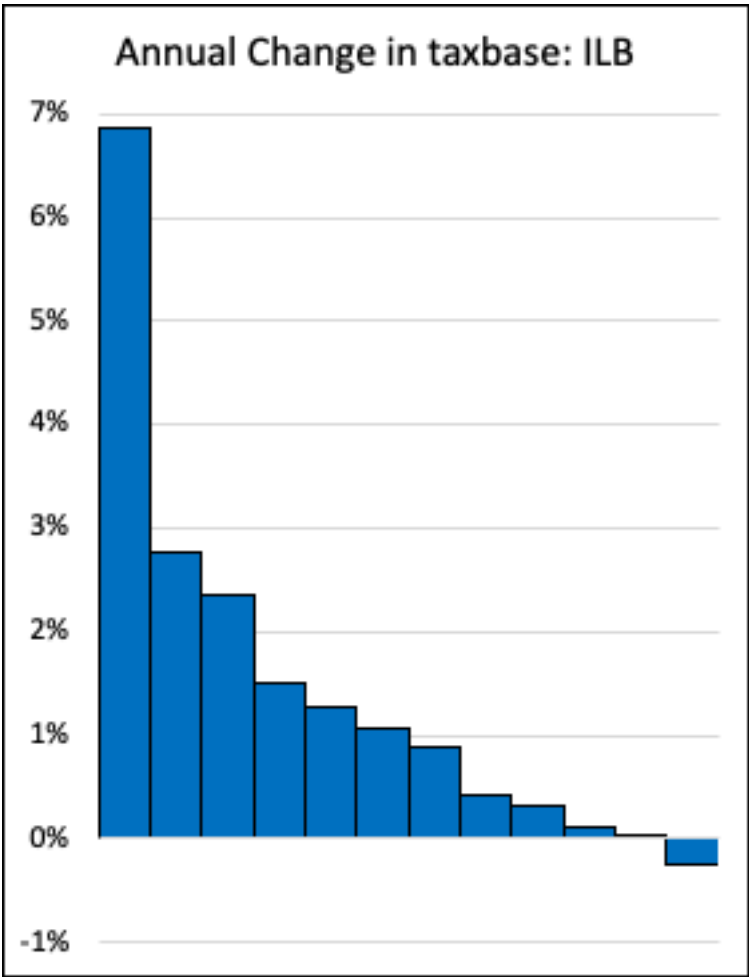
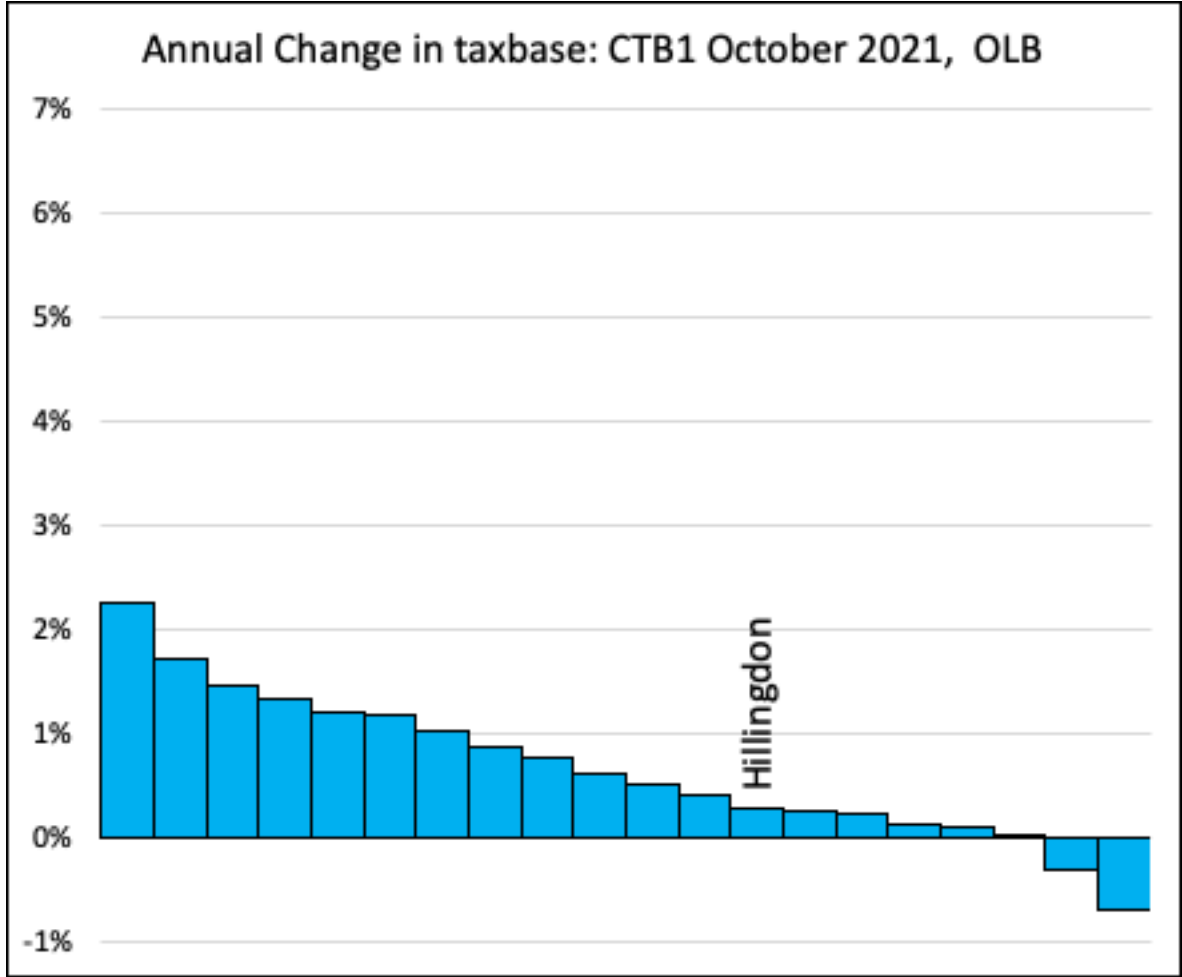


- Taxbases recovered over last year due to modest housing growth and reductions in Council Tax Support
- Exception is Outer London where CTS actually increased in last year

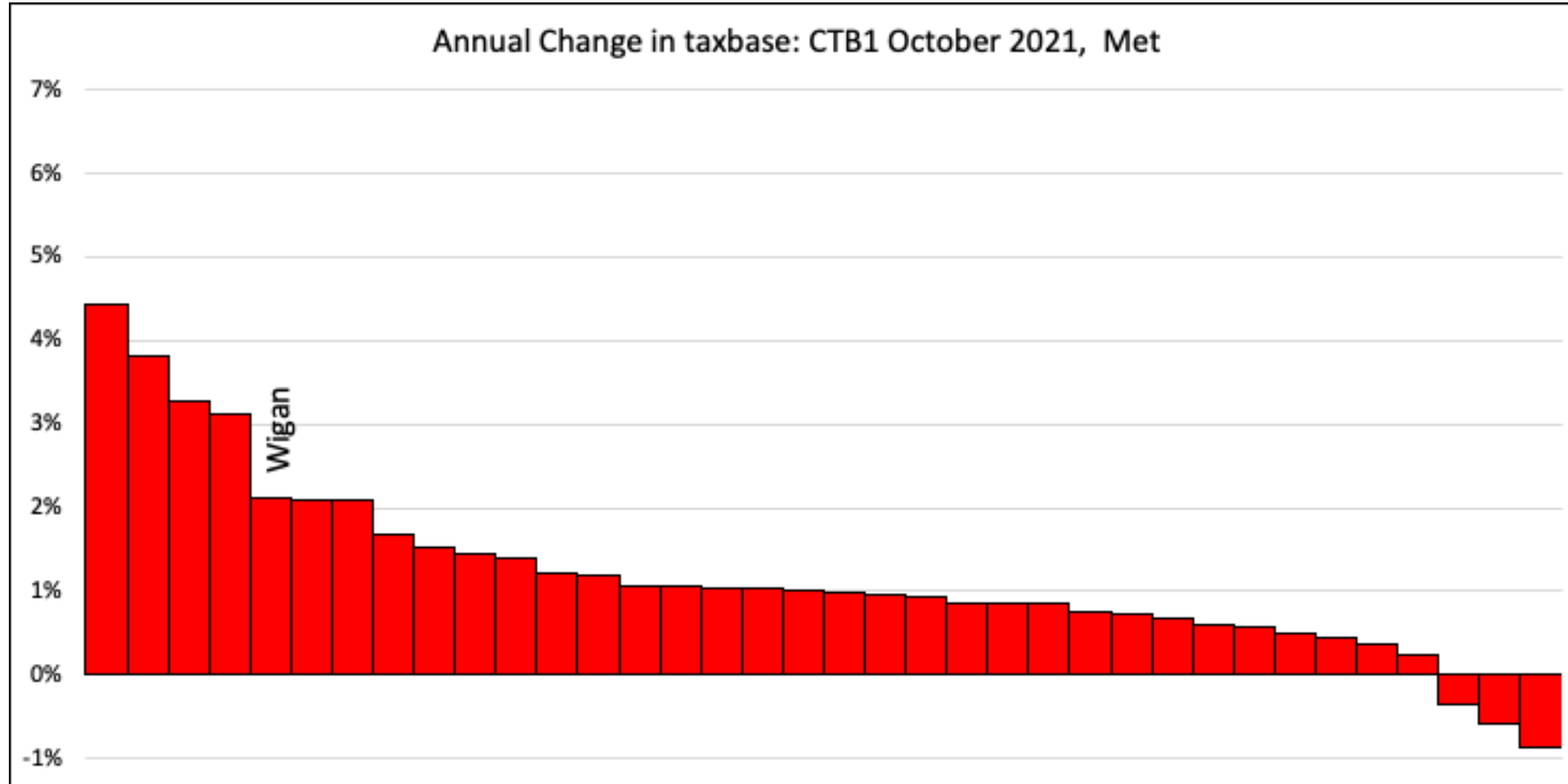
Change in Taxbase: Oct 20 to Oct 21, Districts



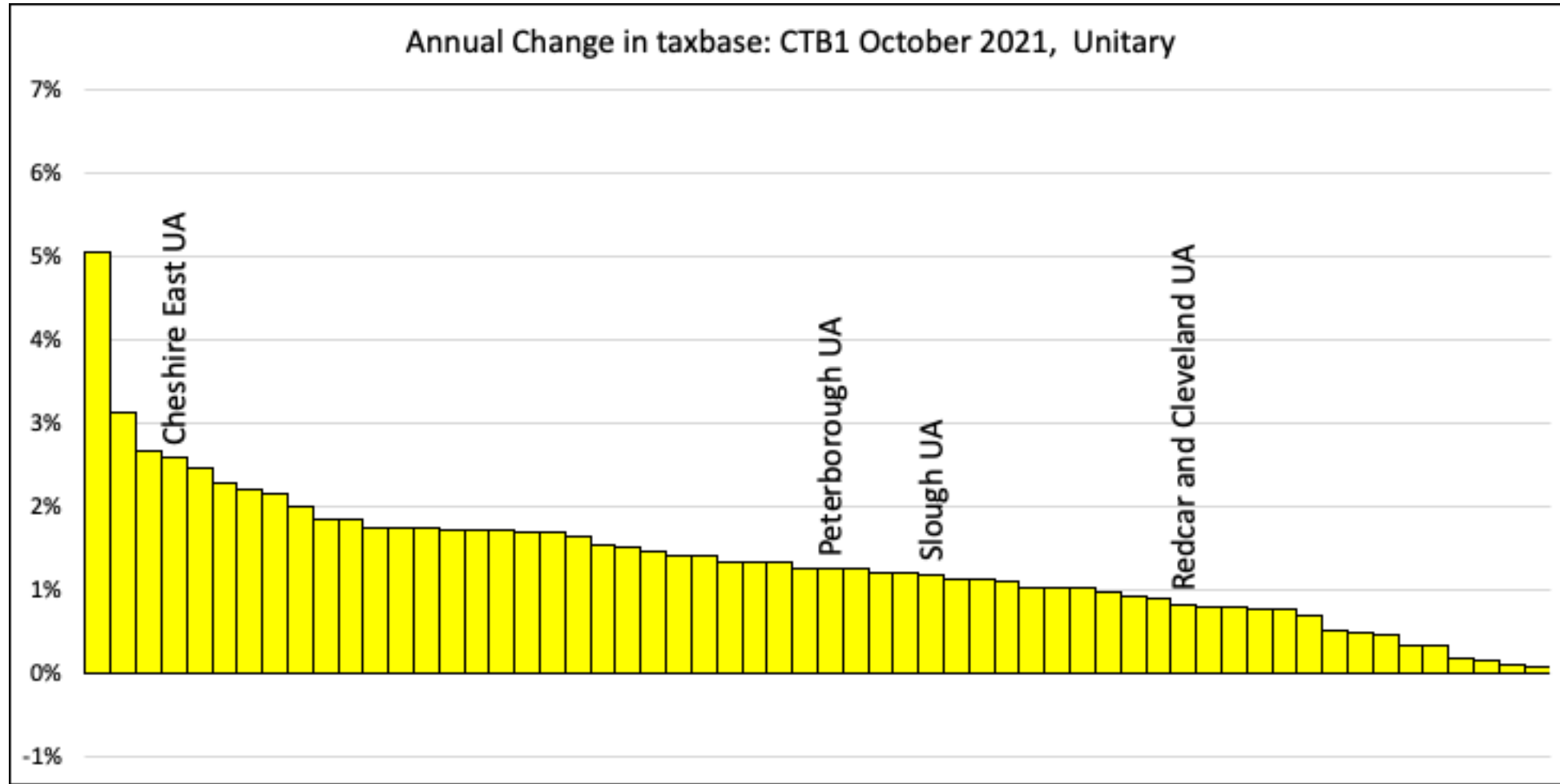
Change in Taxbase: Oct 20 to Oct 21, London



Change in Taxbase: Oct 20 to Oct 21, Mets



Change in Taxbase: Oct 20 to Oct 21, Mets

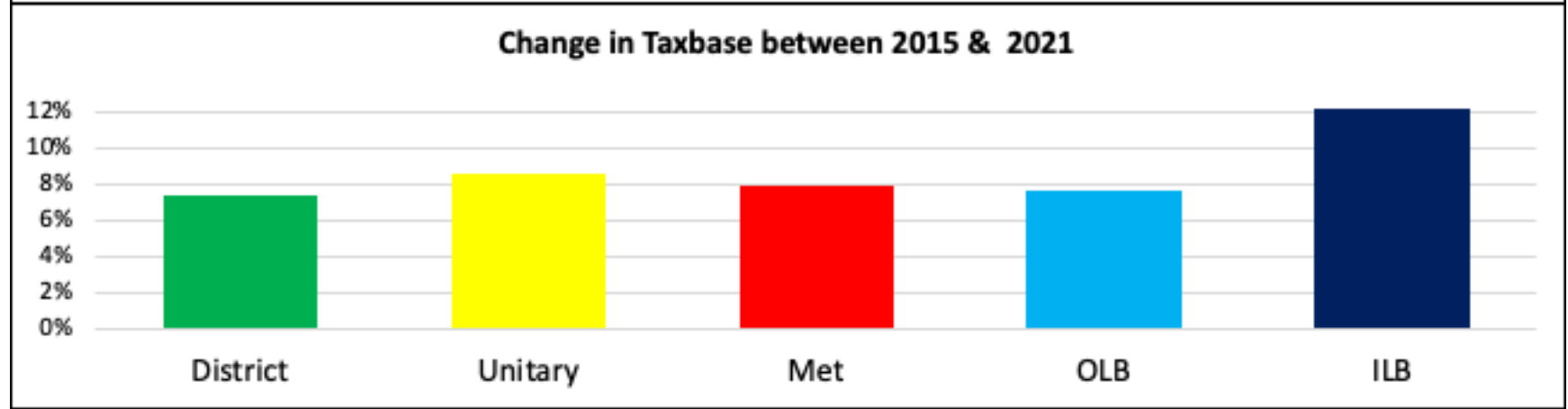
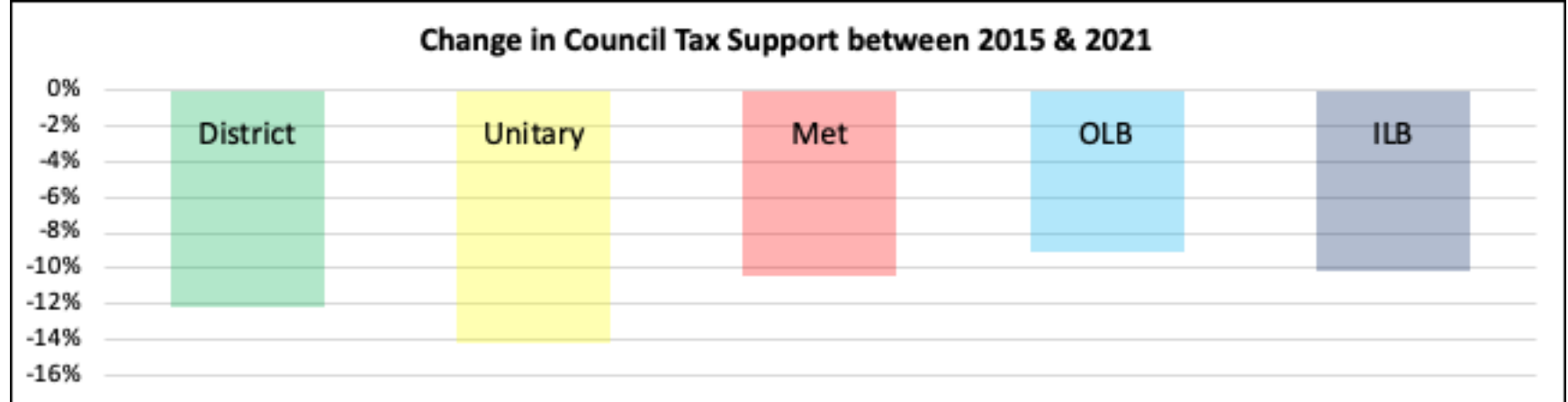
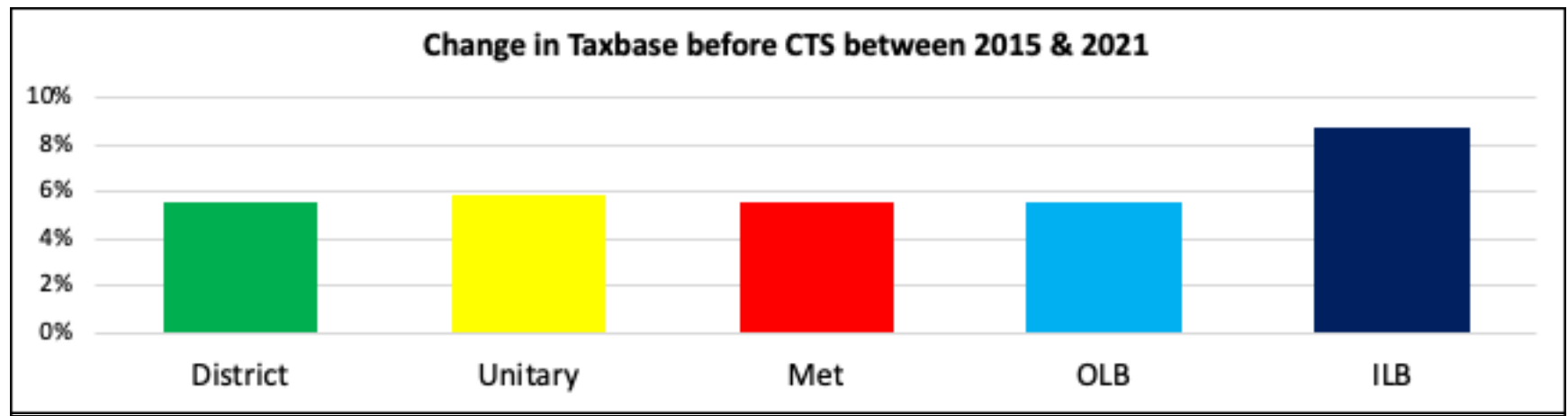


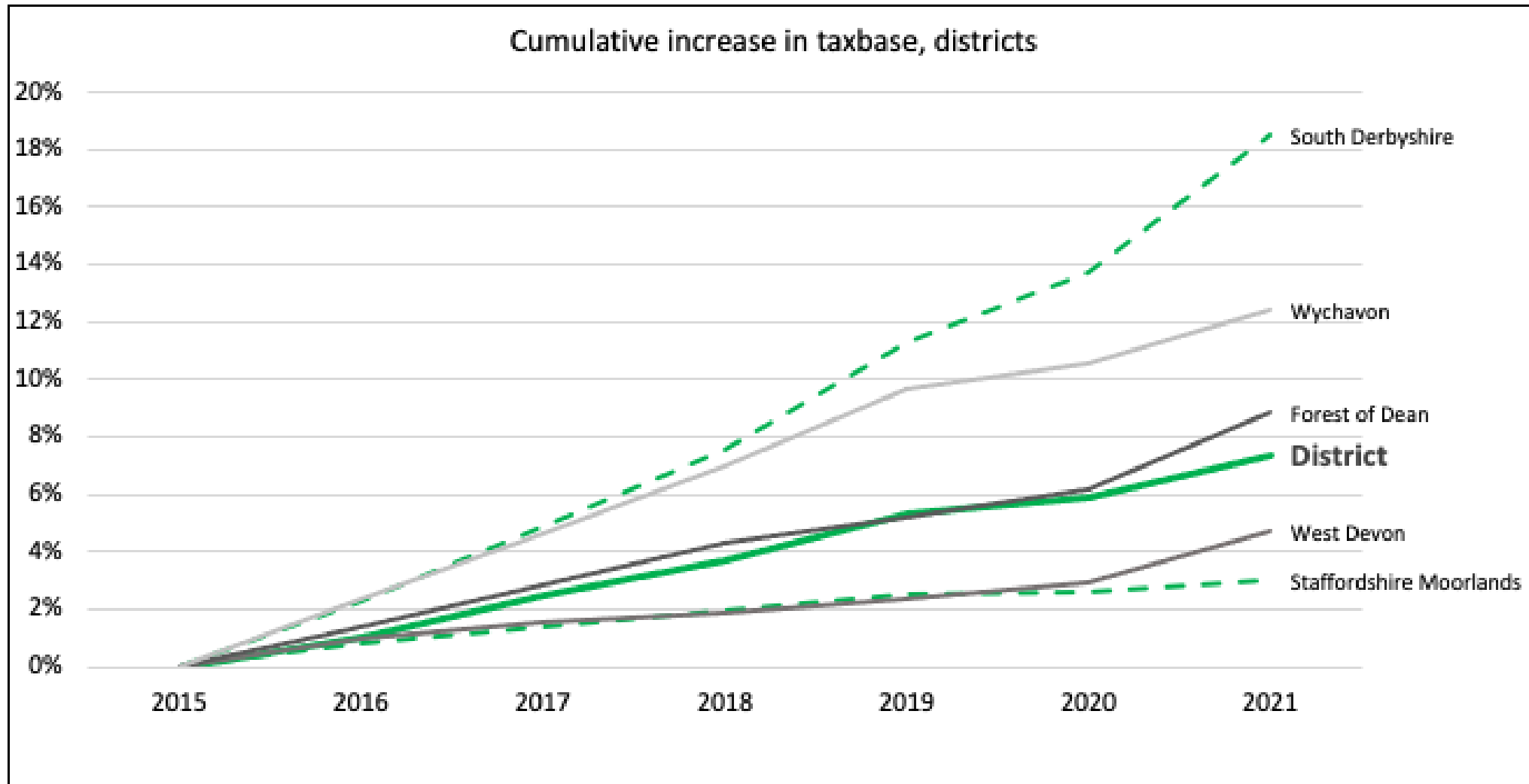
Michael Gove, select committee, 8 Nov 2021

- **“Councils with the most resilient council tax base** and the highest proportion of business rates are relatively speaking in a stronger position”
- **“headroom we have for a redistribution of funding to better reflect the additional needs and responsibilities”**
- Council Tax Equalisation – Resources Block equalised for changes in taxbase (notional band D) – what if this were to come back?
 - Compensate those with lower taxbase increases over last few years
- Levelling-Up
 - Current system effectively levels down due to nature of council tax

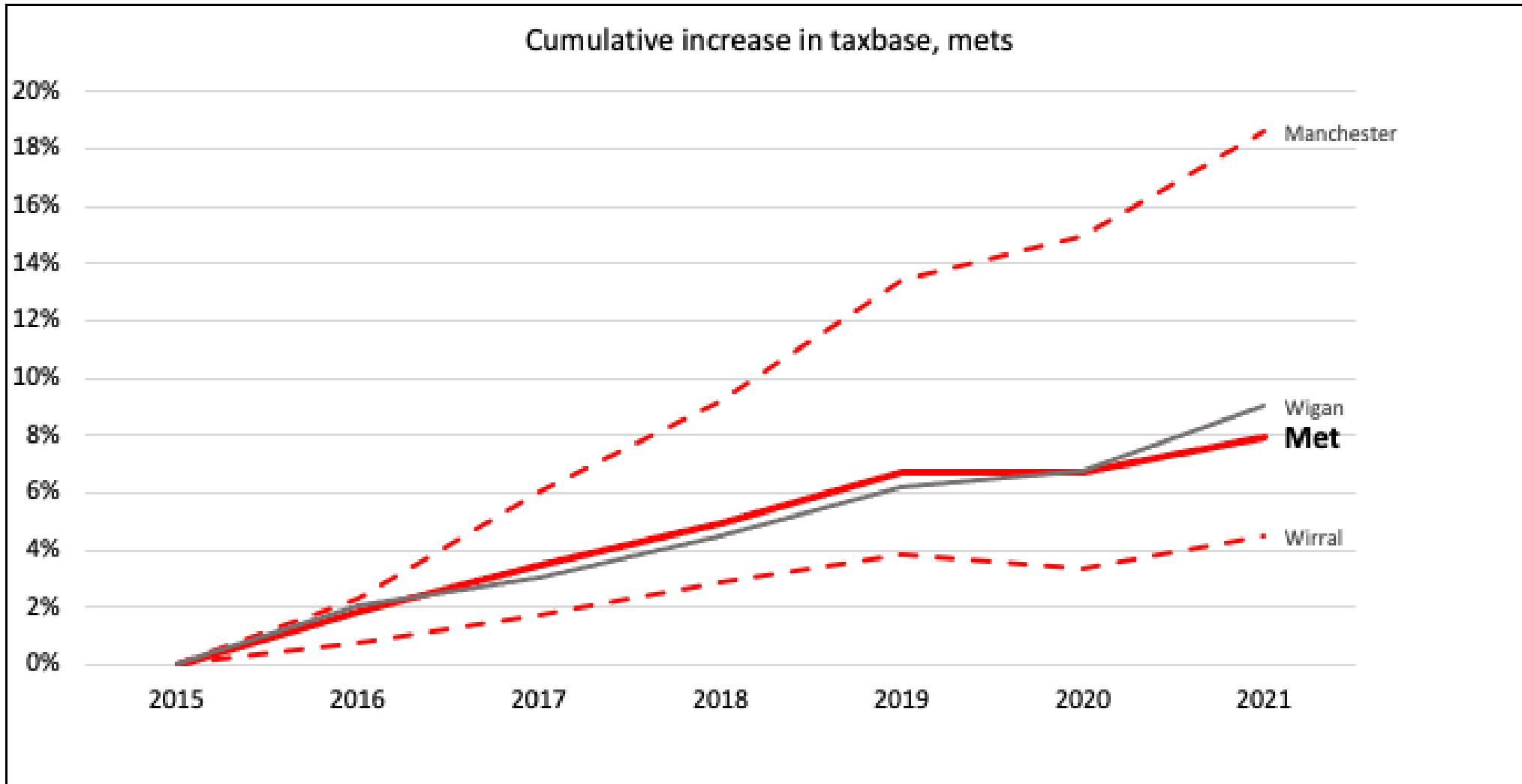
Change in Taxbase
Oct 20 to Oct 21

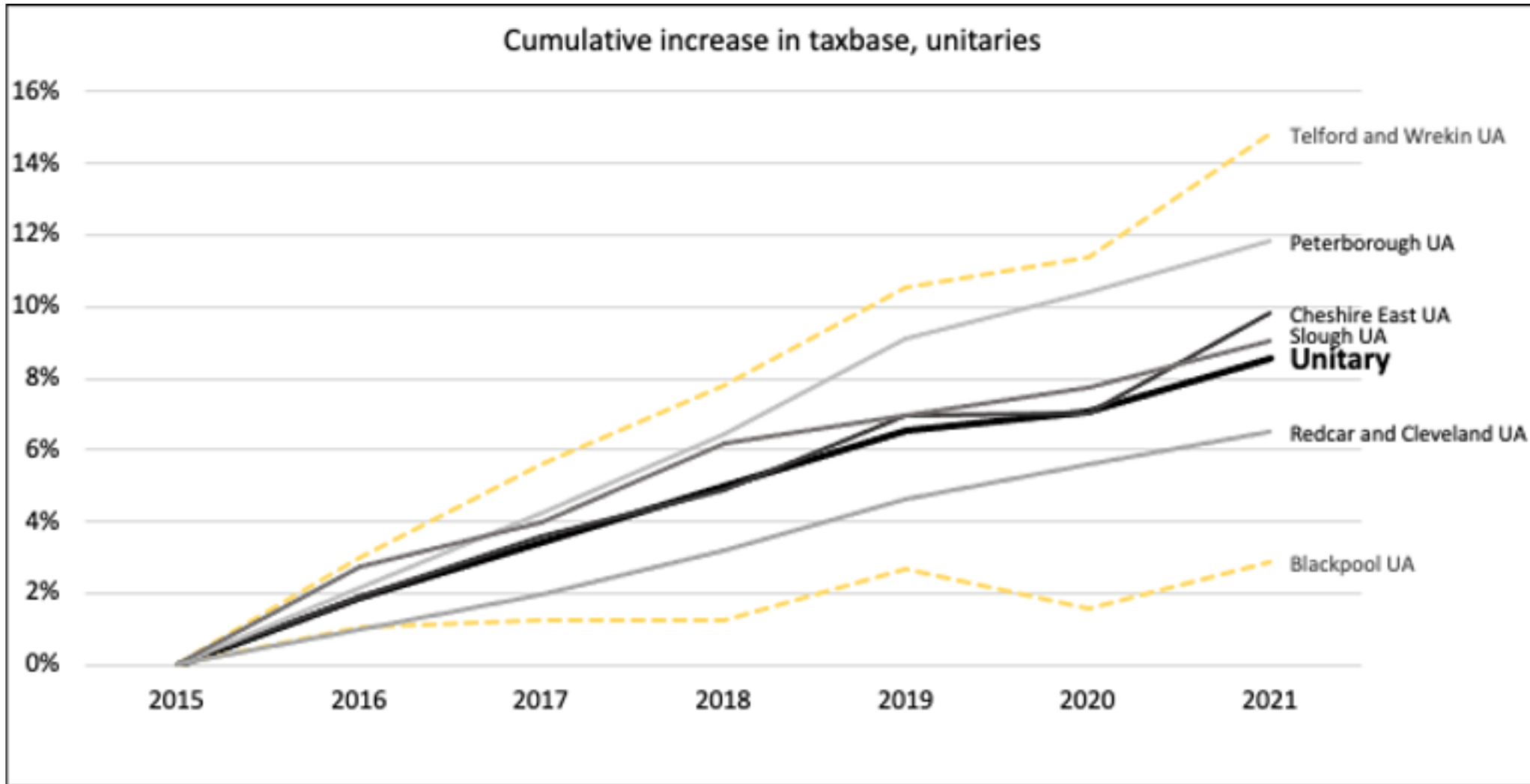
- Taxbases recovered over last year due to modest housing growth and reductions in Council Tax Support
- Exception is Outer London where CTS actually increased in last year

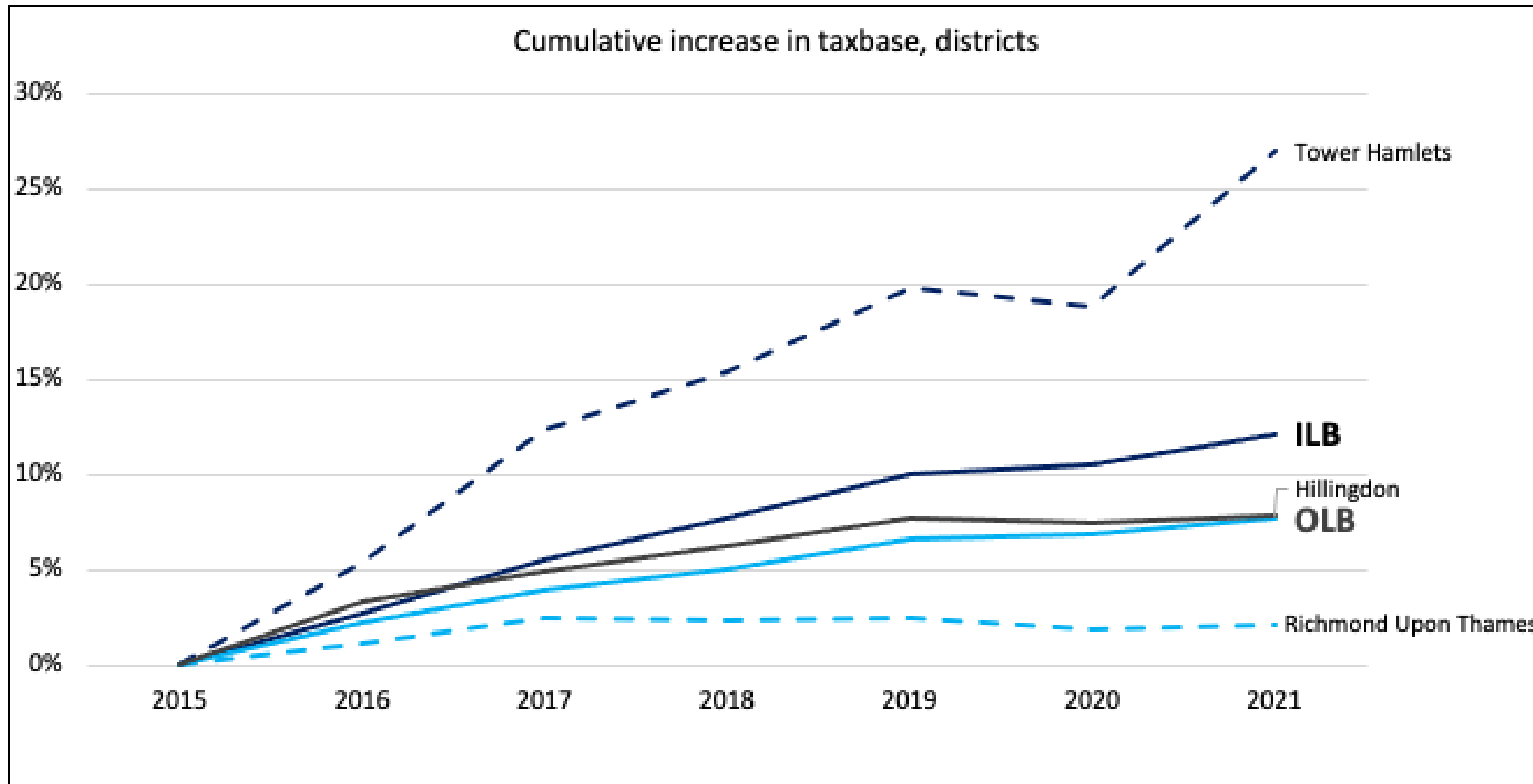


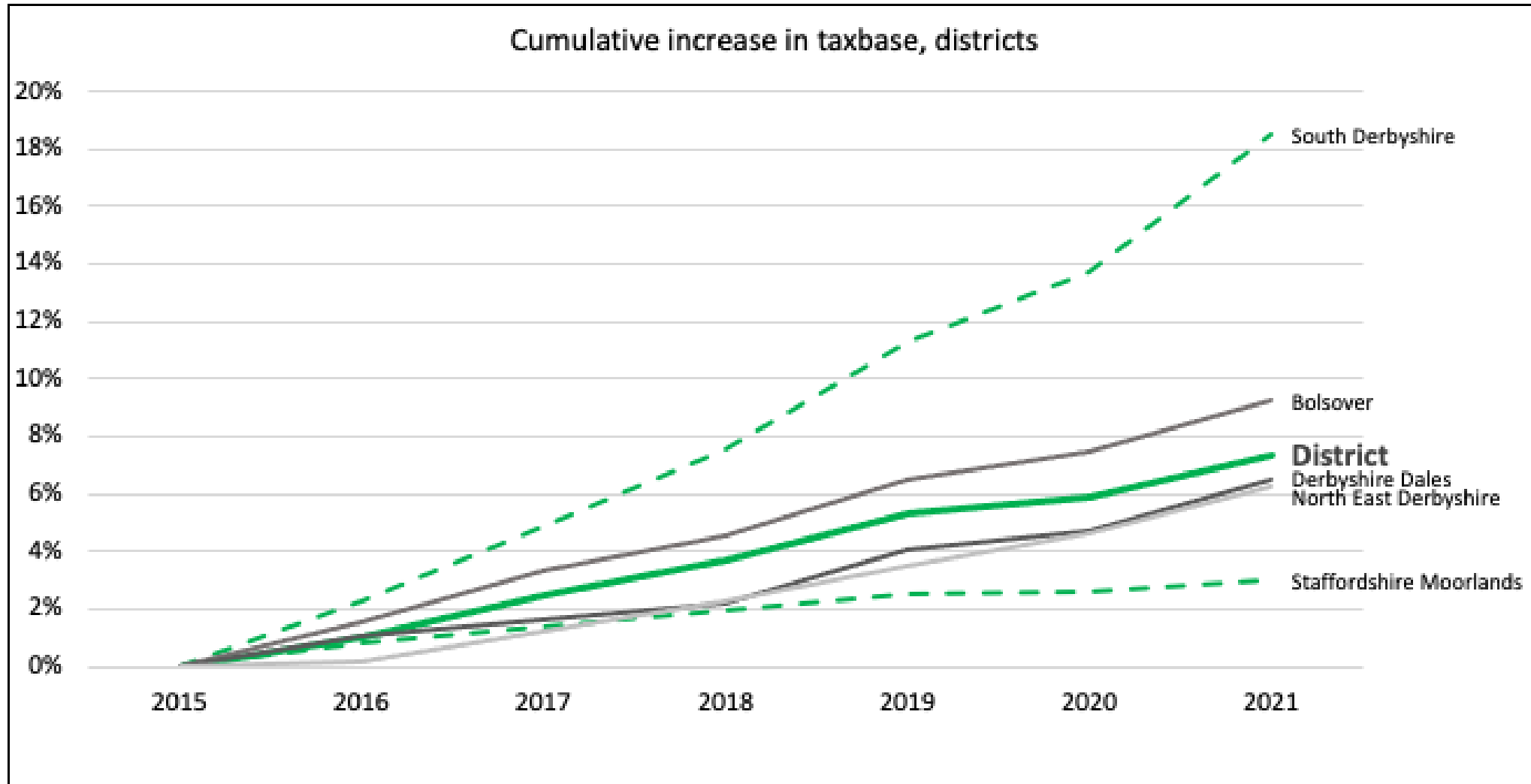


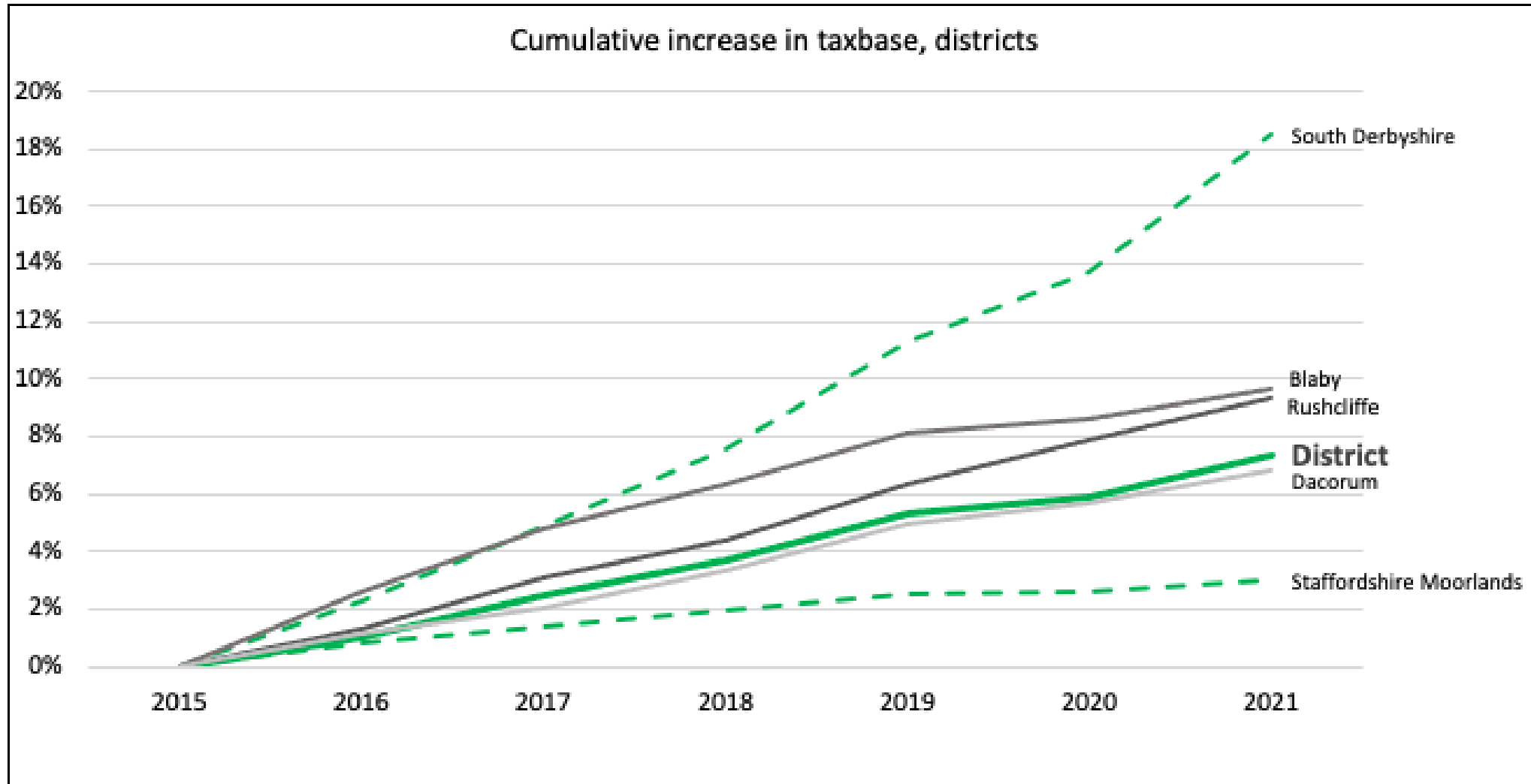
Cumulative increase in taxbase, mets

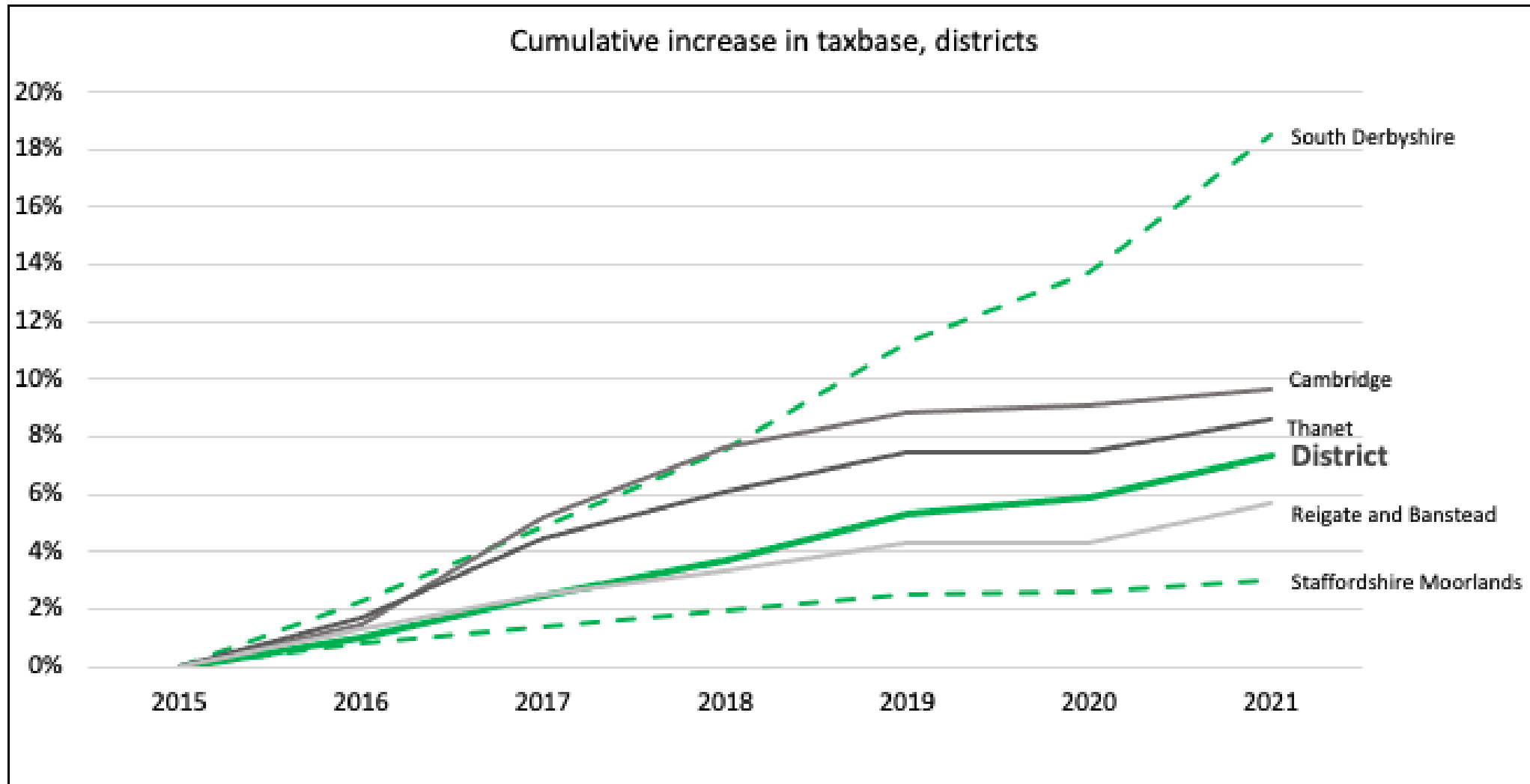




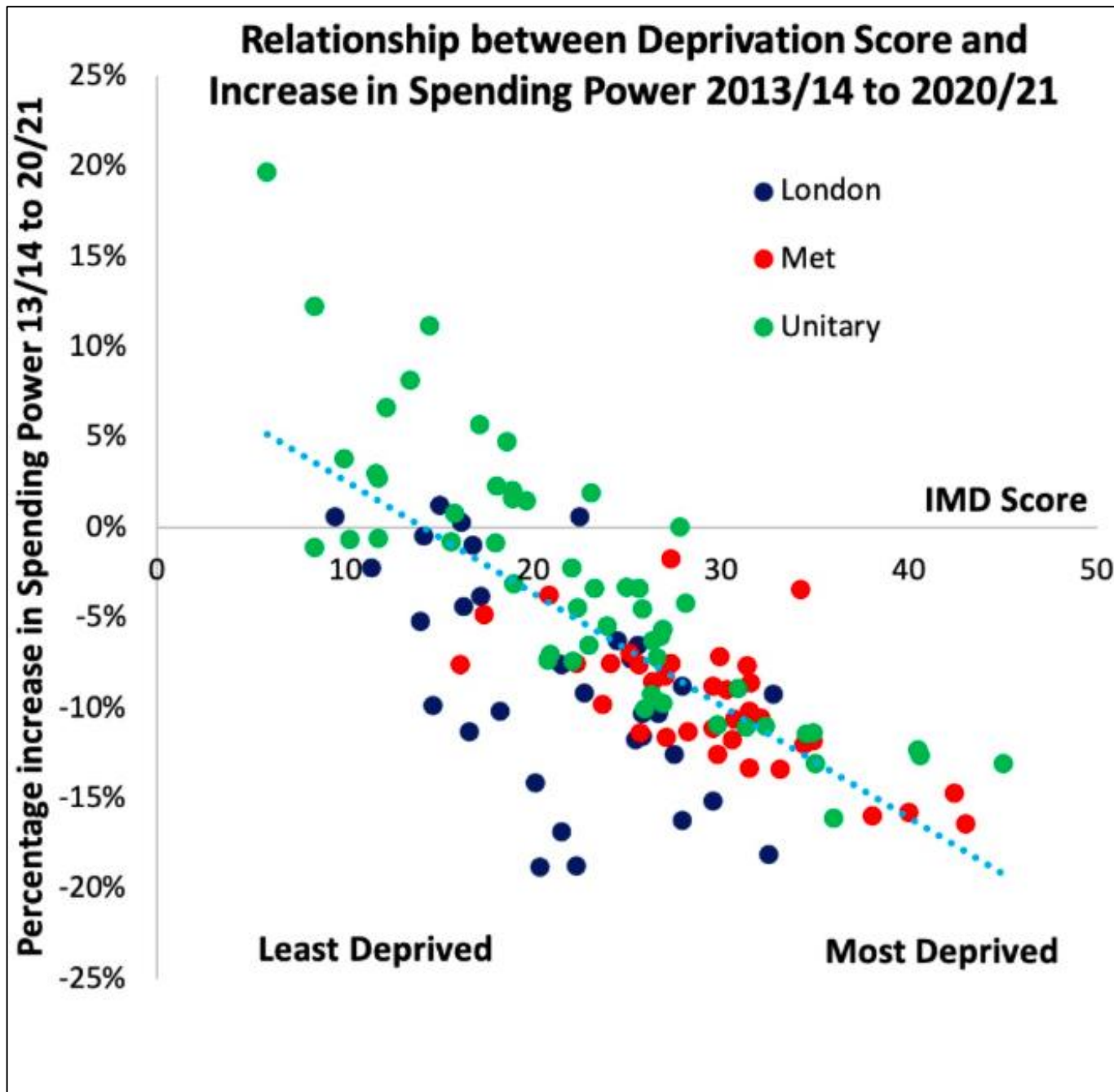








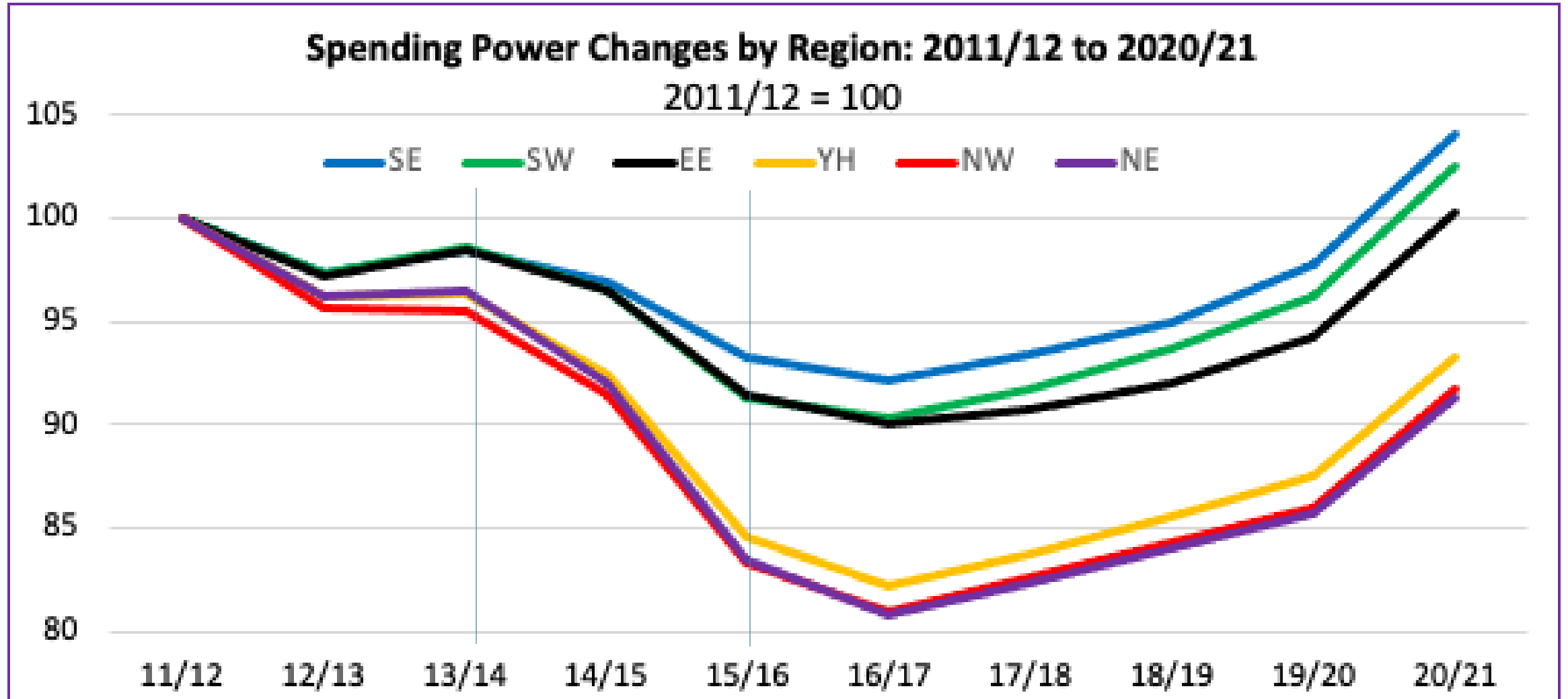
Levelling Up, Levelling Down, or Levelling Off?



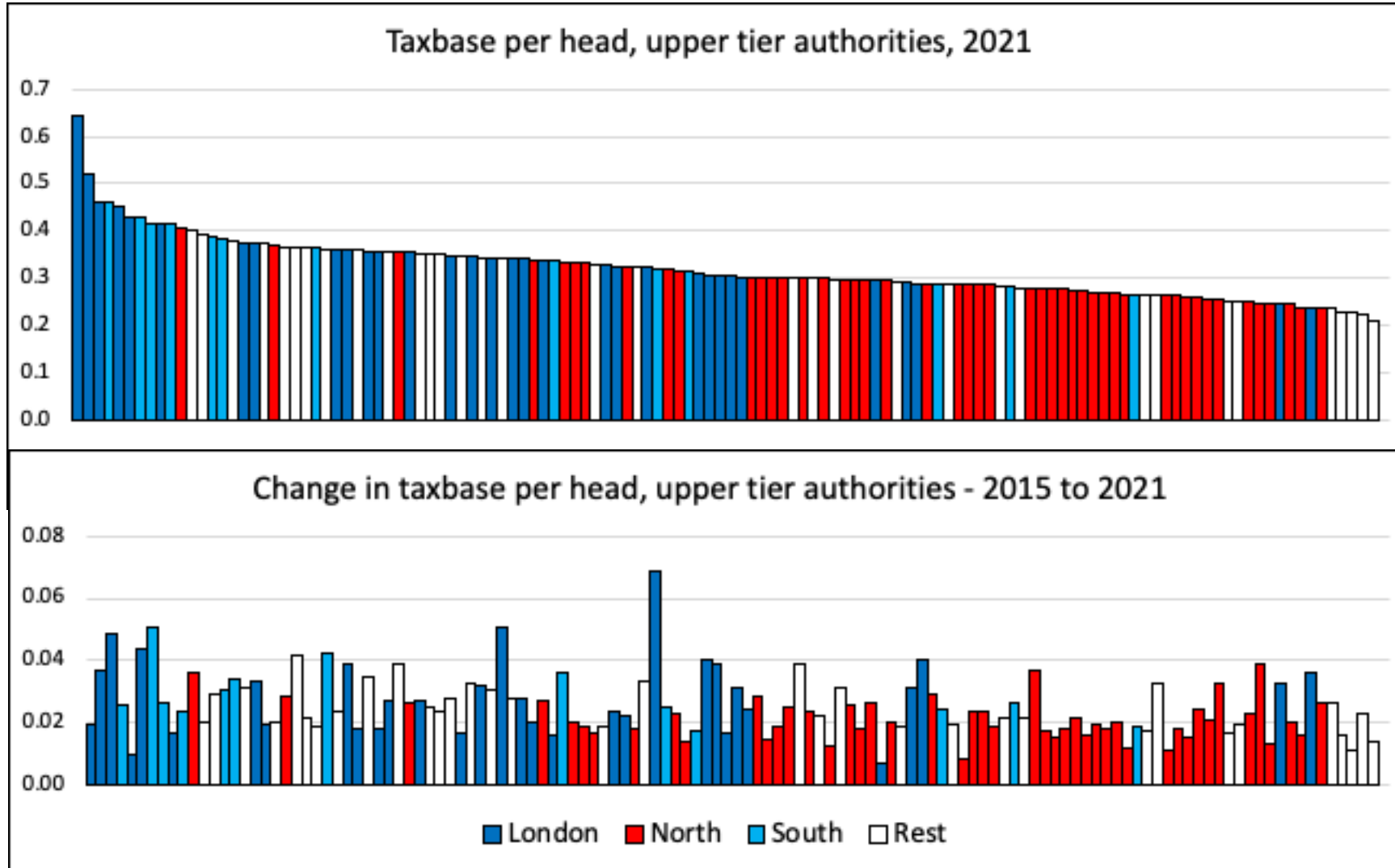
Authorities in the most deprived areas have seen the largest reductions in spending power because:

- They have low taxbases (and will continue to do so)
- They started with the highest levels of Government funding and therefore the cuts to funding hit them far harder (fair funding should halt and might repair some of these cuts)

Spending Power – 2011/12 to 2020/21

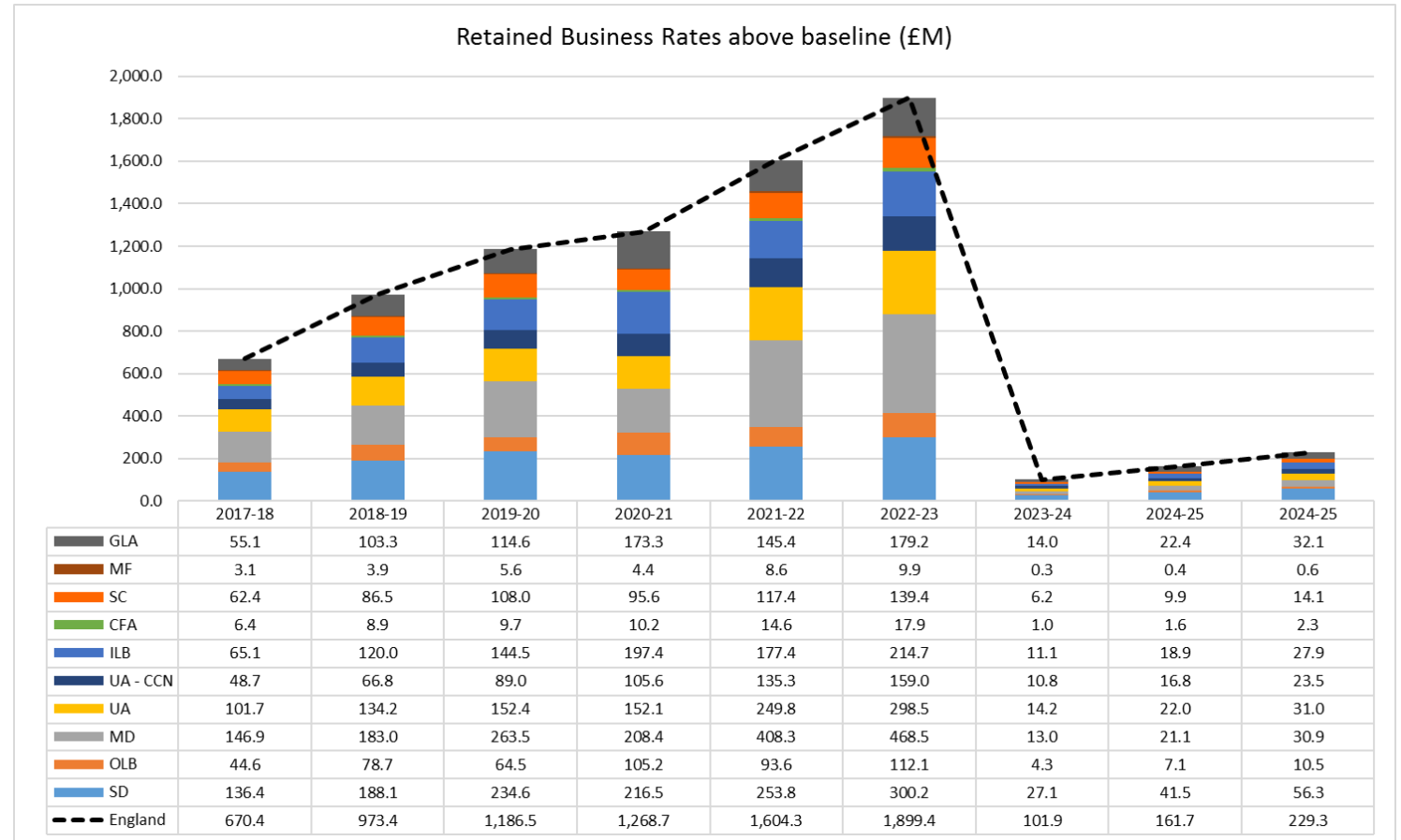


Taxbases by region: Levelling Up?



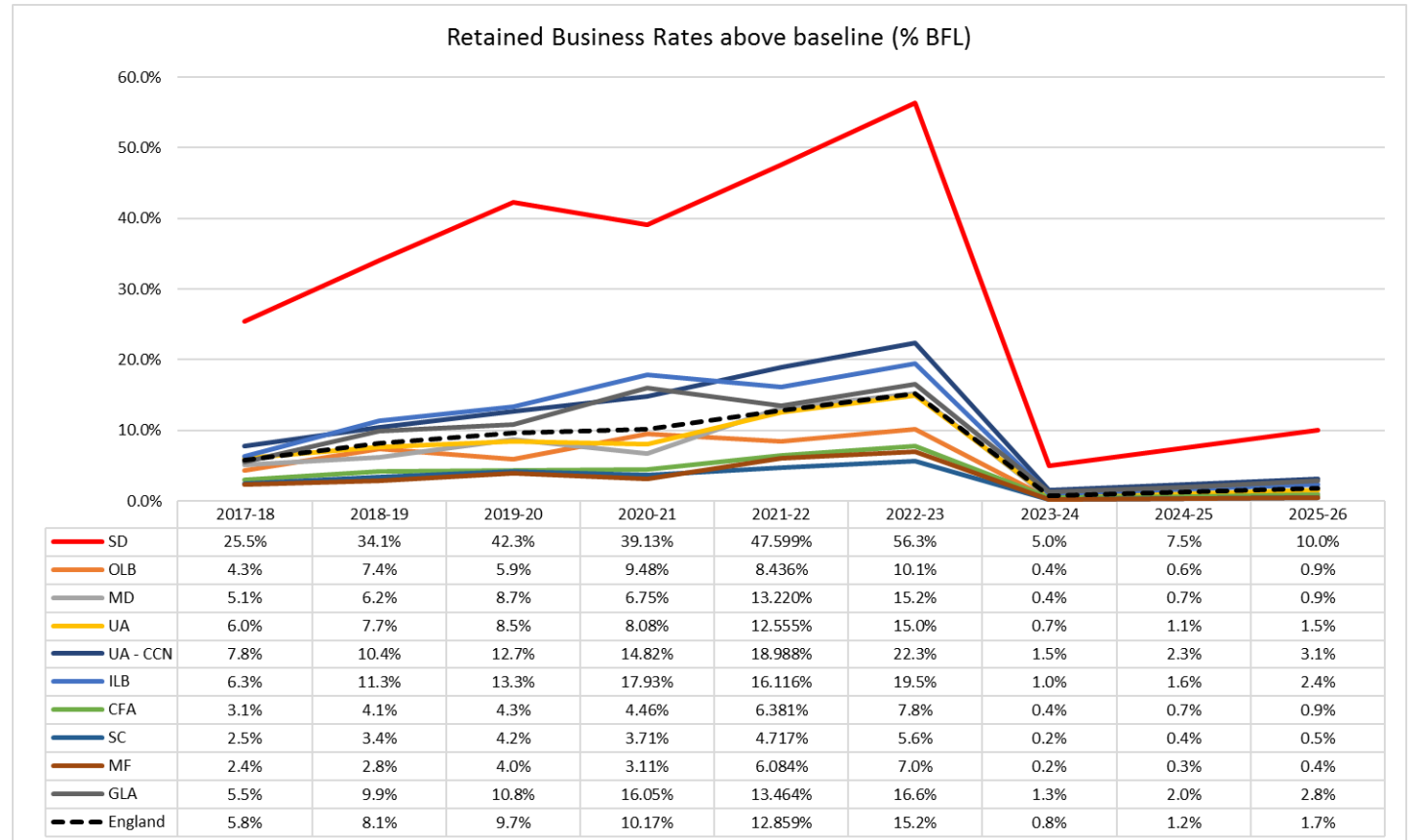
NNDR3 2020-21

- <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



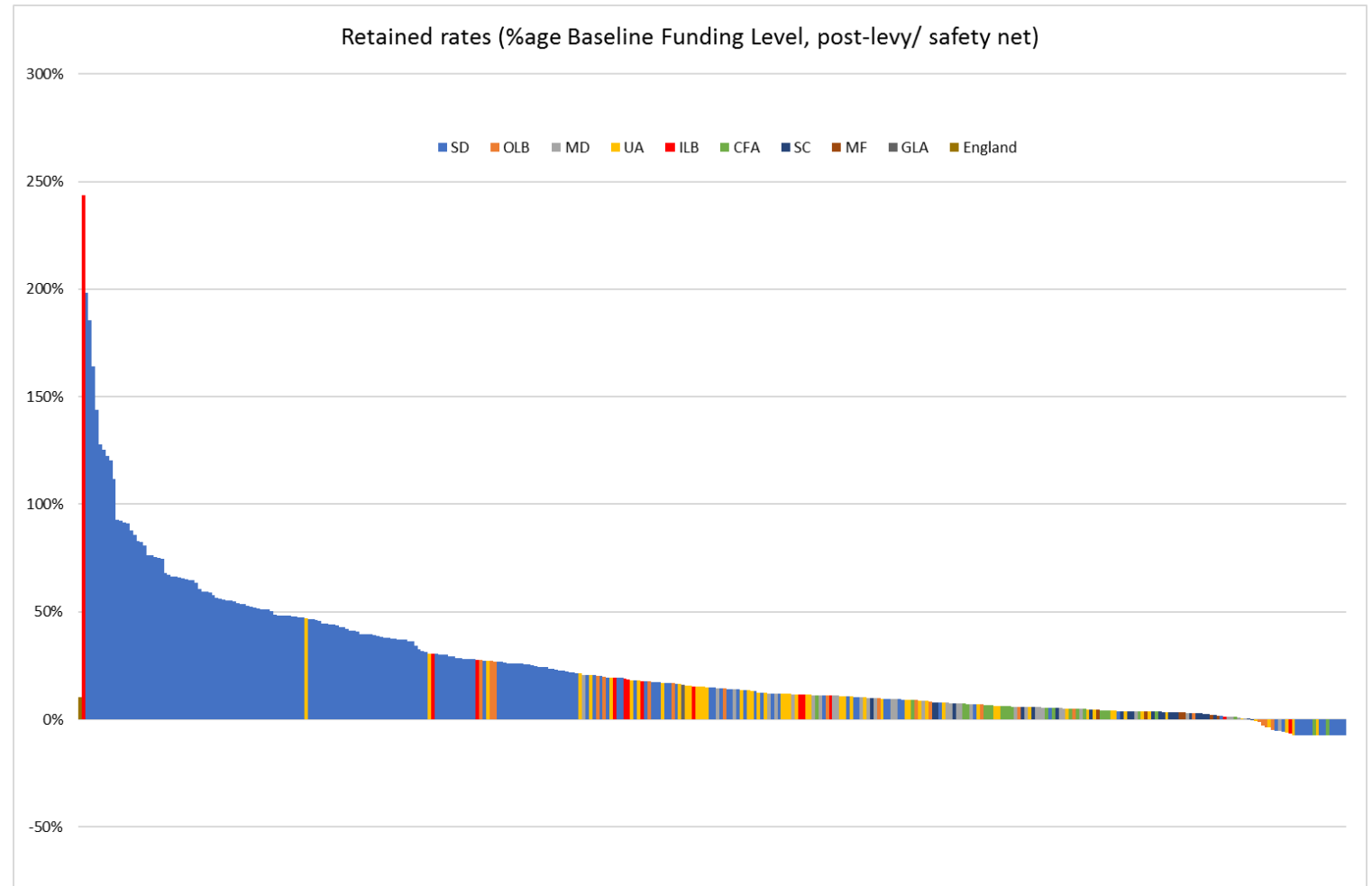
NNDR3 2020-21

- London has strongest growth rates in 2020-21 (inner London, outer London and GLA)
- Falls in retained growth (%age of BFL) in every other LA class
- London better protected from losses by RHL support and offices?



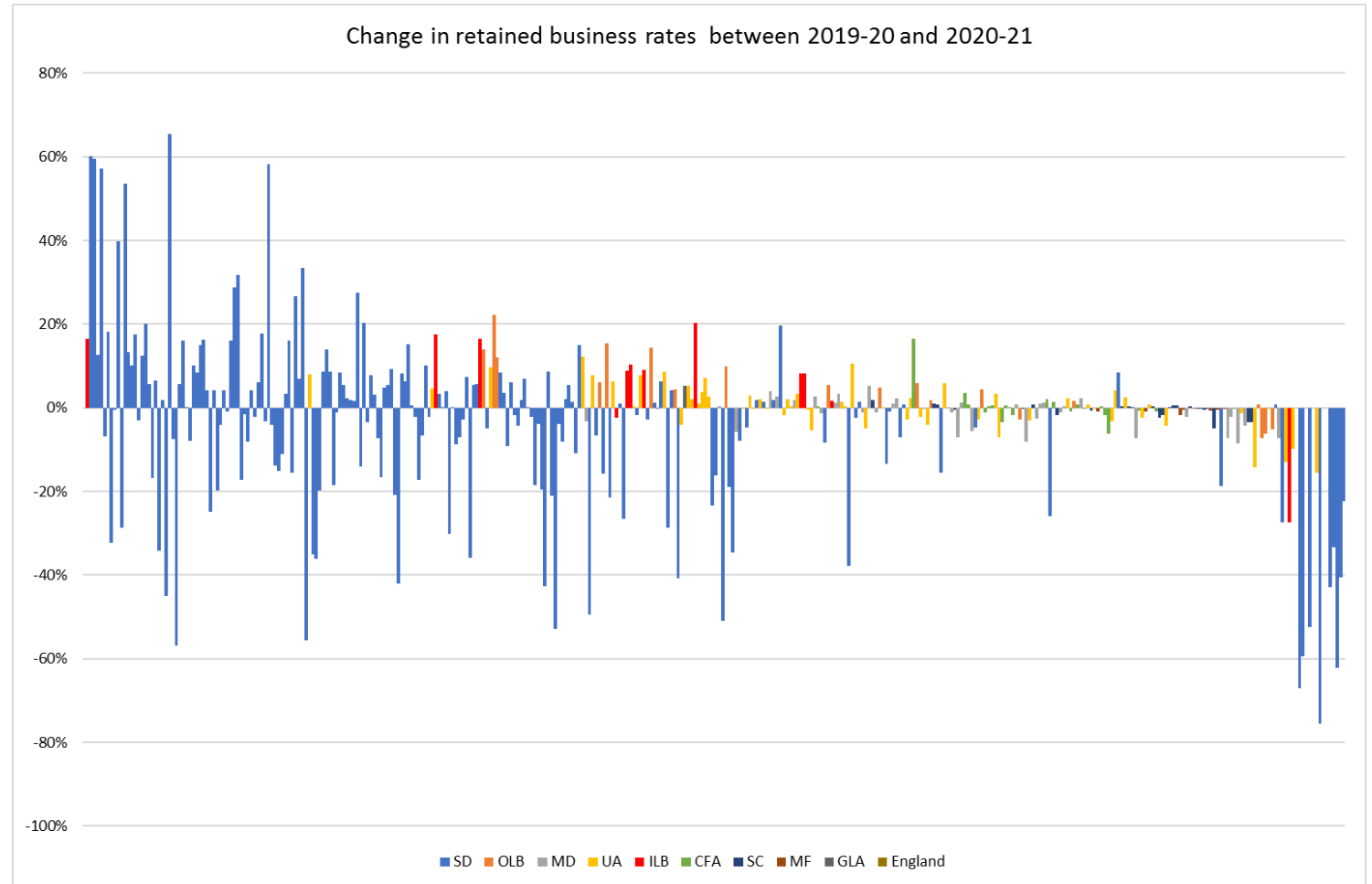
NNDR3 2020-21 – local authority vs baseline

- Most authorities are still above baseline – and in many cases, well above baseline
- Only 28 out of 369 are below baseline, of which 16 are in safety net threshold
- Some have been below baseline for >1 year, others based on events in 2020-21
- In percentage terms, district councils remain the most above baseline (except City of London)

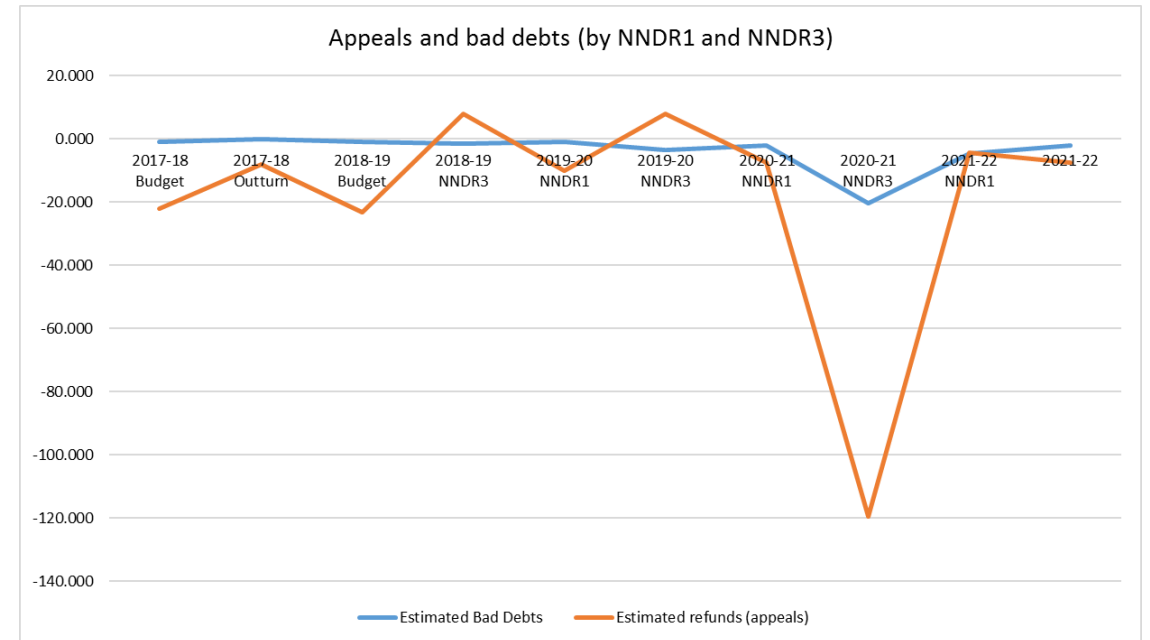
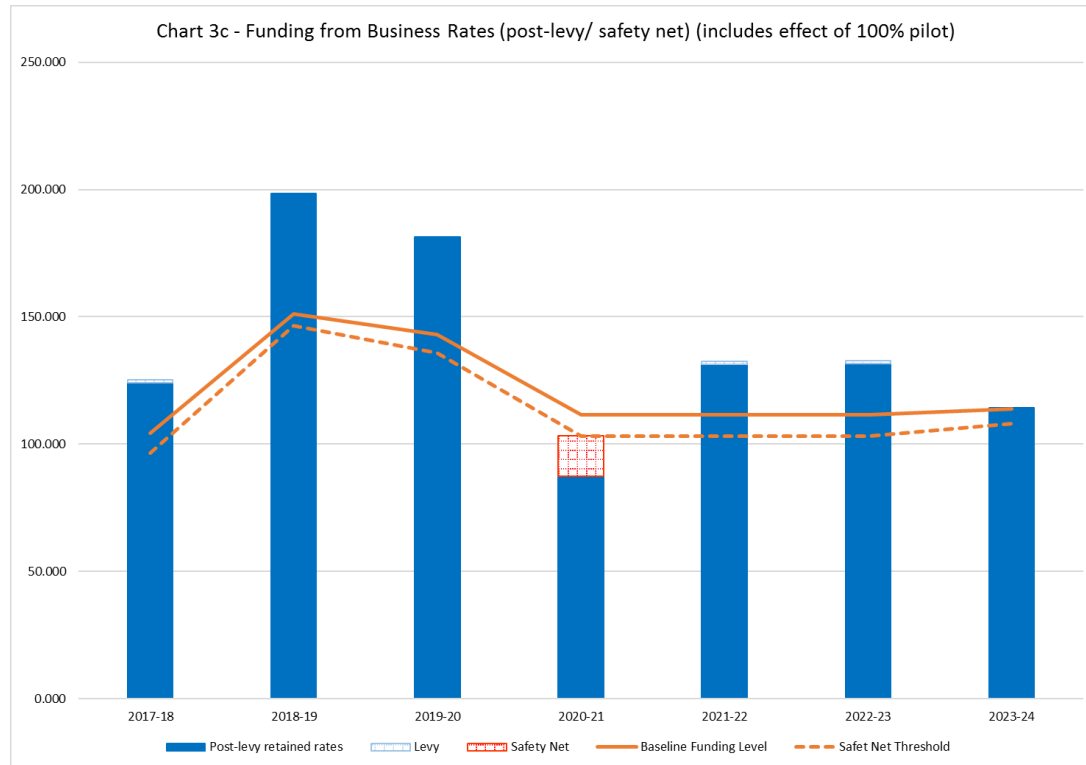


NNDR3 – local authority change 19-20 to 20-21

- There is volatility at local authority level
- In percentage terms, volatility for larger authorities and top-up authorities is relatively small
- On average, biggest increases in retained growth correlates with those already most above baseline
- Some very big reductions for some hitting the safety net
- How much is reduced yield? How much is decisions on appeals and non-collection?
- **Authorities in this chart are in the same order as previous slide (i.e. by %age baseline)**

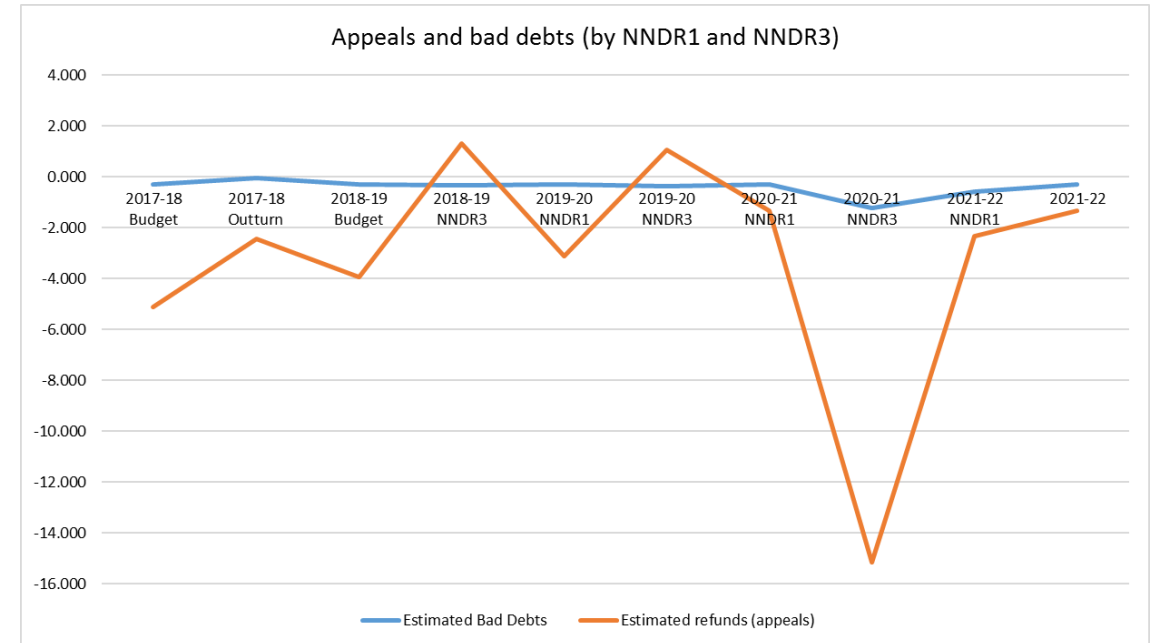
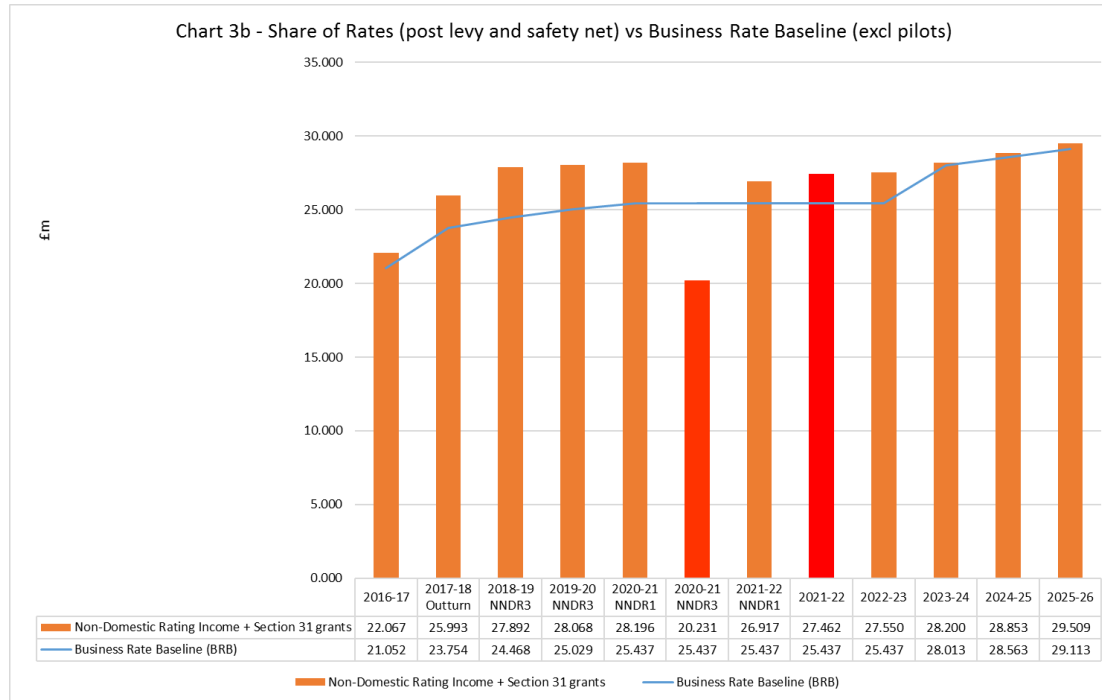


NNDR3 – an inner London borough...



- Usually an authority well above baseline (5th highest above baseline in cash terms in 2019-20, £22.7m)
- Substantially below safety net threshold in 2020-21 (£15.9m)
- Major driver is massive increase in estimated refunds in 2020-21 (Material Change in Circumstances?)

NNDR3 – a shire district council...



- Usually an authority well above baseline
- Other authorities in same county making similar judgements (the County Council is now below baseline for first time)
- Again, major driver is massive increase in estimated refunds in 2020-21