Provisional Local Government Finance Settlement 2022-23

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The provisional local government settlement was published on 16th December. The settlement sets out the core spending power (CSP) including main grant allocations for individual authorities from Department for Levelling-up, Housing and Communities (DLUHC) and forecast council tax precepts for 2022-23. The announcement is a one-year settlement and does not include indicative allocations for subsequent years (2023-24 and 2024-25) despite the announcement of three-year departmental spending plans in the Spending Review 2021 (SR21) on 27th October.

The Government's stated objective in the settlement is to give priority to "stability in the immediate term", with a more fundamental review of local government funding starting in 2022. A one-year settlement leaves capacity for the impact of reforms in later years.

Comparison of the main elements of CSP for KCC for 2021-22 and 2022-23 are set out in table1 below (note the 2021-22 CSP has been recalculated from the original 2021-22 settlement to reflect the final council tax precept)

	2022-23 CSP	2021-22 Revised CSP	Change	*Memo Original 2021-22 CSP*
Business Rate Baseline	*£187.9m*	*£187.9m*	*-*	*£187.9m*
Revenue Support Grant	*£10.0m*	*£9.7m*	*+0.3m*	*£9.7m*
Settlement Funding Assessment	£197.9m	£197.6m	+0.3m	*£197.6m*
Improved Better Care Fund	£50.0m	£48.5m	+£1.5m	*£48.5m*
Social Care Support Grant	£54.5m	£39.1m	+£15.3m	*£39.1m*
Compensation for Business Rates	£15.4m	£9.8m	+£5.6m	*+9.8m*
New Homes Bonus	£4.4m	£4.6m	-£0.2m	*£4.6m*
Services Grant (new)	£13.0m		+£13.0m	
Fair Cost of Care Fund (new)	£4.2m		+£4.2m	
Council Tax	£810.6m	£778.7m	+£31.8m	*£801.9m*
Total	£1,149.9m	£1,078.4m	+£71.5m	*£1,101.6m*

As widely anticipated the 2022-23 announcement includes roll-forward of the main grants including Revenue Support Grant (RSG), Social Care Support Grant (SSG), Improved Better Care Fund (iBCF) grant and compensation for previous business rates discounts/exceptions/ caps on increases. RSG includes a 3.1% inflationary uplift and the transfer of two small new burdens grants. There has also been a 3% increase in iBCF from part of the new money for Local Government in the Spending Review. The New Homes Bonus includes the final year's legacy payment for previous years plus one-year's growth for new housing stock, empty homes brought into use and affordable homes premium.

The council tax element is based on the government's estimate for the tax base and assumed increases up to the referendum limit and adult social care precept. The CSP assumes all councils will raise their council tax by the maximum permitted without a referendum.

The settlement includes the allocation of the new £4.8bn additional grant over 3 years for local government announced as part of SR21. Approximately £1.6bn of this money has been allocated in 2022-23:

- £636m increase in Social Care Support Grant (£15.3m for KCC) using the existing Adult Relative Needs Formula (RNF) and equalisation of the Adult Social Care council tax precept
- £63m increase in iBCF (£1.5m for KCC) which together with the additional Social Care Support Grant represents £700m new grant funding for social care
- £822m for new one-off Services Grant for 2022-23 (£13.0m for KCC) allocated to all authorities using the same formula as the Settlement Funding Assessment (SFA)
- Inflationary increase in RSG (£0.3m for KCC)

SR21 included £3.6bn for local government over 3 years to implement the social care reforms announced in September. The Local Government Finance Settlement allocates £1.4bn of this (£162m in 2022-23, with a further £600m planned in each of 2023-24 and 2024-25 subject to meeting certain conditions) through the "Market Sustainability and Fair Cost of Care Fund". This fund is to support local authorities to prepare markets for reform and move towards paying providers a more equitable cost of care. The funding in 2022-23 has been allocated using the same Adult RNF as Social Care Support Grant. KCC's share in 2022-23 is £4.2m. At this stage we do not have sufficient information about the impact of the reforms to assess whether the grant will be sufficient.

In the written ministerial statement the Secretary of State reaffirmed the Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources.

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

The settlement includes no information about the national total, or individual council allocations, of the public health grant for 2022-23

The provisional settlement is open for a 4 week consultation closing on 13th January.

2.1 The Spending Review and Autumn Budget were set against in the context of the economic recovery following the Covid-19 pandemic and subsequent economic recession in 2020. The Covid-19 pandemic has presented an extraordinary and unexpected challenge to the UK economy and economies across the world. The combination of additional public spending both on dealing with the pandemic and the economic fallout from the subsequent recession, and reduced tax yields, has resulted in an unprecedented peacetime budget deficit. The key fiscal indicators are set out below

Budget deficit of £319.9bn in 2020-21	Budget deficit (difference between spending and receipts) is measured as Public Sector Net Borrowing (PSNB). This deficit equates to 15.2% of GDP and represents the largest budget deficit since World War II. The deficit is forecast to reduce to: • £183.0bn in 2021-22 • £83.0bn in 2022-23 • £61.6bn in 2023-24 and thereafter the rate of decline is forecast to be lower leaving an annual deficit of £44.0bn by 2026-27.
Total debt of £2,136bn in 2020-21	Accumulated debt is measured as Public Sector Net Debt (PSND). Total debt equates to 96.6% of GDP (highest level since 1962-63). Total debt is forecast to increase to: • £2,369bn in 2021-22 • £2,479bn in 2022-23 • £2,561bn in 2023-24 before remaining largely constant thereafter. As a percentage of GDP forecast total debt peaks at 98.2% in 2021-22 before starting to reduce to 88% by 2026-27.
Total public sector spending of £1,115.2bn in 2020-21	Public sector spending is measured as Total Managed Expenditure (TME) and comprises current expenditure (£989.1bn in 2020-21) and public sector investment (£126.1bn in 2020-21). TME in 2020-21 represents 53.1% of GDP, again highest since WWII. TME is forecast to be: • £1.045.0bn in 2021-22 • £1,045.4bn in 2022-23 • £1,081.4bn in 2023-24 rising each year thereafter to £1,191.7bn by 2026-27
Total public sector receipts of £795.3bn in 2020-21	Public sector receipts include National Account Taxation (£713.0bn in 2020-21) and other income (£82.3bn in 2020-21) such as interest/dividends, operating surplus, etc. Receipts are forecast to increase to: • £862.0bn in 2021-22 • £962.4bn in 2022-23 • £1,019.8 in 2023-24 Rising each year thereafter to £1,147.8bn by 2026-27

2.2 The performance of the economy has been particularly volatile following the announcement of the pandemic. The pace of economic recovery has slowed in recent months and inflation has been rising over late summer and autumn. Unemployment has not been as adversely affected as originally feared although underlying wage growth for those in continuous employment is difficult to measure due to the high level of changes in employment. The latest key economic indicators are set out below.

GDP is forecast to recover to pre-pandemic levels early in 2022	The monthly measure total output in the whole economy (Gross Domestic Product – GDP) fell by 25% in the early months of the pandemic. GDP recovered to 95.2% of pre-pandemic levels up to October 2020 before falling back to 91.7% by January 2021. Throughout the remainder of this year it has recovered to 99.5% by September 2021. Although the rate of recovery has slowed in recent months GDP is forecast to recover to pre-pandemic levels around the turn of the year.
Rate of inflation in year to November 2021 is 4.6%	The main measure of inflation is Consumer Price Index (CPI) which is also shown including a measure of housing costs (CPIH). CPIH was consistently under 1% between April 2020 and March 2021. Since March the rate of inflation has been rising to 2.4% in June (with an unexpected fall to 2.1% in July) but rising thereafter each month to 3.8% in October and 4.6% in November
Unemployment is at 4.2% for the period August 2021 to October 2021	Unemployment peaked at 5.2% in the period October 2020 to December 2020 and has been falling since. The labour market has remained more resilient than previous forecasts and demand for labour continues to be buoyant with high number of vacancies.
Average earnings in the year to October 2021 increased by 4.9%	Changes in annual earnings are based on a 3 month seasonally adjusted average for total pay excluding arrears. Average earnings initially fell following the first lockdown measures (the greatest reduction being to June 2020 of 1.3%), followed by a recovery in the second half of 2020 and first half of 2021 (peaking at annual increase of 8.8% between June 2020 to June 2021). Since June the rate of increase has declined to current 4.9% in October 2021.

2.3 The Spending Review was announced on 27th October. This set out public expenditure plans for the next 3 years. The settlement for local government included the following announcements:

Year on year increases in core spending power (CSP)	CSP remains the government's preferred approach to assessing the impact of the local government settlement. CSP includes resources available to local authorities from DLUHC (grants and business rates baseline) and council tax. CSP includes the vast majority of resources that constitute the Council's net budget. • £50.4bn 2021-22 (excluding covid-19 grants) • £53.7bn 2022-23 • £56.6bn 2023-24 • £58.9bn 2024-25
£4.8bn additional grant over 3 years	This grant is expected to be allocated in roughly equal instalments of £1.6bn each year, effectively meaning additional funding is front loaded with no further growth in 2023-24 or 2024-25. It includes an additional £200m for supporting families programme over the three years. Individual authority allocations are confirmed in the provisional settlement.
£3.6bn for social care reforms	This grant will be phased in over the 3-year period with £0.2bn in 2022-23, rising to £1.4bn in 2023-24 and £2.0bn in 2024-25. The grant is to support local authorities to implement the charging reforms announced in September and to better sustain local care market i.e. to implement the cap on care costs and to equalise the fees between state and self- funders.
2% general council tax increase plus 1% council tax for adult social care	The council tax referendum principles have been confirmed in the provisional settlement.
Separate compensation for caps on business rates	The government has announced that business rates multiplier will be frozen for 2022-23. The government has announced a range of other measures to help business such as additional reliefs for retail/hospitality/leisure, support for property improvements and green technology. Local authorities will be compensated for the impact of all these measures on business rate retention
£37.8m funding for Cyber Security	This funding will be available to local authorities over 3 years to tackle cyber security challenges, invest in cyber resilience and to protect services and data
£34.5m funding for local delivery and transparency	This funding will be available to local authorities over 3 years to strengthen procurement and commercial capacity, establish the Audit Reporting and Governance Authority and help meet new transparency requirements

2.4 The Department for Health and Social Care (DHSC) settlement includes an additional £1.7bn over three years to improve the wider social care system including the quality and integration of care. At least £500m of this will be allocated to improve qualifications, skills and wellbeing across the adult social care workforce. The DHSC settlement includes a commitment to maintaining public health grant in real terms. The allocations to local authorities from DHSC are not covered in the provisional local government finance settlement.

2.5 The Department for Education (DfE) settlement includes an additional £4.7bn for schools' budgets by 2024-25 and an additional £2.6bn over the three year period for additional school places. The schools' allocations through the Dedicated Schools Grant (DSG) are released separately to the provisional local government finance settlement. The DfE settlement also includes increases for the Supporting Families programme (formerly Troubled Families) as well as the funding for this earmarked in the local government settlement.

2.6 The Department for Transport (DfT) settlement continues to include capital funding for roads maintenance and integrated transport. The capital allocations from DfT are not covered in the provisional local government finance settlement.

3.1 The provisional local government finance settlement was announced on 16th December. This sets out the provisional grant allocations and proposed council tax referendum principles. Comments on the provisional settlement will need to be submitted by 13th January.

3.2 The settlement includes the baseline for business rates retention (including tariffs and top-ups) which together with RSG makes up the Settlement Funding Assessment (SFA) within the CSP. The calculation of SFA takes account of the impact of previous business rates revaluations but there has been no recalculation of RSG or baseline for changes in population or spending needs since the current business rates retention model was introduced in 2013-14. There was a change to the relative resource element within SFA introduced in 2016-17 to take account of individual authorities' local decision on council tax charges as well as the traditional resource adjustment based on the relative council tax base (the proportion of properties in each band and impact of discounts/exceptions). The SFA (and therefore CSP) does not include any additional business rates receipts (or business rates losses) under retention arrangements.

3.3 The one-year announcement in the provisional settlement leaves scope for changes in the distribution of funding through SFA and other grants in later years to take account of the Fair Funding reforms which have been delayed for several years. The ministerial statement reaffirmed the Government's commitment to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess both Settlement Funding Assessment (SFA) and Adults Relative Needs Formula (RNF) 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, the Government 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. However, this does bring a further degree of uncertainty whether funding from the non-council tax elements of the Council's budget will be more, flat, or less than 2022-23.

3.4 The settlement also confirms the proposed council tax referendum limits of 2% for the general precept and 1% for the adult social care precept. There is no separate grant for the 1.25% increase in employer's national insurance contributions nor any specific funding for the increases in National Living Wage (NLW)/National minimum Wage (NMW). Additional costs for national insurance and NLW/NMW have to be funded within the combination of additional service grant/social care grants and council tax.

3.5 The existing grants have been rolled forward from 2021-22 with inflationary uplifts in RSG and iBCF. There has also been the transfer of two small new burdens grants into RSG from the Electoral Registration grant and the Financial Transparency of Local Authority Maintained Schools grant. There have been no changes to the methodology for allocating grants and new grants and increased grants have been allocated using existing methodologies.

- The social care support grant has been increased with the new money allocated according to the existing the Adult RNF adjusted for the additional 1% adult social care council tax precept
- The new Service grant has been allocated using the same methodology as SFA which as outlined above has not been updated since 2013-14
- The new grant for Market Sustainability and Fair Cost of Care Fund has been allocated using the existing Adults RNF. This grant will be subject to separate conditions set by government

3.6 It is worth noting that the proportion of funding allocated for adult social care RNF accounts for a much larger share for County Councils than the share of SFA. This is not always the case for other classes of authorities (London Borough, Metropolitan Districts, Unitary Authorities) which receive similar shares through Adults RNF and SFA. The SFA is based on the previous Formula Grant mechanism which it is contended had an urban bias in is distribution of relative needs and resources. The differences are stark as demonstrated through the respective shares of the Social Care Support Grant (KCC receives 2.4% of the national total) and the new one-off Service Grant (KCC receives 1.58% of the national total). The SFA also targets funding according to a wide variety of measures including deprivation and relative resources through council tax base/council tax rates. This has resulted in a clear pattern with the largest increases in CSP in authorities with highest deprivation/lowest tax yields, and smallest increases in authorities with low deprivation/high tax yields.

3.7 It is also worth noting that using the Adults RNF for the Market Sustainability and Fair Cost of Care Fund in 2022-23 takes little account of the relative impact of self-funders of social care. This means funding allocations for 2022-23 do not support the objective for more equitable charges between self-funders and those in receipt of council funded care. However, it must be recognised until the impact of the reforms has been evaluated and reforms to local authority funding concluded there are few practical alternatives.

3.8 The New Homes Bonus includes the final year's legacy payment for previous years plus one-year's growth for new housing stock, empty homes brought into use and affordable homes premium. The additional growth is allocated as a one off and we are still assuming this grant will end in 2023-24 when the final legacy element is removed.

3.9 The announcement on 16th December does not include any of the additional funding for Supporting Families and Cyber Resilience, which will be distributed separately outside of the provisional settlement.

3.10 The schools' settlement was also announced on 16th December setting out the provisional allocations for Dedicated Schools Grant. This will mainly affect individual school's budgets but will also impact on High Needs budget, Early Years, and the aspects of KCC core budget funded from the grant. More detail of the schools' settlement will be set out in the draft budget report to be published on 5th January.

Core Grants

3.10 The Council is in receipt of a mix of general un-ringfenced grants which can be used in any way the Council decides to discharge its functions (core grants) and specific grants which must be spent according to government priorities. Given the uncertainty of future settlements beyond 2022-23 assumptions will have to be included in the Medium Term Financial Plan for future years. There are risks associated with this approach as the government may decide to change its priorities and reduce or cease funding through a grant or reallocate service specific grants into more general funding with a changed distribution.

Revenue Support Grant

3.11 Revenue Support Grant (RSG) is a central government grant given to local authorities from the centrally retained share of business rates which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to authorities is established through the Local Government Finance Settlement using the relevant funding formulae; the revision of these formulae (along with the redistribution of the locally retained share of business rates) is the focus of the (deferred) Fair Funding review process.

3.12 KCC's RSG has decreased from circa £161m in 2015-16 to circa £9.6m in 2020-21 with only small inflationary uplifts since then.

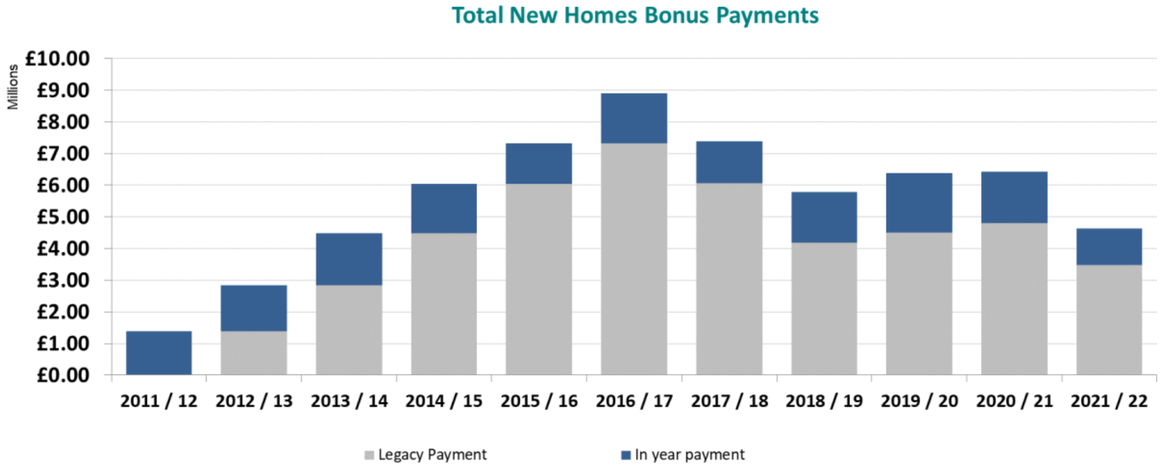
New Homes Bonus

3.13 The New Homes Bonus (NHB) scheme was introduced in 2011-12 to help tackle the national housing shortage. The scheme was designed to reward those authorities that increased their housing stock either through new build or by bringing empty properties back into use. The grant is un-ringfenced.

3.14 Initially the NHB grant increased each year as the grant provided an incentive for six years by adding an additional in year growth to the previous year's legacy amount. This saw the grant peak in value in 2016-17. From 2017-18 the grant was reformed with the incentive reduced to four years in stages over two years by removing the earliest two year's legacy payments and adding in year additional growth.

3.15 A further reform was introduced in 2020-21 which saw the additional in year growth added as a one-off (i.e. not included in the subsequent year's legacy) with oldest year's legacy removed. This meant three years' worth of legacy payments in that year and one in year's growth. The same system was used in 2021-22 with one-off allocation of in year growth and two years' worth of legacy payment. For 2022-23 the grant represents the one year's remaining legacy and no additional in year amount. For 2023-24 it is assumed the grant ceases as the last legacy year is removed.

3.16 The graph below depicts the legacy and growth elements over the lifetime of NHB



Improved Better Care Fund

3.17 The Better Care Fund (BCF) was introduced in the 2013-14 spending review. The fund is a pooled budget, bringing together local authority and NHS funding to create a national pot designed to integrate care and health services.

3.18 In addition to this, an Improved Better Care Fund (IBCF) was announced in the 2016-17 budget to support local authorities to deal with the growing health and social care pressures during the period 2017-20. The grant is allocated according to relative needs formula for social care with an equalisation adjustment to reflect the adult social care council tax precept. The allocations increased each year between 2017-18 to 2020-21. The subsequent spending reviews and local government settlements have seen the grant rolled forward at the same value in cash terms as 2020-21 (£48.5m). The grant for 2022-23 includes a 3% inflationary uplift as part of the additional resources for adult social care within the settlement.

Social Care Grant

3.19 The current social care support grant was first introduced in 2019-20 following the announcement in the Chancellor's 2019-20 budget of an additional £410m for adult and children's social services. KCC's allocation for 2019-20 was £10.5m based on a formula using the adult social care relative needs formula with an equalisation adjustment to reflect the adult social care council tax precept.

3.20 An additional £1bn was added to the 2020-21 settlement taking the total for social care support grant to £1.41bn. The same formula as 2019-20 was used based on using the adult social care relative needs formula with an equalisation adjustment to reflect the adult social care council tax precept. KCC's allocation was £34.4m. The government believes there is not a single bespoke needs formula that can be used to model relative needs for both adult and children's social care, therefore the existing Adult Social Care Relative Needs Formula was used to distribute this Social Care Support Grant funding.

3.21 The 2021-22 settlement included a further £300m taking the total social care support grant to £1.71bn. The same formula was used again providing KCC with an additional £4.7m, increasing the total grant value for 2021-22 to £ 39.1m.

3.22 The 2021-22 grant has been rolled forward into the 2022-23 provisional settlement. An additional £556.4m has been added to the grant and allocated to individual authorities using the existing Adults RNF (KCC share £14.3m). A further £80m added has been allocated to reflect the 1% adult social care council tax precept (KCC share £1.0m). Combined with the rollover from 2021-22 KCC's total social care support grant for 2022-23 is £54.5m, an increase of £15.3m on 2021-22.

3.23 The total increase in the Social Care Support Grant (£636.4m) together with the uplift in the IBCF (£62.8m) is part of £700m increase in social care funding within the settlement plus the additional adult social care council tax precept.

Market Sustainability and Fair Cost of Care Fund

3.24 This is a new grant for 2022-23. In total £162m out of the £3.6bn over 3 years has been made available in 2022-23. The grant is allocated using the existing the Adults RNF and will be subject to separate conditions set by government.

4.1 A fundamental review of the distribution methodology for the core grants in local government settlement was first announced as part of the final local government settlement for 2016-17. Initially this was to complement the development of proposals for 100% business rates retention to enable the baselines to be reset (the baselines which take account of relative spending needs and relative ability to raise resources have been frozen since the introduction of 50% business rates retention in 2013-14). The original timetable was that the reforms would be implemented for 2019-20 settlement.

4.2 Initially the review was carried out through a technical working group jointly chaired by the then Department for Communities and Local Government (DCLG) and Local Government Association (LGA) and representatives from local authorities. The work of the group was initially supported by a call for evidence in July 2016 followed by two technical consultations in Spring 2017 and Spring 2018.

The principles established for the review were:

Incentivise growth	Support the reforms around 100% business rates retention and help councils grow their local economies
Simplicity	Identify the most important factors that drive need to spend and develop a less complex methodology for distributing resources
Transparency	For councils and the public to understand local allocations
Contemporary	Using the most up-to-date data available for key cost drivers
Sustainability	An evidence-based approach to respond to current and future demands
Robustness	Fit for purpose
Stability	Transitional arrangements and alignment with multi-year settlements to minimise losses in year one but provide a clear path to new allocations over time

4.3 The review proposed that the new system should be based on a common foundation formula reflecting a general range of services for upper tier and lower tier responsibilities. This foundation formula was proposed to be based on a simple measure of needs (total population) although views on whether this should also be weighted for deprivation were mixed with no consensus yet reached. Separate bespoke needs formulas were proposed to be included for a limited number key service areas:

Adult Social Care	With separate sub formula for 18 to 64 and over 65s taking into measures such disability assessments/benefits, income/deprivation and household support as well as population
Children and Young People’s Services	With measures still to be determined
Highway Maintenance	Based on road length and traffic flow
Public Health	Based on population and a range of health measures and outcomes
Fire and Rescue	Based total/elderly population and deprivation
Flood Defence & Coastal Protection	Based on watercourse/coastal length and risks
Legacy Capital Finance	Based on historic borrowing

4.4 Under the current arrangement an area cost adjustment is made for a small number of authorities (London boroughs) facing significantly higher costs. This is measured according to differences in labour and premises costs. The Fair Funding review proposed that area cost weighting should be applied for all authorities which would include recognition of accessibility to deliver services (sparsity and density) and remoteness. This would reflect the impact of journey times on labour costs additional costs associated with sparsity, density, market conditions and economies of scale. The new area cost weighting would continue to take account of differences in labour rates and premises costs.

4.5 The previous funding arrangement took account of different authorities' scope to raise council tax through Relative Resources adjustment. Traditionally this has only taken account of differences in the tax base (relative value of properties as measured by the eight bands for council tax). The reforms introduced in 2016-17 brought in differences in tax rates (council tax charge) as well as tax base. This change was introduced with no prior consultation or notification and meant business rate retention and government grants were affected by local decisions on council tax levels.

4.6 The Fair Funding review proposed that relative resources adjustment should not reward or penalise authorities for exercising local discretion. This would see the council tax adjustment take into account differences in the value of the tax base (property bands) but revert to a notional tax rate rather than actual charges and exclude the impact of discretionary decisions on discounts within the tax base. The review also considered whether the relative resources adjustment should take into account different authorities' ability to raise income through sales/fees/charges especially car parking but as yet no firm proposals on this has been put forward.

4.7 The Fair Funding review recognised that there will be a need for transitional arrangements to allow authorities time to adjust to new funding levels but with a clear objective of fully transitioning to the new funding levels over time. The guiding principles for transitional arrangements would seek a balance between stability, transparency, flexibility and be time limited.

4.8 The planned implementation was initially deferred until April 2020 to allow more time to develop proposals. This was subsequently further deferred (to date indefinitely) due to the impact Covid-19 pandemic.