

CCN Conference 2021

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23 November 2021

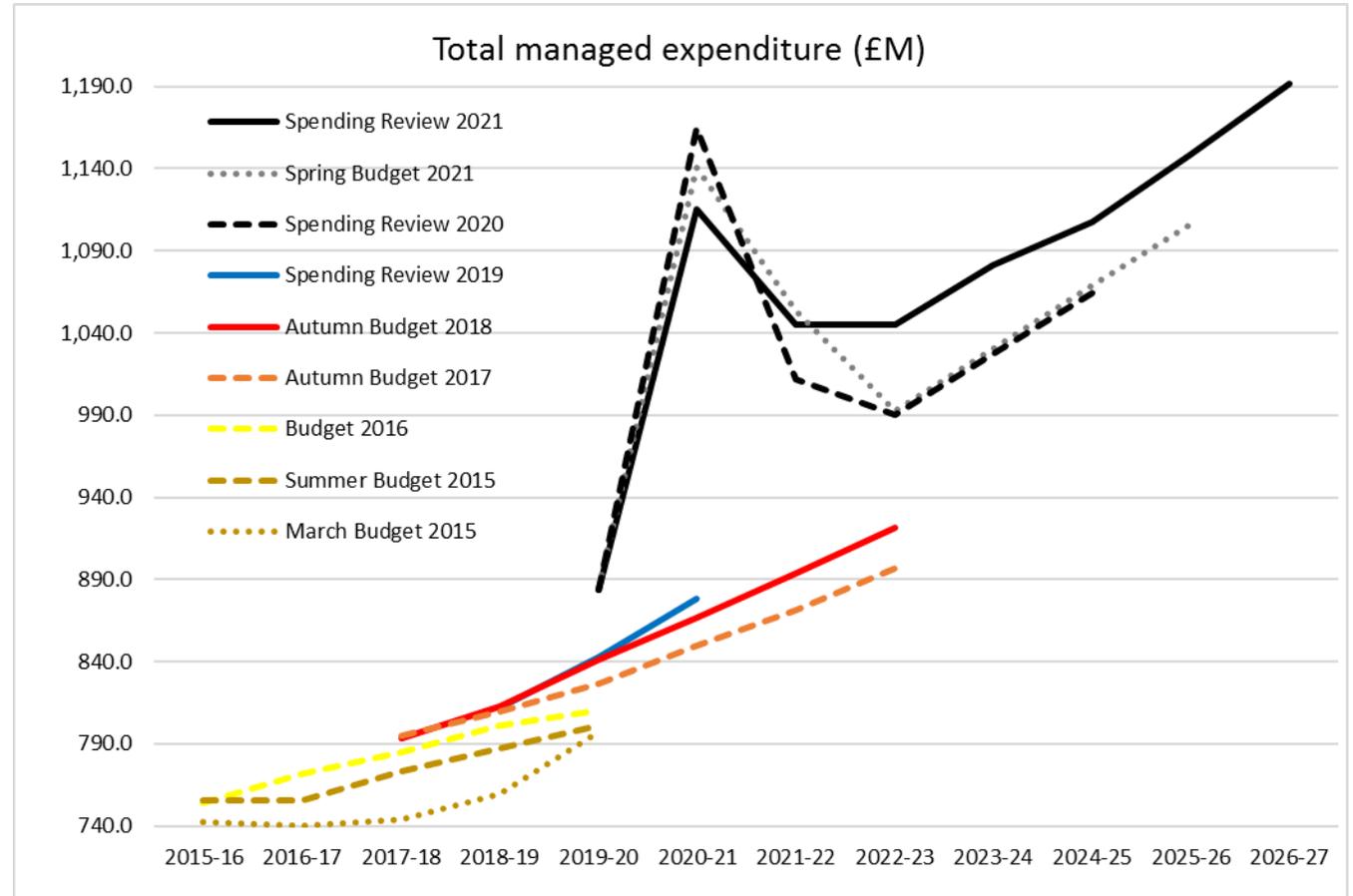


Overview

- SR21 overview and background
- Funding for local government in SR21 and provisional settlement
- Local government funding reforms (impact of FFR, focus on levelling up)
- The verdict: Is it enough? Higher council tax increases?

Step-change in spending plans

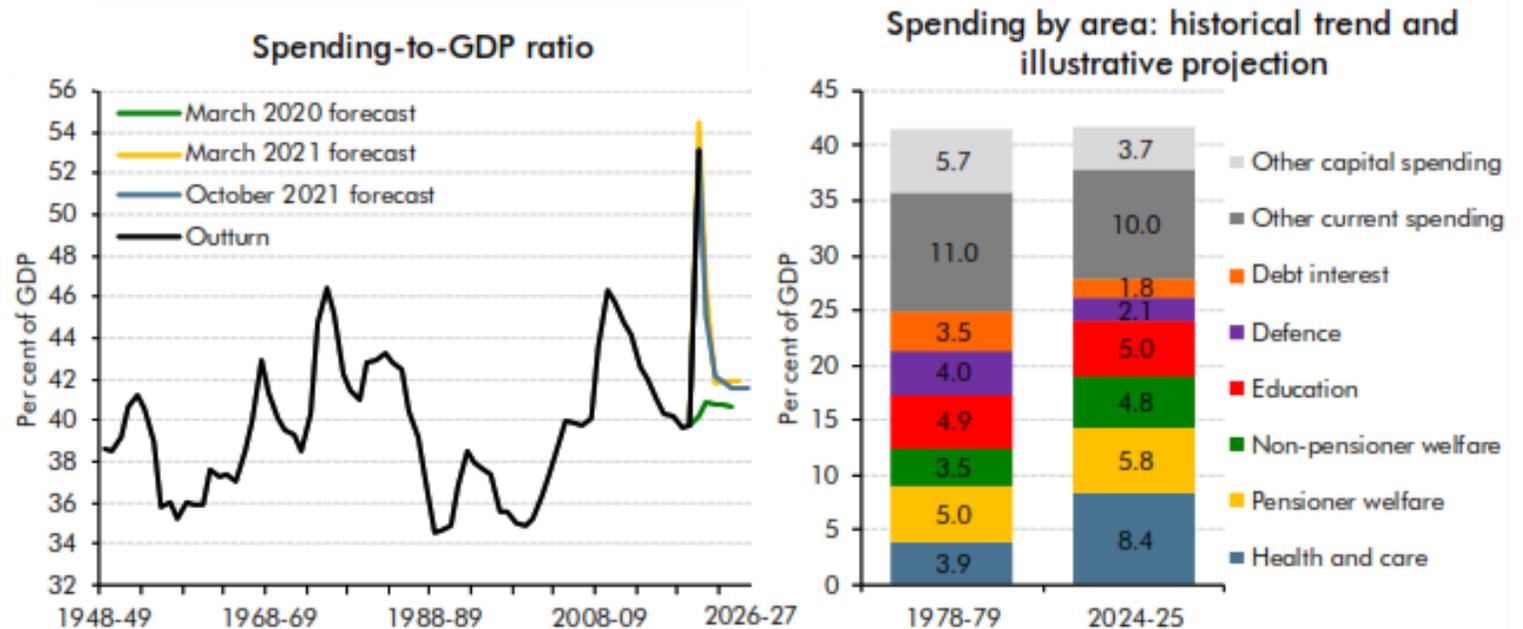
- £150bn increase in public spending over 3 years (real terms growth 3.1% average)
- Public spending in a different world from pre-pandemic – both step-change and faster growth
- Higher spending growth funded by tax increases:
- Frozen income tax allowance and increase in corporation tax (Spring 2021 Budget)
- Increase in National Insurance Contributions (September 2021)
- **Good for local government if it gets a share**



Changing shape of the state

- Public spending highest share of GDP since early 1980s (forecast 42%)
- Higher than pre-pandemic plans
- Increasing share of spending on NHS (from 3.9% to 8.4% of GDP in 45 years)
- Other current spending squeezed (a little, including local government and social care)
- **Risk for local government that higher overall public spending does not result in real-terms funding growth**

Chart 1.7: Spending as a share of GDP and change in the composition of spending



Note: Both outturn and forecast are based on the vintage of nominal GDP data that was available when we closed the pre-measures forecast, so do not reflect upward revisions in the latest Quarterly National Accounts. All else equal, applying the upward revision to 2020-21 nominal GDP of 2.3 per cent to all years of the forecast would reduce the spending-to-GDP ratio by 1.0 per cent of GDP across the forecast.

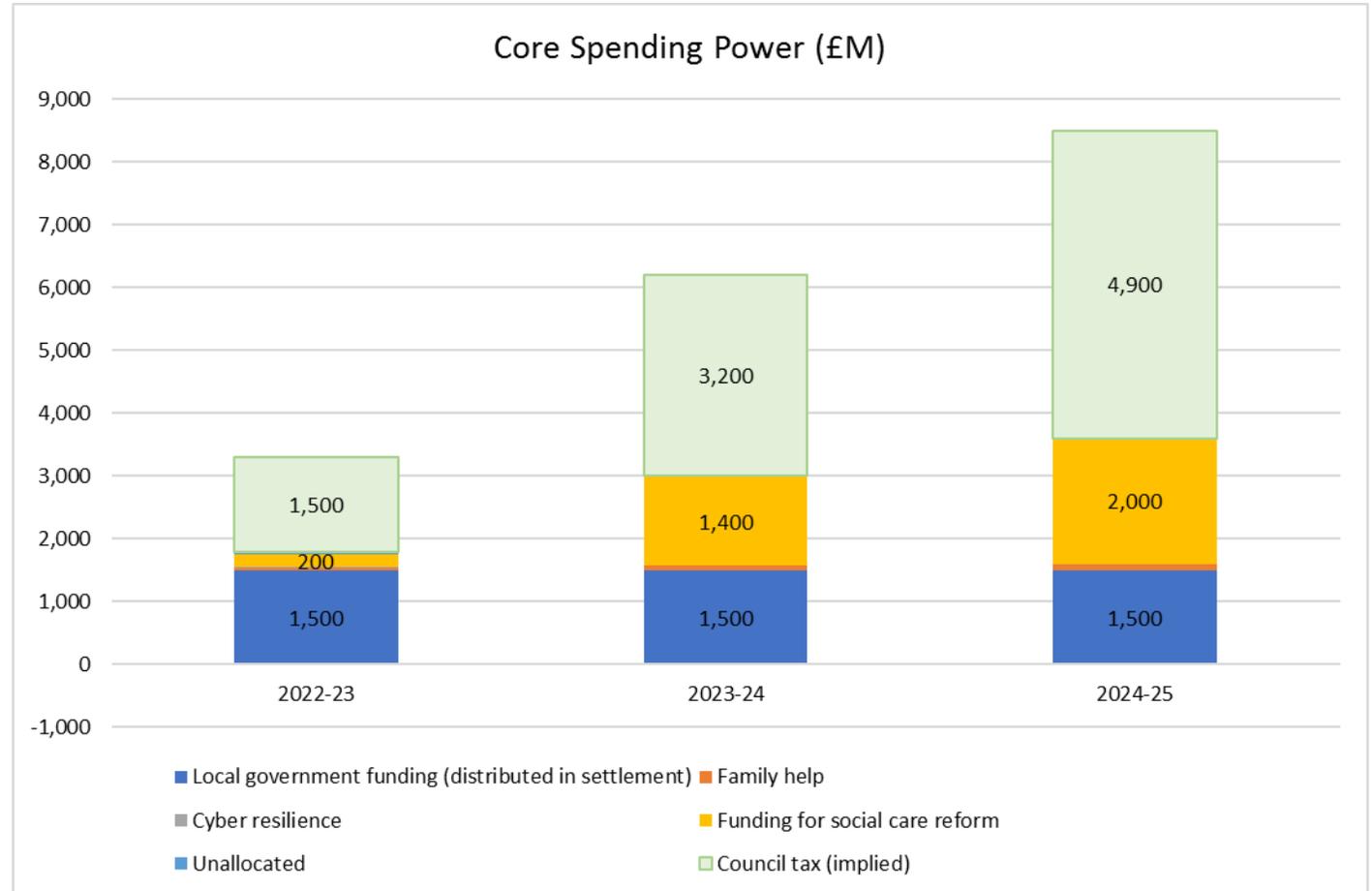
Source: Bank of England, DHSC, DWP, HMT, IFS, ONS, OBR

SR21: local government headlines

- **Council tax thresholds** will remain at similar levels to recent years (“core” 1.99% and the adult social care precept by a further 1%)
- **Additional £4.8bn** increase in grant funding over the next 3 years (£1.6bn in each year).
- Additional **funding for social care reform** (£3.6bn over 3 years to implement “the cap on personal care costs and changes to the means test”)
- From the **£5.4bn social care reform funding**, a further £1.7bn will be allocated over 3 years “to improve the wider social care system” and £500m will be made available to “improve” the social care workforce.
- No announcement about **local government funding reforms** (Fair Funding Review or business rates changes) and we assume that they have been pushed back to at least 2023-24 if not later.

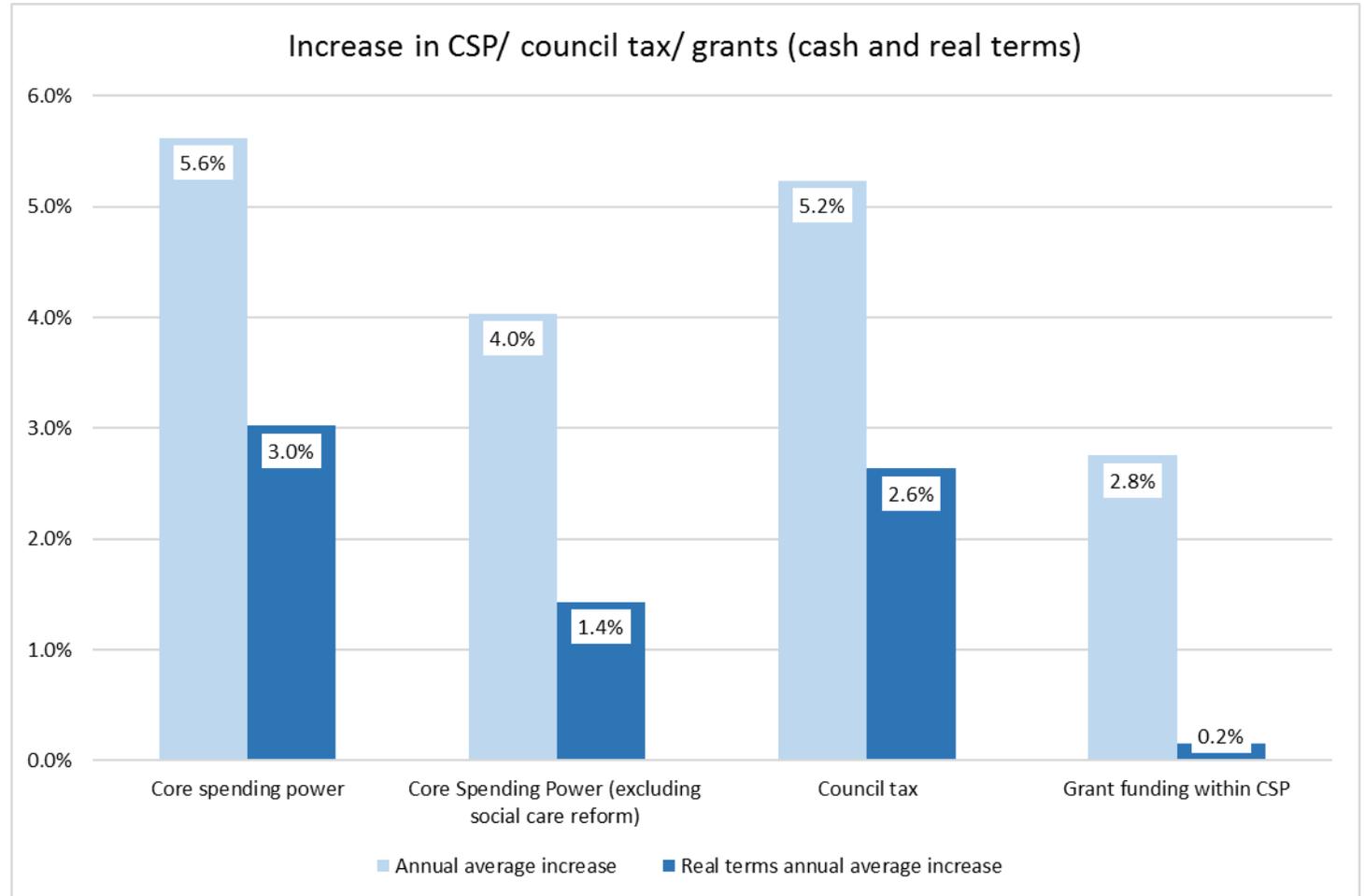
Core Spending Power (CSP) – elements of change

- **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**



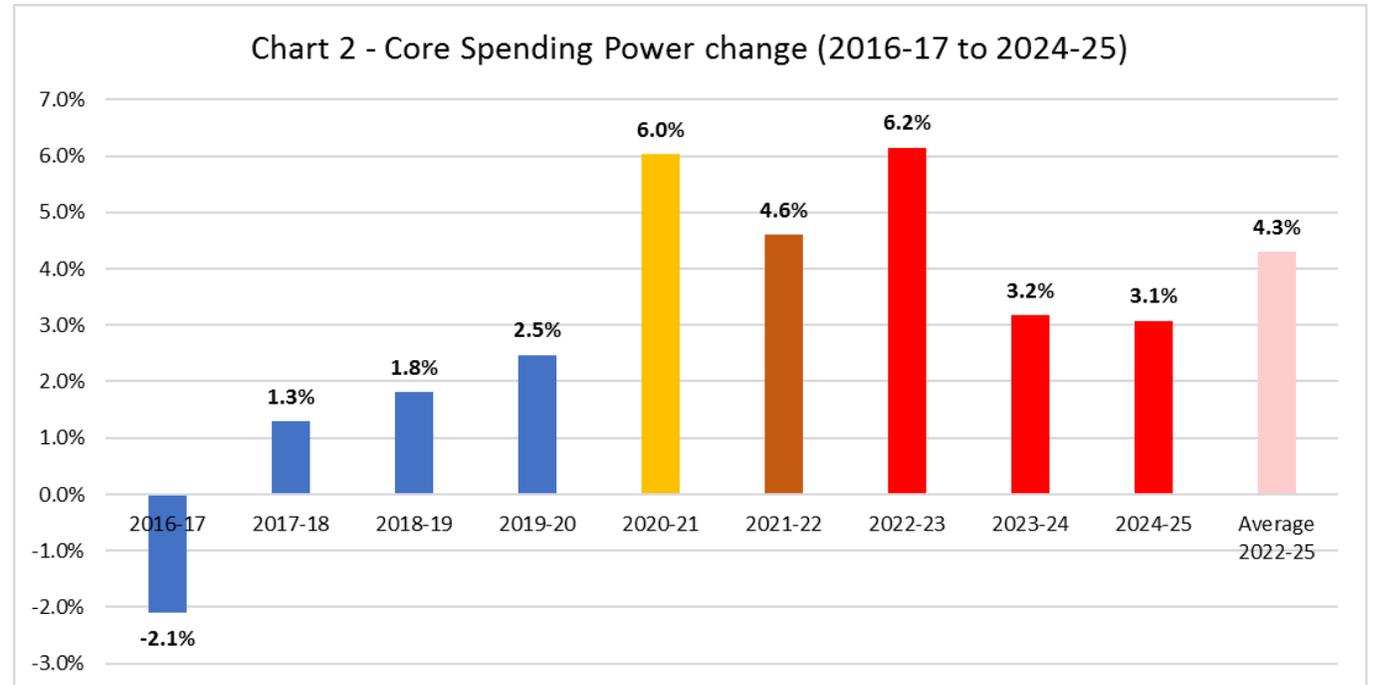
Growth in local government funding

- 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!

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
- 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)
- New Homes Bonus
- Other grants (homelessness, troubled families, etc)
- Ongoing COVID pressures

Allocating the £4.8bn (SFA and social care)

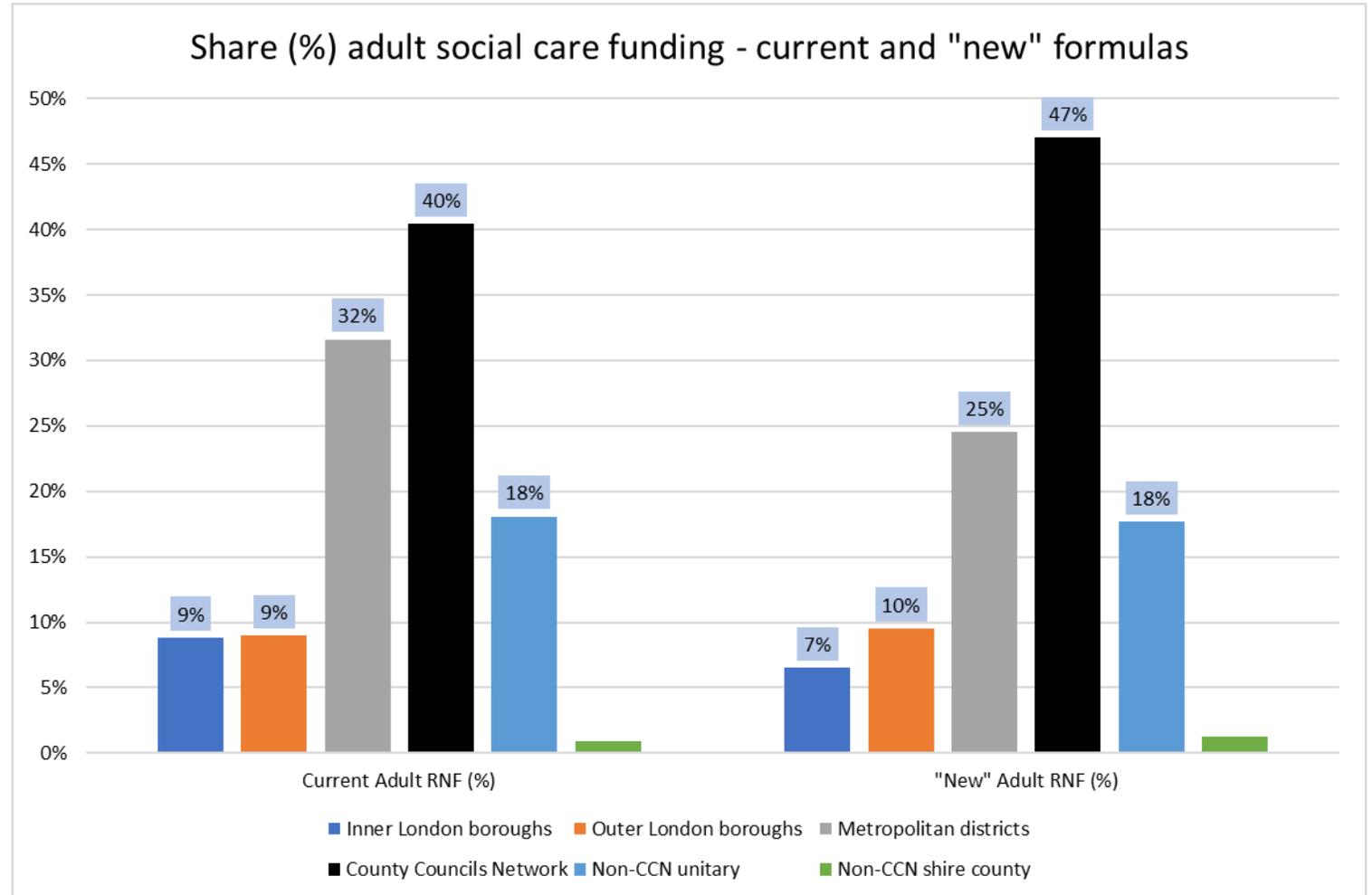
- Balance between SFA, social care and other grants (important for district councils and fire authorities)
- Social care allocations likely to be based on Adult RNF and an element of council tax equalisation (possibly use “new” social care formulas)
- Two scenarios modelled (flat distribution, front-loaded social care)
- “Negative RSG” unlikely to be applied unless full review – but it is a risk
- How much will be allocated to other grants? Lower Tier Support Grant, Rural Services Delivery Grant, New Home Bonus

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
- **Cap compensation** (est. £450m). Business rates multiplier will be frozen in 2022-23, and local government will receive compensation. NO

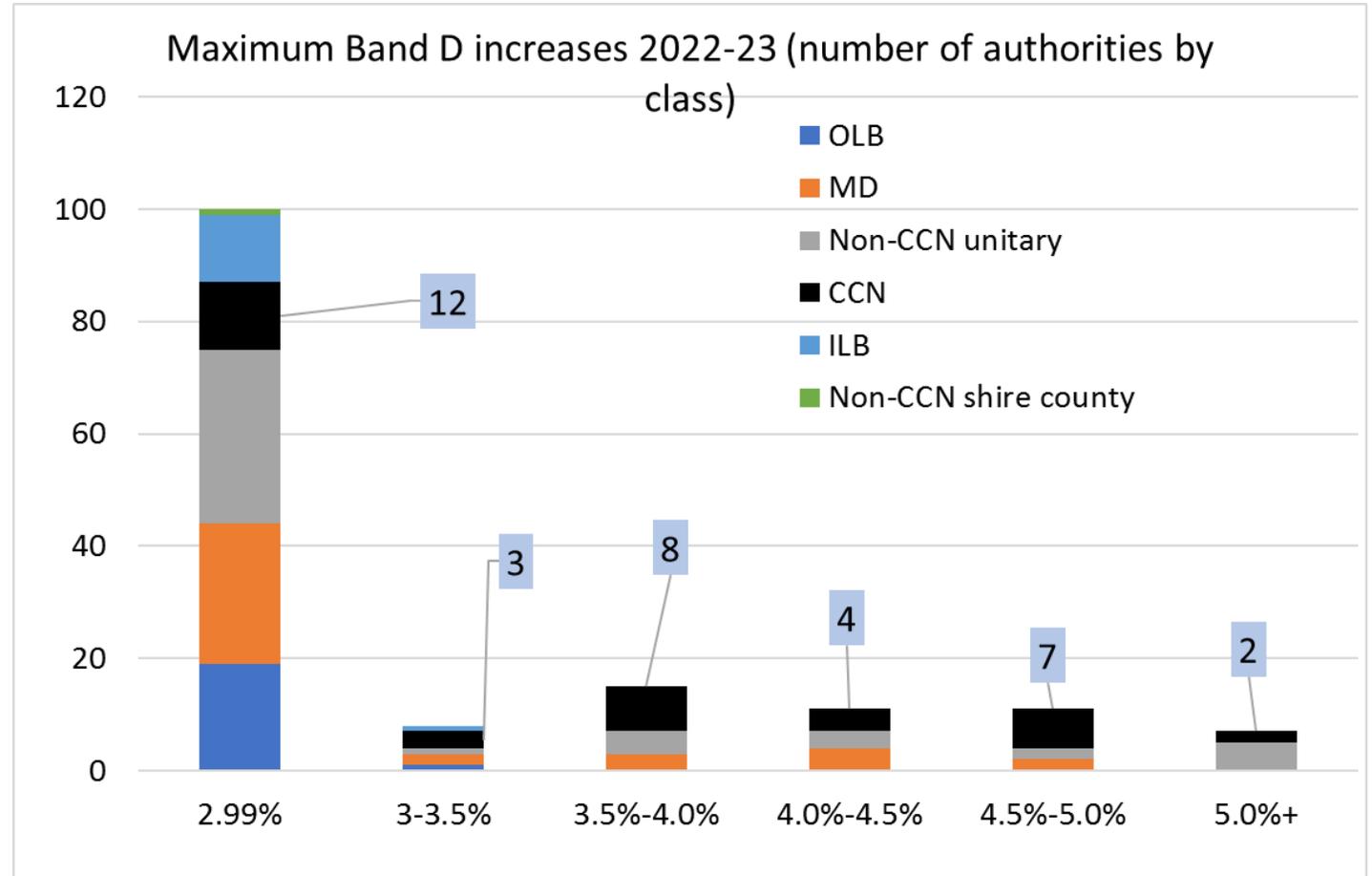
Funding for social care reform

- 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)
- **CCN authorities benefit from “new” adult formula (share of funding increases from 40% to 47%)**
- £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”)



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)
- **CCN authorities deferred most and potentially have largest Band D increase in 2022-23 (3.92%)**



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
- *Add county analysis to the table*
- *Show impact of baseline reset and equalisation?*

	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

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

The verdict – is it enough?

- Better than expected – previous indications that councils would have no grant increases and have to rely on council tax growth (never entirely believable)
- “Not bad, but not brilliant”
- Not as generous as presented (1.4% real-terms increase in CSP, not 3.0%; grant has to fund growth pressures)
- Settlement is still heavily reliant on council tax increases (two-thirds of increase in CSP is council tax)
- Does the funding increase address our financial pressures? Answers will depend on local circumstances but certainly still very tight
- Many finance directors will still want further council tax increases