

2 March 2022

Local government finance update

Purpose of report

For information.

Summary

This report provides a summary of the work by the LGA on funding and finance issues since the previous meeting of the Board on 17 November. This includes the final 2022/23 Local Government Finance Settlement, the approach to a likely Chancellor's statement on 23 March 2022, and work on business rates and audit issues.

Recommendations

That Members of the Resources Board note this update.

Action

Officers will proceed with the delivery of the LGA's work on local government finance matters.

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Introduction

1. This report provides a summary of the work by the LGA on funding and finance issues since the last Board meeting on 17 November 2021 including the final 2022/23 Local Government Finance Settlement, the approach to a likely Chancellor's statement on 23 March 2022, and work on business rates and audit issues.

Summary of the Final Local Government Finance Settlement

2. On 7 February the Secretary of State for Levelling Up, Housing and Communities confirmed the [2022/23 Final Local Government Finance Settlement](#). There was little change from the provisional settlement which was in line with 2021 Spending Review.
3. There will be a potential increase of 7.4% in Core Spending Power available to local authorities in 2022/23, assuming all local authorities raise council tax by the maximum allowable limit without a referendum. This includes:
 - 3.1. An inflation level increase in Revenue Support Grant. The business rates baseline will not change from 2021/22, due to the freeze in the business rates multiplier. Councils will be compensated for this.
 - 3.2. £700 million for social care comprised of an inflationary uplift to the improved Better Care Fund, and a £636 million social care grant for adults and children's services.
 - 3.3. The Market Sustainability and Fair Cost of Care Fund, worth £162 million, to support local authorities prepare their markets for reform and move towards paying providers a fair cost of care.
 - 3.4. New Homes Bonus provisionally worth £556 million. There will not be any future legacy payments in respect of 2022/23.
 - 3.5. A one-off, un-ringfenced, Services Grant worth £822 million in 2022/23.
 - 3.6. Continuation of the £111 million lower tier services grant and the £85 million Rural Services Delivery Grant.
 - 3.7. Council tax principles of:
 - 3.7.1. a core principle increase of 2 per cent for all local authorities, with a 2 per cent or £5 increase (whichever is higher) for shire districts.
 - 3.7.2. an additional 1 per cent adult social care precept (along with any unused flexibility from the previous year).
 - 3.7.3. a £5 increase for the 8 lowest charging fire and rescue authorities; and
 - 3.7.4. a £10 maximum increase for Police and Crime Commissioners.

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- 3.7.5. No referendum principles for Combined Authorities or Town and Parish Councils.
 - 3.7.6. £20 for the Greater London Authority.
4. The LGA issued a [press release](#) on the day of the final settlement and briefed MPs ahead of their debate and vote on the settlement on 9 February. Prior to this, the LGA [responded](#) to the Provisional settlement. The Chairman and Group Leaders met with the Minister for Levelling Up Communities during the consultation period on the settlement and raised key concerns with the settlement and funding of local government. This included the pressures in adults and children's social care and special educational needs and the need for clarity on the scope, outcome and timetable for local government finance reform. The minister agreed to meet with the LGA Chairman and Group Leaders more regularly on the issues raised during the meeting and are due to meet again just before the March meeting of Resources Board.

Local Government Finance Reform

5. On the day of the provisional settlement, the Government announced its commitment to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources, and noted that the data has not been updated for a number of years. The Government stated it 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. It did not explicitly commit to the Fair Funding Review in its full form. The same words were used in the [Government's Levelling Up White Paper](#) and in the 2022/23 Final Local Government Finance Settlement but no further information was given.
6. There was no mention of the future of further business rates retention or the business rates reset at the settlement. However the Secretary of State for Levelling Up, Housing and Communities responded that he thought that a system of 75% business rates retention would go against the principle of levelling up in a session of the Communities, Housing and Local Government Select Committee in November 2021.
7. In the 2022/23 Final Local Government Finance Settlement the government announced that it would respond to the 2021 [new homes bonus consultation](#) soon.

Other Funding

8. Allocations of public health funding for 2022/23 were [announced](#) on 7 February. The total for England is £3.4 billion in 22/23, an increase of 2.8 per cent from 2021/22 nationally and for individual councils. The grant will be £3.5 billion for 2023/24 (a 2.1 per cent increase) and £3.6 billion for 2024/25 (a 1.8 per cent increase).

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9. In the 2021 Spending Review it was announced that the schools' budget would increase by £4 billion from 2021/22 to 2022/23. Alongside the provisional settlement, the Government confirmed school and early years revenue funding allocations for 2022/23. A [Written Ministerial Statement](#) and the [Dedicated Schools Grant \(DSG\) announcement](#) contained an additional £325 million of High Needs funding in addition to that announced in the Spending Review, bringing the total additional High Needs funding to £1.1bn this year - a 14 per cent increase.

Chancellor's Fiscal Statements

10. On 23 December 2021, the Chancellor [commissioned](#) the Office for Budget Responsibility (OBR) to produce an economic and fiscal forecast for Wednesday 23 March 2022. The Chancellor has not announced a formal Spring Statement or Spring Budget for the 23 March, but in the past Chancellors have always responded to OBR forecasts with a statement in Parliament.
11. As the Government announced a 3-year Spending Review and Autumn Budget in October 2021 and has not billed 23 March as a Budget day, the LGA is planning to send a letter to the Chancellor in advance of 23 March, rather than a lengthy submission. This will focus on key topics including the need for a long-term sustainable funding settlement for local government and other key policy issues.
12. This letter will be signed off by the LGA Chairman and Group Leaders.

Business Rates

13. Following the publication of the Business Rates Review alongside the Autumn Budget and Spending Review, a [consultation](#) was published on 30 November on measures to enable more frequent revaluations, a new mandatory Improvement reliefs, support for investment in green plant and machinery and a number of other administrative changes. The consultation closed on 22 February 2022. [The LGA response](#) was signed off by Lead Members of the Resources Board. Further consultations are expected in 2022 on online sales and digitalising business rates, including avoidance and evasion.
14. The [Rating \(Coronavirus\) and Directors Disqualification \(Dissolved Companies\) Act 2021](#) has now come into force. The Act states that coronavirus will not be considered a Material Change of Circumstances. This applies to historic cases since the start of the COVID-19 pandemic and any future cases. Guidance for, and authority allocations of, the £1.5 billion COVID-19 Additional Relief Fund (CARF) which was originally announced in March 2021 [have been published](#). The Fund is discretionary although the guidance says to qualify for funding the relief should not be given to premises which have received existing reliefs. The relief applies to the year 2021/22.

Business Grants

15. On 21 December 2021 the Government announced a new £683 million grant, the [Omicron Hospitality and Leisure Grant](#) for some hospitality, leisure and accommodation businesses. It also announced another £102 million for the discretionary Additional Restrictions Grant. Both grants have to be spent by 31 March 2022. The LGA has been in contact with the Department for Business, Energy and Industrial Strategy (BEIS) over the eligibility conditions for the new grants and the amount of bureaucracy which they appear to entail, for example in the reporting of spend to BEIS and checking of applicants for the grants.

Energy Rebate through Councils

16. On 3 February 2022 the Government announced [a new £150 Council Tax Energy Rebate](#) for 2022/23 for those living in properties in council tax bands A to D. It also announced £144 million for billing authorities to operate a discretionary fund for households in need who would not otherwise be eligible, for example individuals on low incomes who live in properties valued in bands E to H. This is a one-off payment through councils and will not affect the headline council tax level.
17. The LGA issued a [press release](#) on the announcement and has been liaising with Central Government on the practicalities of the policy including the need for new burdens funding. [Guidance and funding allocations](#) were published on 23 February.

Local Government Finance Reform - Commissioned work

18. Following a recommendation by the Task and Finish Group on Business Rates and Local Government Finance Reform, and approval by the Executive Advisory Board, the LGA commissioned a report on local government finance reform. WPI Economics assessed how certain options for reform performed against a number of principles which had been previously developed by the LGA. The report was [published](#) on 13 January during the LGA's 2022 Local Government Finance Conference.

Capital finance

19. A separate paper on today's agenda considers CIPFA's Prudential Code for Capital finance and Treasury Management Code which were published in December.

20. We [responded](#) to a [consultation](#) from DLUHC on proposed changes to the regulations underpinning the Government's [Statutory Guidance on Minimum Revenue Provision](#) (one of the four codes that form the Prudential Framework for Capital Finance). The proposal will put the requirement to make Minimum Revenue Provision (an amount to set aside each year from the revenue account to repay the principal of debt) onto a statutory footing. In our response we raised serious concerns that the proposals could have unintended consequences, for example affecting councils' ability to invest in infrastructure and housing via wholly owned companies and have serious impacts on some council's revenue budgets (the consultation document itself estimated this cost could be as much as £700 million).

Local Government Finance Conference 2022

21. On the 13 January we held our annual Local Government Finance Conference virtually. Over 300 delegates attended, and the Chair of the Resources Board hosted the online event. The conference heard from the [Minister for Levelling Up Communities](#), the Shadow Minister for Local Government, and our Chairman, as well as speakers from the LGA, IFS, and WPI economics. Presentations from the day are available on the [LGA website](#).

Pensions and the Levelling Up White Paper

22. The Levelling Up White Paper makes reference in the summary to the Local Government Pension Scheme in the context of UK pension scheme investment as follows:
- 22.1. "...It is also why the Prime Minister and Chancellor have called on the UK's institutional investors to seize the moment for an "Investment Big Bang" to boost Britain's long-term growth. The UK Government will go further and work with Local Government Pension Funds to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas."
23. Further references are made on pages 162 and 163 but without providing any more detail. Since the publication of the White Paper officers have met with DLUHC officials to clarify a number of points as set out below:
- 23.1. Officials made clear that the 'up to 5%' (£16bn as at March 2021) quoted is an ambition and is neither mandatory in scale nor a ceiling not to be breached. It will however be mandatory to have a levelling up plan to achieve that ambition.
- 23.2. It was further clarified that 'local' in this context does not relate to 'the backyard' of the fund authority. Investments made anywhere in the UK could be included in a levelling up plan.
- 23.3. The plan should set out how new, rather than re-labelled existing, investments will seek to achieve the ambition in this area.

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23.4. In the matter of fiduciary duty there does not appear to be any expectation that LGPS funds should put intervention outcomes above those of return. Instead, the intention would seem to be for funds to actively seek opportunities in this space which contribute to the levelling up agenda while at the same time providing expected levels of return.

24. We are informed that a consultation in the summer will cover this and other matters such as the outstanding climate risk and reporting regulations and asset pooling guidance.

Next steps

25. Members are asked to note this update.

26. Officers will proceed with the delivery of the LGA's work following the Local Government Finance Settlement, and the work in advance of a possible statement by the Chancellor on 23 March.

Implications for Wales

27. Information on funding to Welsh local authorities was [published](#) in the provisional Welsh local government finance settlement. We are in regular contact with the Welsh LGA and the other local government bodies in the devolved nations to exchange intelligence, ideas and consider joint work.

Financial Implications

28. The work covered in this paper is included in the LGA's core budget.