

OVERVIEW AND SCRUTINY

Provisional Local Government Finance Settlement (LGFS) 2022/23

1 Introduction

- 1.1 The Council's Medium-Term Financial Plan has been developed based on a number of funding assumptions in the absence of any detail on a financial settlement for Local Authorities. The provisional settlement has now been made available and the Council's financial position and projections have been updated in light of this.
- 1.2 This report provides an initial analysis of the 2022/23 Provisional Settlement released on 16 December 2021 by the Department of Levelling Up, Housing and Communities (DLuHC) and concentrates on the local impact for Nottingham and the associated MTFP implications.
- 1.3 Further updates will be provided, as appropriate, when more information and analysis becomes available from either DLuHC or other sources and will inform the basis of any final recommendations to the Executive Board and to Council in setting the 2022/23 budget.

2 Financial Settlement Overview

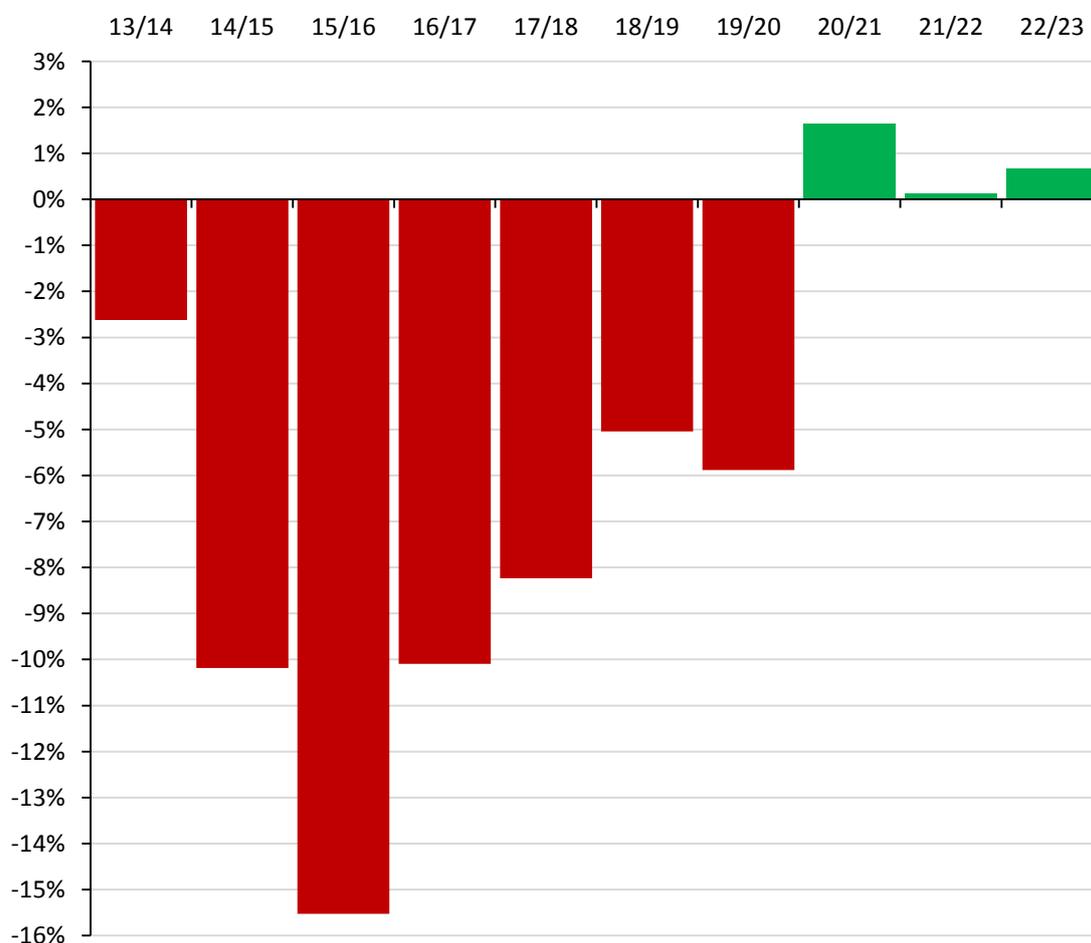
- 2.1 Key headlines of the provisional settlement are:
 - A only one-year settlement provided with a more fundamental review of local government funding starting in Spring 2022 for expected implementation in 2023/24 (i.e. Fair Funding Review/baseline reset);
 - Referendum criteria of **2%** basic council tax and **1%** ASC precept flexibility confirmed for 2022/23;
 - Core Spending Power (CSP) as assumed by DLuHC has increased nationally by **6.9% (£3.5bn)** and **7.1% locally (£20.3m)**;
 - Settlement rolls forward many aspects of the 2021/22 methodology but with only an additional **0.5% (£75m)** added nationally to settlement funding assessment with **0.7% (£0.8m)** locally for Nottingham;
 - Overwhelming increase in funding is coming through increases in Social Care and other existing grants and a significant new one-off '2022/23 Services Grant' created to fund general responsibilities (**£6.7m**);
 - It is expected this grant will be folded into future settlements to be distributed by whatever future funding scheme is eventually proposed by DLuHC
 - Social Care grant has increased nationally by **37.2% (£0.6bn)** and **35.0% locally (£4.5m)** – existing 2021/22 level has been baselined with additional grant allocated by Adults Relative Needs Formula (RNF) and equalisation of assumed ASC precept
 - New 'Market Sustainability & Fair Cost of Care Fund' grant (**£1.0m** locally) has been introduced to fund social care reforms – this comes with conditions (and additional expenditure requirements) outlined in a separate announcement by the Department of Health & Social Care (DoHSC)
 - Improved Better Care Fund has increased slightly by assumed 3% inflation (**£0.5m**)
 - Additional one-off payment of New Homes Bonus alongside legacy payment with current methodology & baseline retained (totally **£2.5m**)
 - Lower Tier Services grant continues at broadly existing level (**£0.7m**)

2022/23 Settlement Funding Assessment (SFA)

- 2.2 The Settlement Funding Assessment represents the total amount of funding allocated to the authority through the settlement calculations based on DLUHC-estimated business rates share, council tax income and RSG (including old grants which have previously rolled into the SFA).
- 2.3 The provisional settlement allocates settlement funding of **£123.3m** to Nottingham in 2022/23. This is an overall increase of **0.7%** compared with 2021/22. A breakdown of the headline figures is shown in **Table 1**.

Main Element of Settlement	2021/22 £m	Provisional Settlement 2022/23 £m	Change £m
Revenue Support Grant	25.887	26.685	0.798
Business Rates Baseline (<i>DLUHC estimate</i>)	67.995	67.995	0.000
Business Rates Top-up	28.584	28.584	0.000
TOTAL	122.466	123.264	0.798

- 2.4 DLUHC use an estimate for our Retained Business Rates figures in the settlement calculations. The actual figures used in the February MTFP report will be those locally assessed and included in our NNDR1 returned to DLUHC by late January 2022.
- 2.5 **Graph 1** below illustrates Nottingham's recent annual changes in SFA and shows the announced 2022/23 increase in comparison to the recent history of significant cuts.

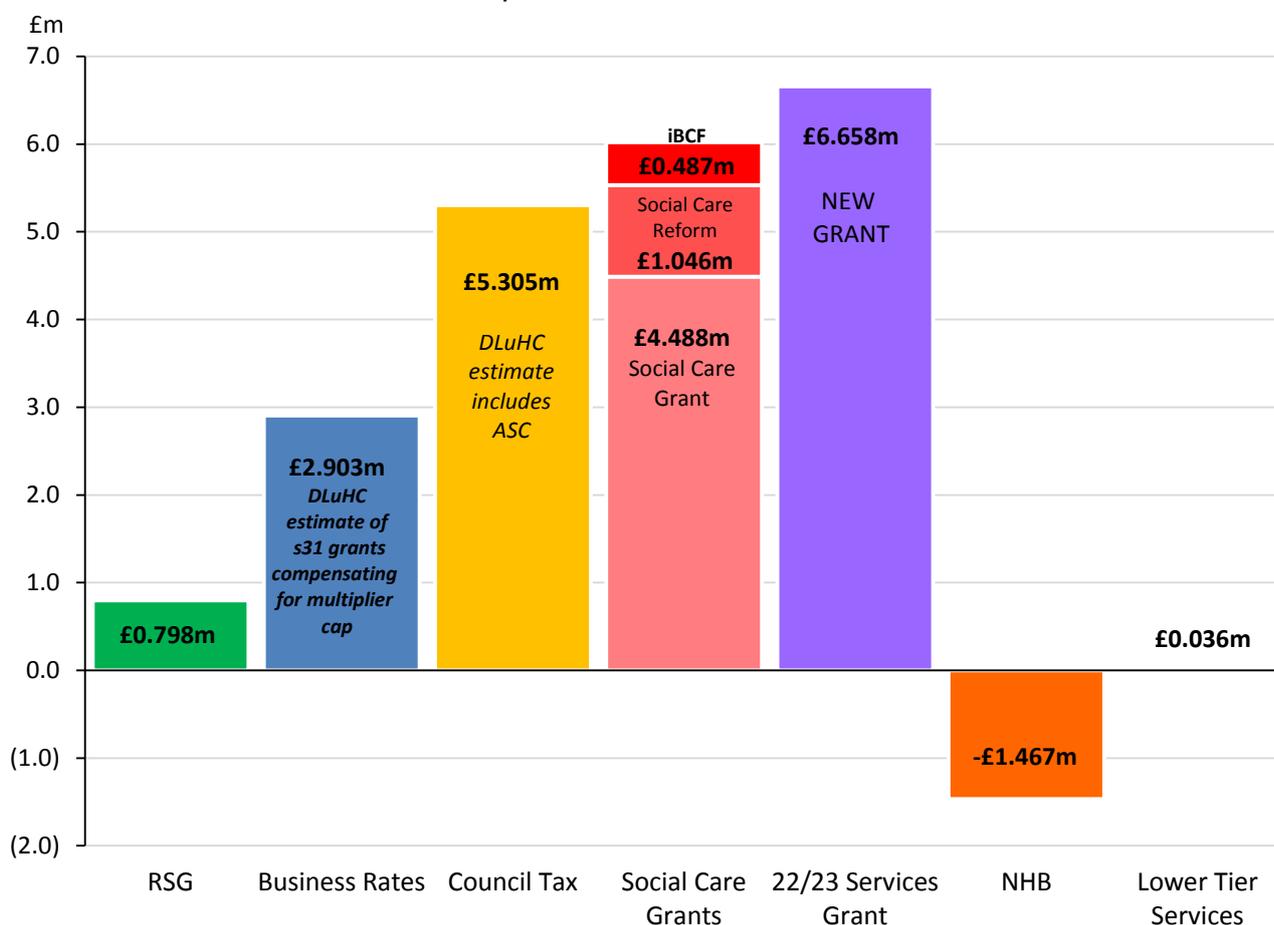


Core Spending Power

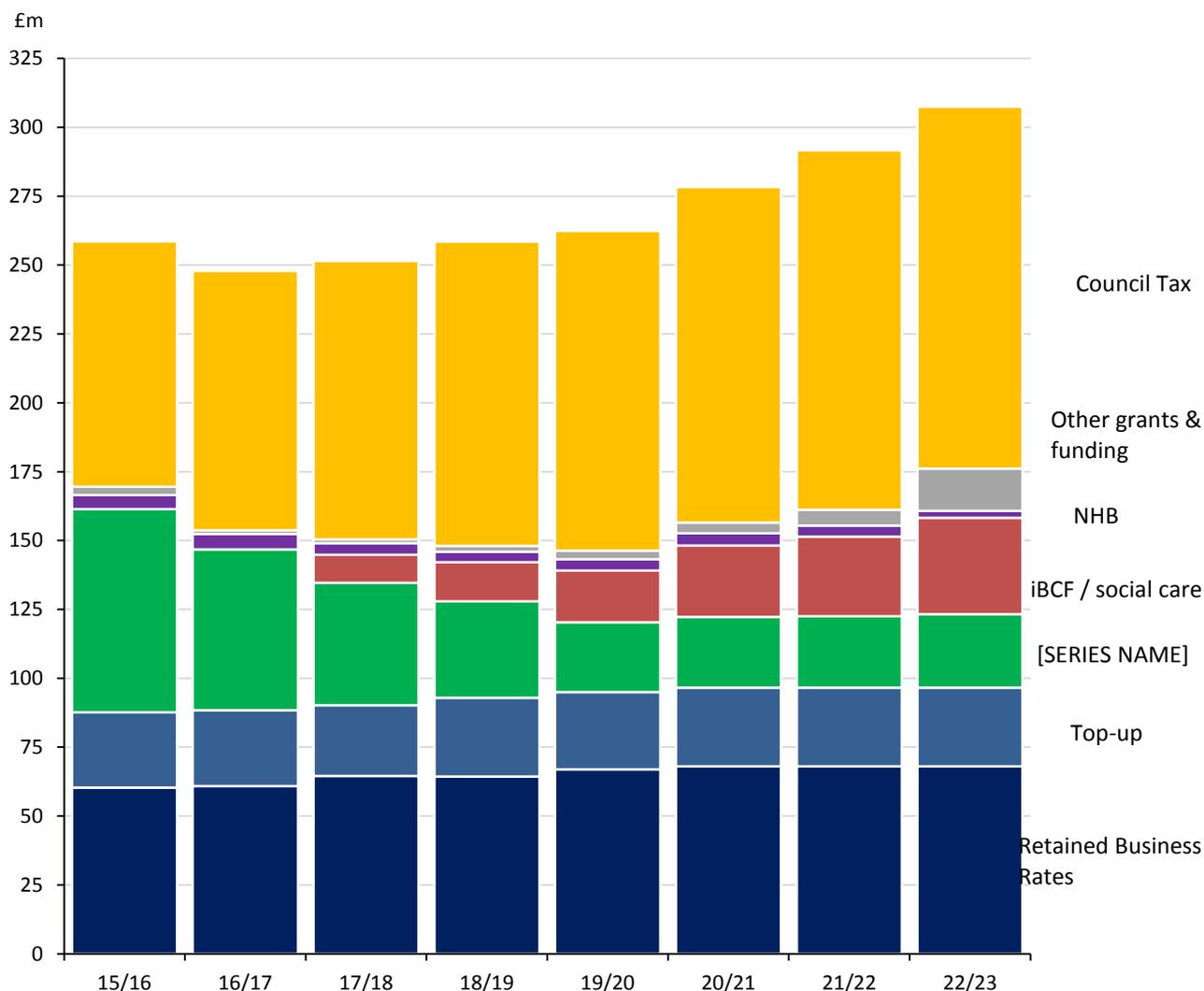
2.6 **Table 2** sets out the DLUHC's spending power calculation for Nottingham using the information published in the Settlement.

TABLE 2: 'CORE' SPENDING POWER		
	Revised 2021/22 £m	Provisional 2022/23 £m
Settlement Funding Assessment	122.466	123.264
Compensation for lower BR multiplier (<i>DLuHC estimate</i>)	5.032	7.935
Council Tax requirement (<i>DLuHC estimate</i>)	126.056	131.361
Improved Better Care Fund	16.115	16.602
New Homes Bonus grant	4.013	2.546
Returned NHB funding	0.000	0.000
Social Care Grant	12.840	17.328
Market Sustainability & Fair Cost of Care Fund		1.046
Lower Tier Services Grant	0.683	0.720
2022/23 Services Grant		6.658
Total	287.205	307.461
Increase		20.256
Increase by dwelling		£142 7.1%

2.7 **Graph 2** below visually represents the breakdown of the year-on-year change in spending power i.e. not the impact on MTFP as Council Tax and Business Rates are based on notional DLUHC assumptions.



2.8 **Graph 3** below shows the recent history of Nottingham's Core Spending Power. This demonstrates how RSG has been broadly substituted by specific grants and the recent overall spending power increases are due to assumed Council Tax income.



Business Rates compensation

DLuHC has included an estimate of the compensation we will receive for the previous under-indexing of the business rates multiplier. The final figure used in the budget will not be known until the completion of our NNDR1 return in January.

Council Tax

The Government has confirmed that the referendum limit for the basic increase in council tax will be **2%** and the flexibility to raise additional Adult Social Care precept will be **1%** in 2022/23.

The total council tax requirement of **£131.4m** assumed by DLuHC for 22/23 is slightly lower than the **£132.1m** we are currently assuming in the latest MTFP projections. This is because they have assumed different parameters in their own analysis of our likely tax base growth.

New Homes Bonus

The cumulative NHB grant for Nottingham is **£2.5m** in 2022/23; this made up of **£1.7m** new grant and the continuation of **£0.8m** previous legacy payments.

Details of the NHB scheme have remained unchanged with the national baseline growth factor remaining at 0.4%; the award will be for one year only.

DLuHC are assuming again that there will be no direct return of NHB funding previously top-sliced from the settlement.

Social Care

The **£17.3m** announced for social care grant is **£4.5m** higher than the 2021/22 grant. The existing baselined 2021/22 level of **£12.8m** is currently allocated against **£4.8m** Adults and **£8.0m** Children’s budgets.

Social Care Reform

The **£1.0m** announced for ‘Market Sustainability & Fair Cost of Care Fund’ is a new source of funding and was not previously included in the MTFP.

It comes with conditions and for planning purposes it will be assumed in the MTFP that it is required to fund new Adults burdens i.e. no impact on bottom line. Future distribution will be dependent on Nottingham meeting DoHSC criteria.

Lower Tier Services

The **£0.7m** announced for lower tier services is slightly higher than 2021/22 and was not included in our latest MTFP projections as we believed it would drop out.

2022/23 Service Grant

The **£6.7m** announced for general services is a new source of funding distributed using the original 2013/14 SFA as a basis of allocation and was not included in the MTFP.

It is one-off but the national funding will presumably form part of the quantum available for any future redesigned settlement system.

The 2022/23 amount will however be excluded from any future transitional protections when the proposed funding reform is implemented. As a working assumption it is assumed that the MTFP will assume that the same level will notionally roll forward as part of our future SFA figures rather than as a specific grant – until we have a clearer idea of how any reform and ‘fair funding’ formula will impact our distribution.

3 Comparative Figures

Table 3 shows the percentage increases in spending power for England and Core City comparators:

- Nottingham’s **7.1%** increase for 2022/23 is slightly higher than the national average of **6.9%** but slightly lower than the Core City average of **7.3%**.
- We have the same spending power per dwelling as the national average at **£2,155**

TABLE 3: CORE CITIES SPENDING POWER			
AUTHORITY	2022/23		
	% change	£ per dwelling	£ change
England	6.88%	2,155	139
Manchester	8.42%	2,201	171
Liverpool	7.36%	2,290	157
Birmingham	7.34%	2,362	162
Leeds	7.29%	1,789	122
Nottingham	7.05%	2,155	142
Sheffield	6.96%	2,016	131
Newcastle	6.94%	2,154	140
Bristol	6.66%	2,050	128
Core Cities average	7.31%	2,129	145

4 Impact on MTFP

- 4.1 The MTFP is currently being updated. Changes in the funded to the assumptions contained in the report to Executive Board in November are set out in Table 4. The table shows that overall there has been an increase of £11.722m in funding compared to that previously anticipated.
- 4.2 It should however be noted that this is still an incomplete picture – further analysis might uncover additional changes in the detail of the settlement documents.

TABLE 4: CHANGE IN ASSUMPTIONS IN THE NOVEMBER REPORT			
Issue	November Report £m	2022/23 Provisional Settlement £m	Change £m
Retained Business Rates ^A	(67.686)	(66.476)	1.210
Top-up Grant	(29.104)	(28.584)	0.520
RSG	(26.358)	(26.685)	(0.327)
Council Tax ^B	(132.946)	(132.062)	0.884
Collection Fund ^C	3.336	3.336	0.000
Funding	(252.757)	(250.471)	2.286
S31 grants ^A (Business Rates)	(8.971)	(11.651)	(2.680)
New Homes Bonus	(0.803)	(2.546)	(1.743)
Improved Better Care Fund	(16.115)	(16.602)	(0.487)
Social Care Grant	(14.924)	(17.328)	(2.404)
Social Reform funding		(1.046)	(1.046)
<i>(assume new Adults burdens)</i>		1.046	1.046
Lower Tier Services Grant	(0.683)	(0.720)	(0.037)
Services Grant		(6.658)	(6.658)
Within Net Budget	(41.496)	(55.505)	(14.009)
Overall Impact	(294.254)	(305.975)	(11.722)

5 Conclusion

- 5.1 The provisional settlement has provided more funding than we speculatively projected but insufficient to close the current MTFP gaps. Further work is underway to identify options for closing the gap and delivering a balanced budget and MTFP.
- 5.2 The draft settlement is out for consultation with responses due back by 13 January 2022. Based on past experience we can expect confirmation of the Final Settlement around the first week of February 2022.