

## Research Briefing

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# Local Government Finance Settlement 2022/23

## Summary

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## Summary

The provisional 2022/23 Local Government Finance Settlement [was published on 17 December 2021](#), with [the final version following on 7 February 2022](#). It includes about £16.3 billion in settlement funding for local councils in England, a 1.8% decrease on the previous year when adjusted for inflation.

With other grants and an estimate of council tax included, the core spending power of councils in England will rise to £54.1 billion in 2022/23, a real-terms increase of 4.6% compared to the previous year.

The final settlement was debated and approved in the House of Commons on Wednesday 9 February.

Changes in local government funding have affected different classes of local authority in different ways. As of this Settlement, shire counties, metropolitan districts and unitary authorities will have real-terms core spending power higher on average than it was in 2015/16. Settlement funding levels, however, remain about 30-50% below their 2015/16 levels for all classes of authority.

This year's settlement partly reverses the trend for council tax to make up an increasingly large proportion of local councils' spending power. The proportion funded by the settlement funding assessment continued to decrease, but this was offset by increases in grants for local services and social care.

For several years, the Government has been suggesting that it will reform the system of distributing funding to local authorities in order to make it fairer – it is currently based on an assessment from 2012/13. A consultation on changing the system is expected in the early months of 2022.

The most recent Spending Review allocated large increases for local government, and core spending power is expected to increase by at least 2% in real terms every year until 2024/25. The current Settlement covers only one year, but there have been calls for settlements covering multiple years for some time.

# 1 The 2022/23 settlement: a summary

The provisional 2022/23 Local Government Finance Settlement [was published on 17 December 2021](#). It was accompanied by a Written Statement, but unusually, no debate took place in the House of Commons.<sup>1</sup> The responsible department is the Department for Levelling Up, Housing and Communities (DLUHC).<sup>2</sup>

The final settlement was [published on 7 February 2022](#), and debated and approved in the Commons on 9 February 2022.<sup>3</sup> The House must approve all final local government settlements before they can take effect. The settlement applies in England only, as local government is devolved in Scotland, Wales and Northern Ireland.

The Local Government Finance Settlement for 2022/23 includes about **£16.3 billion in settlement funding** for local councils in England. This is slightly more in cash terms than in 2021/22 (when it was £16.2 billion). Adjusted for inflation, it is a **1.8% decrease** on the previous year.

When other grants outside settlement funding and an estimate of council tax are included, councils will have a **core spending power of around £54.1 billion** in 2022/23. This is **4.6% higher** in real terms than in 2021/22.

All calculations in the initial version of this briefing were based on the provisional settlement, and have now been updated to reflect the final figures.<sup>4</sup>

The 2022/23 local government finance settlement is a one-year settlement, based on decisions in the November 2021 Spending Review. That Spending Review announced a planned increase in grant funding for local government from £9.1 billion in 2021/22 to £12.7 billion in 2024/25. As the 2022/23 Local Government Finance Settlement is a one-year settlement, no information is available on how this increase will be distributed to local authorities in 2023/24 or 2024/25.

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<sup>1</sup> See [HCWS510 2021-22](#), 17 Dec 2021

<sup>2</sup> The Ministry of Housing, Communities and Local Government (MHCLG) was renamed the Department for Levelling Up, Housing and Communities (DLUHC) on 15 September 2021. A small number of functions transferred from the Cabinet Office to the new department at this time.

<sup>3</sup> [HC Deb 9 February 2022 c1011 onwards](#)

<sup>4</sup> The previous version also used figures for settlement funding which were not adjusted for local authorities with increased business rates retention arrangements. This version of the briefing uses the adjusted figures, which are higher than in the previous version, except where otherwise noted.

## 1.1

# Contents of the settlement

The Local Government Finance Settlement distributes Revenue Support Grant and a number of other ring-fenced grants to local authorities in England. It also includes the amounts of each local authority's 'tariff' allocation or 'top-up' payment within the Business Rates Retention Scheme (see the Library briefing [Reviewing and reforming local government finance](#) for further information on the retention scheme).

The settlement [also includes figures for the 'core spending power'](#) available to each local authority. **Core spending power** is a concept created by central government, and is intended to represent the total amount of money over which local authorities can take spending decisions. It therefore includes settlement funding, but it also includes other grants such as the Improved Better Care Fund, the New Homes Bonus and the Social Care Grant. It also takes into account an estimate of the amount of money that local authorities are expected to raise through council tax, and assumes that they raise their council tax rates by the maximum permitted without triggering a local referendum in order to do this. [An explanation of how core spending power is calculated is available](#) on the website of the Department for Levelling Up, Housing and Communities (DLUHC).

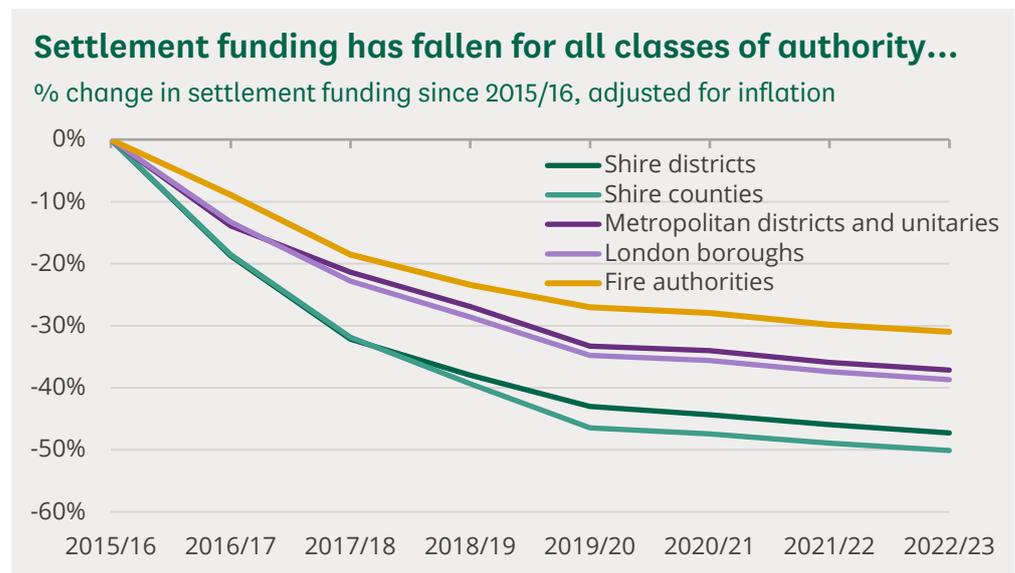
Documentation related to the settlement includes:

- The spreadsheet [Key information for local authorities](#), which includes allocations of funding for each local authority in England;
- Further [reports setting out allocations](#) of New Homes Bonus, social care grant, and a one-year services grant to each local authority in England;
- A [paper explaining the operation of business rate retention](#) in areas that are permitted to retain 100% of business rate receipts locally;
- Statutory reports [setting out the 'referendum principles'](#) relating to council tax for 2022/23: that is, the thresholds above which local authorities wishing to raise council tax must obtain local approval in a referendum.

## 2 Local government funding in recent years

### 2.1 Breakdown by class of authority

All classes of local authority have seen their settlement funding assessment levels decrease in real terms over the past few years, and the 2022/23 settlement continues that trend. As the chart below shows, shire district and county councils have had the largest decreases, but all classes of authority have funding levels in 2022/23 at least 30% lower than they were in 2015/16.



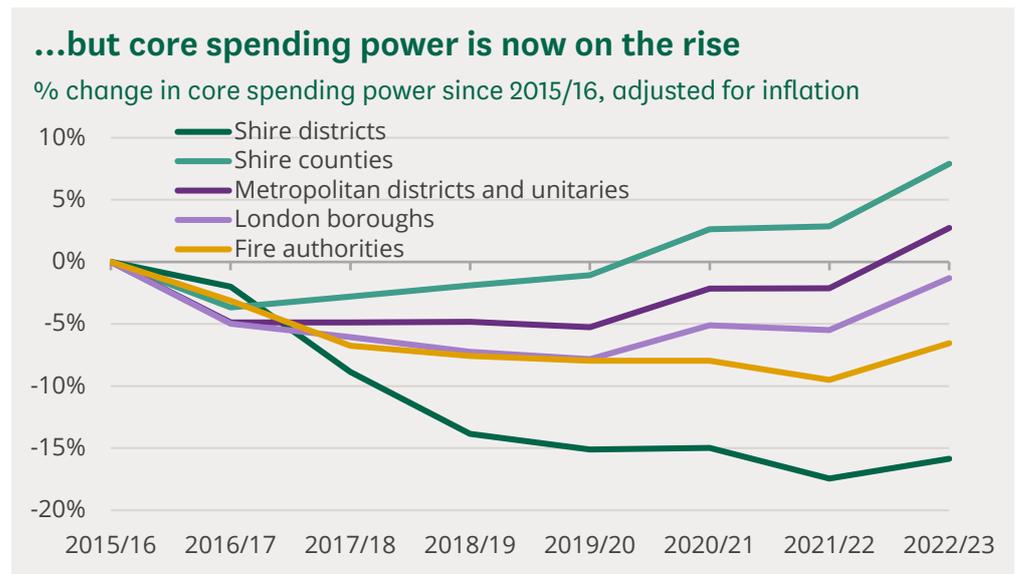
Note: England only. Excludes any local authorities which were restructured during this time period.

Source: DLUHC, [Final local government finance settlement: England, 2022 to 2023](#), 7 February 2022

This decrease comes in a context where funding had already been cut significantly since 2010/11. The National Audit Office estimates that by 2015/16, funding levels had decreased by 38.8% in real terms relative to 2010/11.<sup>5</sup>

The picture is rather less uniform when we look at core spending power instead of just settlement funding. As the chart below shows, some classes of local authorities (shire counties, metropolitan districts and unitary authorities) are now seeing average levels of core spending power that are higher in real terms than they were in 2015/16.

<sup>5</sup> National Audit Office, [Financial sustainability of local authorities visualisation: update](#), 20 July 2021



Note: England only. Excludes any local authorities which were restructured during this time period.

Source: DLUHC, [Final local government finance settlement: England, 2022 to 2023](#), 7 February 2022

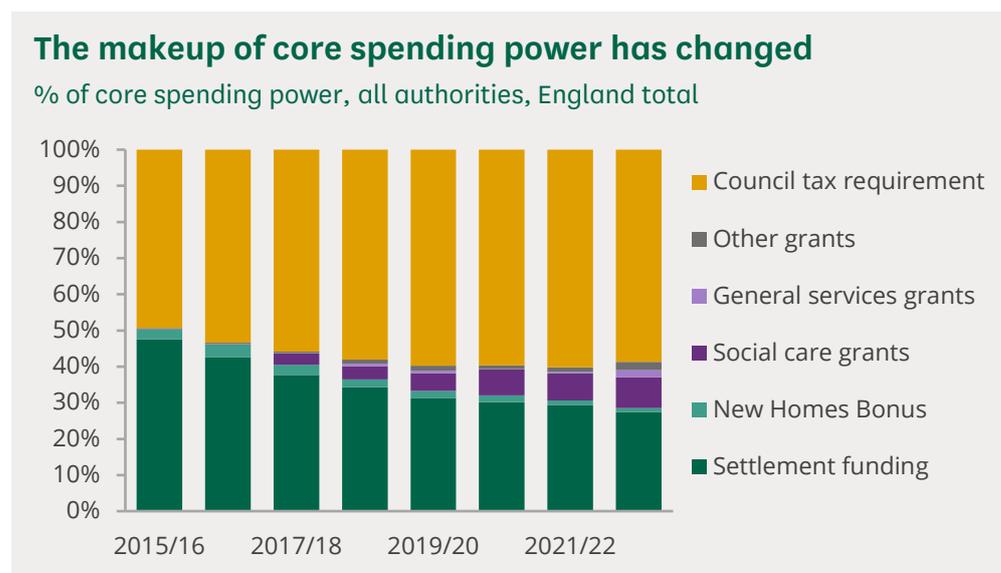
Some classes of authority – notably shire districts – still have relatively low spending power compared to 2015/16. A large part of this is accounted for by the fact that shire districts do not have social care responsibilities; because of this, they do not receive social care grants, and cannot raise council tax by as much as the authorities which do have these responsibilities. Most classes of authority would have 2022/23 core spending power around 10-14% smaller than it actually is if these funding sources were removed.

Regardless of the decreases over the past few years, this year's settlement is the first since at least 2015/16 when all classes of authority will have spending power that is higher in real terms than they had in the previous year.

## 2.2

### Changes in the way local government is funded

The ongoing decrease in funding levels continues the pattern of the past few years, in which settlement funding makes up a smaller proportion of core spending power every year. As the chart below shows, settlement funding accounted for 47.6% of core spending power in 2015/16; as of the 2022/23 settlement, this proportion has fallen to 27.5%.



Note: Settlement funding figures in this chart and accompanying text, unlike elsewhere in the briefing, are not adjusted for local authorities with increased business rates retention arrangements.

Source: DLUHC, [Final local government finance settlement: England, 2022 to 2023](#), 7 February 2022

Much of the difference has been made up by an increase in the council tax requirement – that is, councils are now expected to raise a higher proportion of their spending power from council tax than before. This proportion went from 49.3% of core spending power in 2015/16 to 60.2% in 2021/22.

However, in the 2022/23 settlement, referendum thresholds for council tax increases stayed at 2% and the extra precept for councils with social care responsibilities was reduced from 3% to 1%. This means that councils with social care responsibilities will have less scope to raise revenue via council tax than they would have under the rules in 2021/22, and the proportion of spending power accounted for by the council tax requirement will therefore fall back slightly to 58.6% in 2022/23. See section 2.3 for further discussion of referendum thresholds.

Councils haven't yet set council tax levels for 2022/23. To estimate the council tax requirement in 2022/23, the Department for Levelling Up, Housing and Communities (DLUHC) assume that every council will raise their council tax by the maximum permitted without a referendum. DLUHC also assume that the council tax base in each area will grow by the average annual growth between 2017/18 and 2021/22. The Local Government Association have noted that this leaves councils having to decide whether to increase council tax to increase their funding, even though this could place a significant burden on some households.<sup>6</sup>

In 2022/23, the decrease in settlement funding and the restriction of council tax rises has meant that in order for core spending power to increase, the extra money has had to come from elsewhere. In the new settlement, most of it comes from various social care grants (£739 million higher in real terms

<sup>6</sup> Local Government Association, [Provisional Local Government Finance Settlement 2022/23: On-the-Day Briefing](#), 30 December 2021

than they were in 2021/22), plus grants for supporting general services (boosted by £795 million, again in real terms).

The use of grants like this, rather than simply increasing the amount delivered via existing mechanisms like Revenue Support Grant, is significant because of the forthcoming changes to local government funding. In the press release accompanying the provisional settlement, the Department for Levelling Up, Housing and Communities warned councils that the one-off grant funding provided this year would be excluded from any transitional protections brought in alongside these changes.<sup>7</sup> There will be winners and losers from any change to funding systems; excluding large funding streams from transitional protection when those systems change may mean that some councils are hit by larger changes than would otherwise have been the case.

## 2.3

### Referendum thresholds

The provisional settlement includes planned referendum thresholds for the 2022/23 financial year. The Government has proposed the following thresholds:

- For local authorities with responsibility for social care (county and unitary authorities), a threshold of **3% or more**. Council tax for general spending requires a referendum if it rises by **2% or more**, alongside a maximum **1% 'social care precept'**.

In 2021/22 the adult social care precept threshold was 3%. Upper-tier local authorities were permitted to defer some or all of the adult social care precept for 2021/22 to 2022/23, and they can use this in addition to the standard 1% threshold – that is, if they didn't raise their council tax by as much as they were allowed to in 2021/22, they can use the remaining allowance this year;

- For district councils, a threshold of **2% or more or more than £5.00** on a Band D property, whichever is the greater;
- For the eight lowest-spending fire and rescue authorities, a threshold of **more than £5 on a Band D property**;
- For Police and Crime Commissioners (PCCs), a threshold of **more than £10 on a Band D property**;
- For the Greater London Authority, a threshold of **2% or £11.93 on a Band D property**;
- For Mayoral Combined Authorities and parish and town councils, no referendum principles.

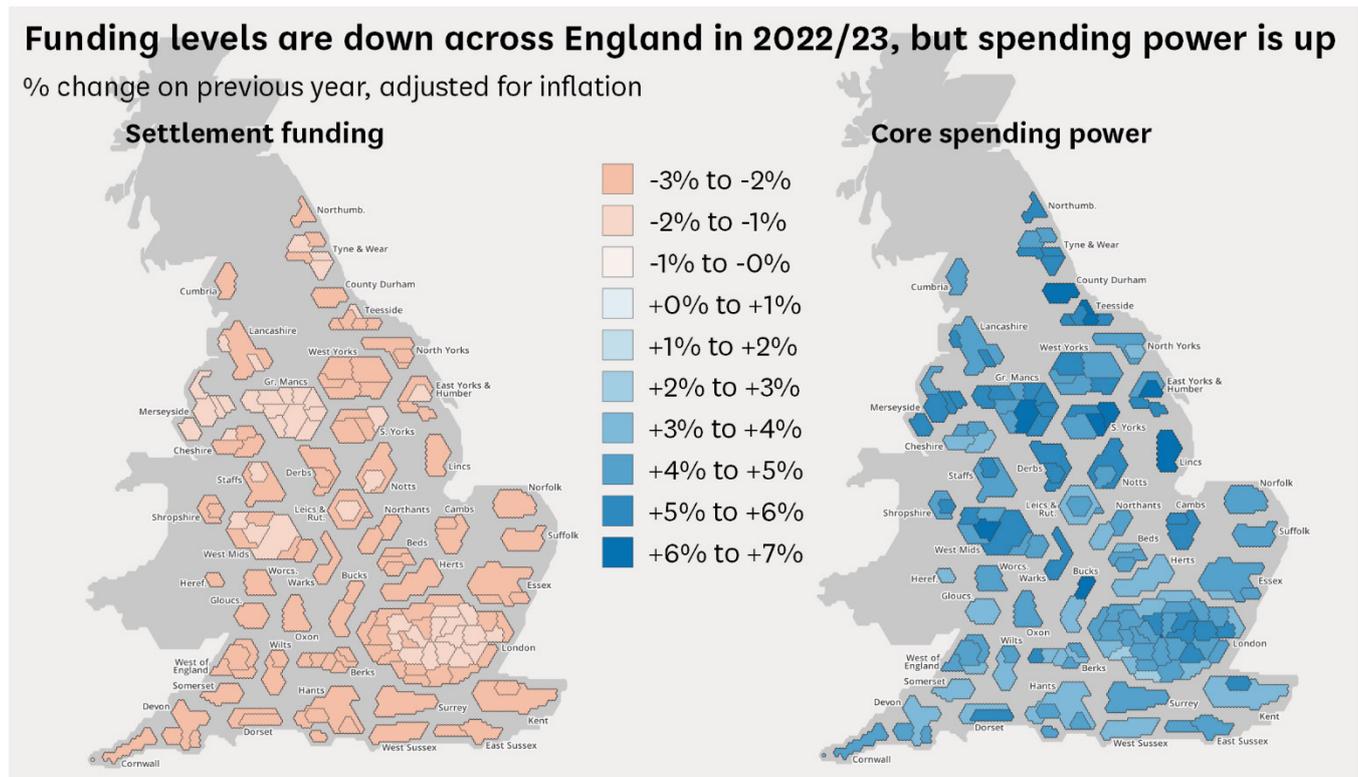
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<sup>7</sup> Department for Levelling Up, Housing and Communities, [Billions more for councils to build back better](#), 16 December 2021

## 3 Impact of this year's settlement

### 3.1 Geographical breakdown

In general, local authority funding does not follow any particular regional pattern – the class of each local authority, as described in section 2.1, tends to matter far more than its location. This is illustrated by the maps below, showing that there are few obvious patterns in either the decrease in funding or the increase in core spending power.



Note: Local authorities scaled in proportion to their population and grouped by ceremonial county and other sub-national groupings. See the Library's [UK hex cartograms page on Github](#) for more information. Funding for shire counties and the districts within them has been combined.

Source: DLUHC, [Final local government finance settlement: England, 2022 to 2023](#), 7 February 2022

All local authorities have had their settlement funding decreased by between 1% and 3% in real terms in 2022/23. The range of increases in spending power was a little more varied, with the largest increase in Middlesbrough (6.9%) and the smallest in Richmond upon Thames (2.4%).

There is at least some relationship between deprivation and changes in funding, because funding levels have historically been linked in some way with the relative needs of local areas. This is partly visible in this year's data –

some of the most deprived local authorities (as measured by the [English Indices of Deprivation 2019](#)) will have the smallest real-terms decreases in settlement funding.

The most deprived local authority by this measure is Blackpool, which will see a decrease of 1.92% in real-terms funding in 2022/23 (this is the 34<sup>th</sup> smallest decrease across England). However, the relationship between funding and deprivation is not very strong, largely because no local authority will have a funding decrease of more than about -2.6% in 2022/23, and the relationship between deprivation and core spending power is even weaker.

## 3.2 Fair Funding Review

In 2016 the Government announced its intention to review the Relative Needs Assessment. This consists of a large number of economic and social indicators that underlie the distribution of Revenue Support Grant and the setting of tariffs and top-ups within business rate retention. The Relative Needs Assessment was last re-assessed in 2012/13.

The Government initially consulted on business rate reform and the Relative Needs Assessment in 2016, in the consultation [Business rates reform: call for evidence on needs and redistribution](#). A [response to this consultation](#) was published on 19 December 2017, together with [a further consultation](#). A [third consultation was published](#) in December 2018. No response has been published to this consultation.

The December 2018 consultation stated that the Government planned to implement the Review from 2020/21. In September 2019 it was postponed by a year.<sup>8</sup> The Government postponed the implementation of the Fair Funding Review again in April 2020 due to the coronavirus pandemic.<sup>9</sup> Then, the Government stated in June 2021 that it planned to take the Fair Funding Review forward once the Covid-19 pandemic had begun to subside:

**Steve Reed:** To ask the Secretary of State for Housing, Communities and Local Government, whether his Department plans to proceed with the Fair Funding Review.

**Luke Hall:** The department took a decision not to proceed with implementing the Review of Relative Needs and Resources in 2021-22 in order that councils and central government alike could focus on meeting the challenges of the COVID-19 pandemic. Once the immediate public health challenges have passed, the government and the sector will work together to consider the appropriateness of the reforms previously proposed. Final decisions on the

<sup>8</sup> See Dominic Brady, [“Shake-up of local government funding delayed by a year”](#), Public Finance, 5 September 2019

<sup>9</sup> [HCWS220 2019-21](#), 29 April 2020

way forward for local government finance reform will be taken at the forthcoming Spending Review.<sup>10</sup>

The November 2021 Spending Review did not include any information on the Fair Funding Review. However, the Written Statement issued alongside the provisional Local Government Finance Settlement indicated that the Review is likely to be resurrected in some form:

Government is committed 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 this 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, we 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.

As part of this we will look at options to support local authorities through transitional protection. Councils should note the one-off 2022/23 Services Grant provided in the Local Government Finance Settlement in 2022/23 will be excluded from potential transitional protections.<sup>11</sup>

The permanent secretary of the Department for Levelling Up, Housing and Communities (DLUHC), Sir Jeremy Pocklington, said on 29 November 2021 that, subject to Ministers' decisions, a further consultation was likely to be published in early 2022:

On the issue of funding reform, the so-called fair funding review, ... we will engage further with the sector. Realistically, that would mean a significant consultation, as you suggest, in the first few months of next year. Then the process would go on from there.<sup>12</sup>

No further information on the Fair Funding Review is available at the time of writing.

### 3.3 Funding over the Spending Review period

In the 2021 Autumn Budget and Spending Review, the Chancellor laid out funding figures for local government for the next few years up to 2024/25. This included the figure that core spending power would increase by an average of 3% in real terms every year between 2021/22 and 2024/25. The Review did not include any specific figures for settlement funding as an element of core spending power.

Based on the Spending Review figures, we would have expected core spending power to increase by about 3.7% in real terms in 2022/23, somewhat

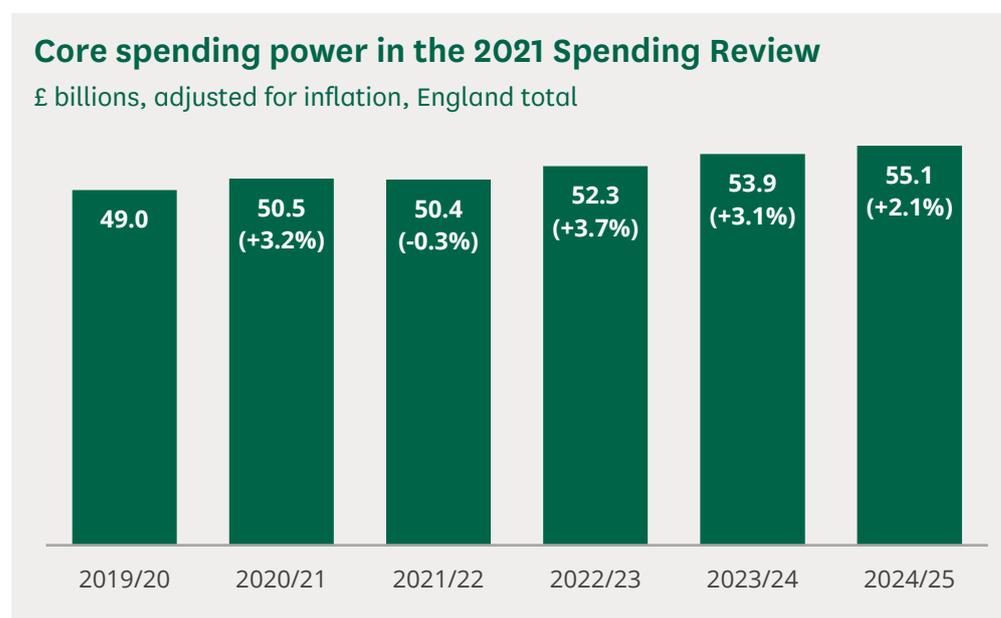
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<sup>10</sup> [PQ12147 2021-22](#), 14 Jun 2021. Another answer to a Parliamentary Question on 10 Jun 2021 gave a similar answer, with minor differences in the text: see [PQ8760 2021-22](#), 10 Jun 2021

<sup>11</sup> [HCWS 510 2021-22](#), 16 Dec 2021

<sup>12</sup> Public Accounts Committee, [Local Government Finance System: Overview and challenges](#), HC-646 29 Nov 2021, Q73

lower than the actual increase of 4.6%. If future settlements track the Spending Review settlement figures closely, we could expect to see a similar increase of about 3.1% in core spending power in 2023/24, followed by a rather smaller increase (about 2.1%) in 2024/25.



Source: HM Treasury, [Autumn Budget and Spending Review 2021, table 4.9](#), 23 December 2021

Local authorities have been asking for some time for a new multi-year funding settlement (each of the last four settlements has covered only a single year). In the House of Commons debate on the 2021/22 settlement, several MPs repeated this call, emphasising the importance of long-term planning for councils.<sup>13</sup>

In its initial response to the 2022/23 provisional settlement, the Local Government Association acknowledged that multi-year planning is difficult when the Government is also planning funding reforms, but said that single-year settlements can “hamper financial planning” and affect councils’ financial sustainability.<sup>14</sup>

<sup>13</sup> [HC Deb 10 February 2021 c386](#)

<sup>14</sup> Local Government Association, [LGA responds to provisional Local Government Finance Settlement](#), 16 December 2021

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## 4 Further reading

The Institute for Fiscal Studies (IFS) has published [its own assessment of this Settlement](#). This points out that 2022/23 will be the first year in which core spending power for England as a whole exceeds its 2015/16 levels in real terms, and that it is still below those levels in real terms per person. The IFS also notes the changing make-up of local government funding and highlights the need for reform.<sup>15</sup>

The Local Government Association has also published an [initial evaluation of the Settlement](#), focusing on the impact of council tax and asking for more clarity on the New Homes Bonus, funding reform, and funding in future years.<sup>16</sup>

An [article in the Local Government Chronicle](#) in January 2022 described the Settlement as “only a modest statement of intent”, saying that although it provides stability, it will result in “a stable decline of local government services, rather than a stable growth”. The article goes on to suggest that much further-reaching reform, over a longer period of time, will be necessary if the pressures on local government services are to be met.<sup>17</sup>

The House of Commons Library has also published a general briefing on [Local government finances](#)<sup>18</sup> and an [interactive data dashboard](#) showing funding and spending power figures for every local authority in England since 2015/16. Both of these will be updated with the final settlement figures once they are published.

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<sup>15</sup> Institute for Fiscal Studies, [An initial response to the Local Government Finance Settlement by IFS researchers](#), 17 December 2021

<sup>16</sup> Local Government Association, [LGA responds to provisional Local Government Finance Settlement](#), 16 December 2021

<sup>17</sup> Local Government Chronicle, [Analysis: why the ‘settlement for stability’ did little to level up](#), 10 January 2022

<sup>18</sup> [Commons Library Research Briefing CBP-8431, Local government finances, 23 March 2021](#)

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