

**November 2020**

## **Briefing 20-91: Spending Review 2020**

### **1. Introduction**

Whilst a longer-term Spending Review (SR) would no doubt be welcomed by many in local government the impact of Covid-19, and the necessity for urgent funding for many areas of the public sector, has clearly put paid to these ambitions. Instead Chancellor Rishi Sunak, has instead opted for a further 1-year Spending Review. Whilst this does not allow for the much-needed opportunities to develop medium-term financial plans it is nevertheless set against the context of some startling figures for National Debt. The OBR also identified a drop of over 25% in GDP in February to April 2020 and forecasts 11.3% overall for 2020.

OBR estimates, which were published on the 21 August 2020, indicated that £214.9 Billion would be borrowed by the public sector in the year-to-October 2020; however, they suggested that this could reach to as high as £372.2 Billion by the end of March 2021. Coupled with this tax and national insurance receipts dropped by 9.7% in the seven months to October, representing a £38.3 Billion drop against an increase in Covid-19 related spend of 28.5% or £123.5 Billion – a figure which continues to rise.

### **2. Headlines from the Spending Review**

#### ***Spending on Covid-19***

This will continue to rise with £55 Billion identified in controlling the virus and support to public services and businesses, with £2.6 Billion allocated to the devolved administrations in Scotland, Wales and Northern Ireland. In addition to this the SR20 confirms that the Treasury has set aside significant sums for spend on vaccines.

## **Health Spend**

Not unsurprisingly the Chancellor announced big sums for health spend and the NHS with £33.9 Billion increase in spend in the NHS by 2023-2024.

In paragraphs 6.1 and 6.2 of the Spending Review document the figures for spend within the Department for Health and Social Care (DHSC) are as follows and provide something of a stark contrast to the figures provided for spend within MHCLG: -

*6.1 The Department of Health and Social Care (DHSC) settlement provides a £6.6 billion cash increase in core resource funding from 2020-21 to 2021-22, delivering a 3.5 per cent average real terms increase per year since 2019-20. The department's capital budget increases by £2.3 billion in cash terms compared to 2019-20, delivering a 13.4 per cent average real terms increase per year, taking core total DEL to £156.4 billion. Average real growth in core total DEL is 4 per cent per year from 2019-20 to 2021-22.*

*6.2 The government remains committed to the historic long-term settlement for the NHS which provides a cash increase of £33.9 billion a year by 2023-24. This takes the NHS England budget from £114.6 billion in 2018-19 to £148.5 billion in 2023-24, with an increase of £6.3 billion in 2021-22. It is also confirming its commitment to deliver 50,000 more nurses and to create an additional 50 million appointments in general practice a year.*

## **Education Spend**

The Chancellor announced a further £7.1 Billion for schools by 2022-2023 and the DFE settlement provides funding for delivering a £220 million Holiday Activities and Food programme to provide activities and 'holiday hunger' initiatives for healthy meals for disadvantaged children for Easter, summer and Christmas holidays in 2021. (More details can be found in 6.19 of the SR document).

## **Infrastructure**

In addition to the levelling up fund (detailed under local government in 3 below) a **£100 Billion** announcement was made on capital infrastructure projects for next year. This includes schools, hospitals and transport schemes with £1.7 Billion for local roads. However, some caution on

these overall figures as some project funding has already been announced in earlier Government announcements.

### ***Police and defence***

The Police budget receives over **£400 Million** to meet the Government pledge of hiring 20,000 more officers by 2023. Defence provides for an increase in military spend of **£24 Billion** over the next four years, and the SR highlights that this makes UK defence spending the largest in Europe.

### **3. MHCLG and Local Government**

For APSE member councils the most important area of the Spending Review is of course the allocations to MHCLG and local government specifically.

The following is extracted from the SR20 document at paragraphs 6.56 to 6.58: -

*6.56 The Ministry of Housing, Communities & Local Government (MHCLG) settlement provides a £0.2 billion cash increase in core resource funding from 2020-21 to 2021-22, delivering an 8.9 per cent average real terms increase per year since 2019-20. The department's capital budget in 2021-22 will be £7.8 billion and core total DEL will be £9.9 billion.*

*6.57 As set out on the Department for Transport page, the government is launching a new Levelling Up Fund worth £4 billion for England, that will attract up to £0.8 billion for Scotland, Wales and Northern Ireland in the usual way. This will invest in local infrastructure that has a visible impact on people and their communities and will support economic recovery. Moving away from a fragmented landscape with multiple funding streams, this new cross-departmental Fund for England will invest in a broad range of high value local projects up to £20 million, or more by exception, including bypasses and other local road schemes, bus lanes, railway station upgrades, regenerating eyesores, upgrading town centres and community infrastructure, and local arts and culture. SR20 makes available up to £600 million in 2021-22. The government will publish a prospectus for the Fund and launch the first round of competitions in the New Year.*

*6.58 SR20 also provides £254 million of additional resource funding, including £103 million announced earlier this year for accommodation and substance misuse, to support rough sleepers and those at risk of homelessness during Covid-19. This takes total*

*resource funding in 2021-22 to £676 million, a 60 per cent cash increase compared to SR19. This additional funding will support frontline services through the Rough Sleeping Initiative and enable local authorities to fund their statutory duties to prevent homelessness. The government will also provide new funding to support prison leavers at risk of homelessness into private rental tenancies and will commit £87 million of capital funding in 2021-22 primarily to support the delivery of long-term accommodation for rough sleepers.*

Again, a number of these announcement had already been made or were known about prior to the SR20 announcement. Specifically, within local government the following has also been confirmed.

### ***Funding for Councils***

An area of arguably greatest concern for council funding overall is that of social care – given the propensity for care budgets to eat away at the allocation of other departmental budgets within council services (excepting Northern Ireland in this regard). The Spending Review therefore continues with the ‘permission’ for councils to increase council tax by 2% without holding a referendum, and the ability to levy a 3% adult social care ‘precept’ (though strictly speaking this is not a ‘precept’). The SR points out that this is in addition to the £300 Million increase to the social care grant and suggests that these measures, taken together, should allow authorities to access more than **£1 Billion** of spend for social care.

Paragraphs 6.67 and 6.68 of the SR20 document states: -

*6.67 In addition, local authorities will be able to levy a **3 per cent adult social care precept**. This means that they will have access to over £1 billion of funding for social care. This funding is additional to the £1 billion social care grant announced last year which is being maintained. As set out above, the government expects to provide local authorities with over £3 billion in additional support for Covid-19 pressures. This will support councils to maintain care services while keeping up with rising demand and recovering from the impact of Covid-19. In the longer term, the government is committed to sustainable improvement of the adult social care system and will bring forward proposals next year.*

*6.68 The referendum threshold for increases in council tax will remain at **2 per cent** in 2021- 22. MHCLG will set out full details of the council tax referendum principles and adult social care precept flexibility as part of the consultation on the detailed methodology for the Local Government Finance Settlement for 2021-22.*

A further area of concern for councils has been the impact of Covid-19 on local businesses and the changes to business rates. Paragraph 6.69 of the SR20 document states: -

*6.69 The government is undertaking a fundamental review of the business rates system and is currently considering responses to the call for evidence. A final report setting out the full conclusions of the review will be published in spring 2021. To support businesses in the near-term, the government has decided to freeze the business rates multiplier in 2021-22, saving businesses in England an estimated £575 million over the next five years. **Local authorities will be fully compensated for this decision** (our emphasis).*

*6.70 Earlier this year, the government announced that it would delay the move to 75 per cent Business Rates Retention and the implementation of the fair funding review. This decision allowed local authorities to focus on meeting the public health challenge posed by the pandemic. In order to provide further stability to the sector, the government has decided not to proceed with a reset of business rates baselines in 2021-22 and will maintain the existing 100 per cent business rates pilots for a further year. The government will consult on reforms to the New Homes Bonus shortly, with a view to implementing reform in 2022-23.*

The impact of Covid-19 on traditional property-based settings, which achieve business rate revenue, looks increasingly perilous as the acceleration of changes which many anticipated, have been brought forward by the pandemic, with increases in home-working, home shopping and a decline in traditional retail. It remains to be seen if such changes are sustained post the pandemic.

The SR20 statement suggests that the culmination of various measures this year will mean that core spending power for councils will increase by around 4.5% in cash terms next year (2021-2022). In paragraph 6.63 of SR20 it also states that full details of the settlement will shortly be set out by MHCLG.

*6.63 Core spending power for local authorities in 2021-22 is estimated to increase by 4.5 per cent in cash terms, which follows the largest real terms increase in core spending power for a decade at SR19. The government is increasing core grant funding for local authorities, and expects to provide over £3 billion of additional support for Covid-19 pressures in 2021-22.*

*6.64 Full details of the proposed Local Government DEL settlement for 2021-22 will be set out shortly by the Ministry of Housing, Communities and Local Government (MHCLG).*

### ***The Levelling-up Agenda***

The Chancellor announced a new fund of **£4 Billion** which was named the ‘Levelling Up Fund’ which is to support investments which have ‘a visible impact on people and their communities’. Examples provided in the SR20 statement include transport, railway station refurbishments, retail and so on – effectively this looks like areas that need an aesthetic ‘facelift’ will be able to bid for funds. However, although this was trailed as joined up departmental working it will of course be subject to bids, a process which is often seen as a time-consuming and costly exercise by councils, with details of that process being announced in the next few weeks.

### ***Public Sector Pay Freeze***

As widely reported in the press the Chancellor also announced a public sector pay freeze with the exception of NHS doctors and nurses. So essentially local government workers, including those in education and social care, would be caught by the pay freeze.

## **4. APSE Comment**

It is recognised that the health pandemic has had an unrelenting impact on public finances and public services, both in the initial response phase and the ongoing national and local restrictions across the UK. These pressures are not set to end anytime soon. Councils will still face further calls for support as the toll of unemployment, homelessness and people newly in receipt of welfare support add to the ever-growing evidence of the health impact of Covid-19, including in both physical and mental health terms. Therefore, the disappointment of a further one-year Spending Review, as opposed to the three-year settlement previously promised, is at least explicable, if not necessarily viewed as universally desirable.

Turning to the detail of the settlement for local government there are a number of observations. The big announcements on capital injections into infrastructure are headline grabbing but, for council coffers, these do not ease the current situation of strain on revenue budgets. The sums announced so far for support for Covid-19 equally still fall short of what is needed. Gaps still remain for councils with drops in income, whilst partially compensated for in some pre-announced settlements do not meet fully the losses incurred. Measures announced around compensation for irrecoverable debt from council tax and business rates also fall short in covering losses suffered. Nor does the funding meet the growth in demand faced by councils for support during the pandemic, this has been particularly evidenced with shortfalls in available funding to deal with the need to urgently tackle on-street homelessness at the start of the pandemic.

There are also concerns about the major public policy issues that have yet again been subject to delays. Social care was an area upon which the PM personally pledged his Government to resolve in terms of gaining cross-party support and moving to a sustainable finance model. This Spending Review yet again creates something of a 'sticking plaster' on the gaping wound of care finance by allowing the continuation of the additional council tax 'precept'. However, this approach is fundamentally flawed. Areas with highest needs may be the very areas that will raise the least from the precept due to low council tax values, gearing any percentage increase to create much less additional funding, than it might otherwise achieve, in better off areas.

In addition, some big public policy challenges have been subject to conflicting announcements. The recent 10-point plan announced by Prime Minister Boris Johnson set out a series of pledges as to how the UK would achieve the net zero carbon emissions target by 2050. However, it is APSE's view, that such pledges can only be realistically achieved with Local Authorities across the UK being key partners in the delivery of this. Therefore, the Spending Review arguably lacks cohesiveness, in how it views the role of local government, in the development of infrastructure to support a green economy; for example, getting roads and communities ready for the phase-out of diesel and petrol vehicles by investment in electric or hydrogen vehicle infrastructure. Similarly, whilst housing funding has been referenced in several places within SR20 this falls short of the big numbers of new homes that must be delivered by councils, if we are to achieve the home building targets set out. APSE research with the TCPA found that at least 100,000 social homes per annum must be built to meet these targets. This figure took into account the limitations of different house building sectors and the research found that Government policy

must avoid reliance on one singular mode of delivering new homes. Equally any new homes must support the green economy, with new developments providing homes reliant upon renewable energy not fossil fuels, with good forms of affordable and green public transport links. APSE has also argued for wide spread and deep investment in retrofit schemes, again to decarbonise housing stock.

There are therefore huge questions as to the strategic implications of this one-year Spending Review. Councils are at the heart of change and of responding to Covid-19. They cannot choose one direction over the other, albeit attention has had to focus on the immediate response to the pandemic, the remaining public policy challenges of social care, housing and a green economy have not gone away but nor are they fundamentally addressed by this Spending Review.

Finally, whilst there is some welcome funding in areas like roads, to address the creaking state of local highways assets, other services which are delivered at a neighbourhood level, are still subject to historic funding shortfalls from the age of austerity. Budgets in areas like parks and public realm, sports and leisure, refuse and street cleansing, and services such as school catering and janitorial services, culture and libraries, have not had budgets reinstated to pre-austerity levels. Indeed, in many cases this has led to service reductions. Some service reductions may now be considered as viable public policy choices locally, and this is of course a matter for local democratic decision making. However public perception of the value of these services may have changed as a result of Covid-19. For example, parks and public realm became the lungs of the community during lockdown as the public re-engaged en masse with the benefits of green exercise in local public realm. The increased household waste from lockdown, as all meals and drinks were consumed from home, rather than the public being out at workplaces, or eating in cafes and restaurants, was dealt with expediently by local councils. In short, the areas which may well see the continuation of budget pressures, as a result of the priorities chosen in this Spending Review, may arguably now be amongst the public's most valued suite of public services. And on this point the Chancellor may have mis-judged the mood of the nation in excluding local government workers as being regarded as part of the armoury of 'key-workers' who supported, and continue to support communities during the health pandemic.

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