

Spending Round 2019

London Councils' On The Day Briefing

London Councils represents London's 32 borough councils and the City of London. It is a cross party organisation that works on behalf of all its member authorities regardless of political persuasion.

Introduction

On 4 September 2019, Sajid Javid delivered his first major fiscal event as Chancellor: Spending Round 2019 (SR19). It confirmed broad public spending allocations for the next financial year (2020-21). Further information on the Spending Round can be found on the [Treasury's website](#). The Spending Round contained a number of policies and announcements, which are likely to impact on local government. At this stage, it is too early to confirm what the exact impact will be on individual local authorities' funding; however, the key headlines for London Local government are summarised below.

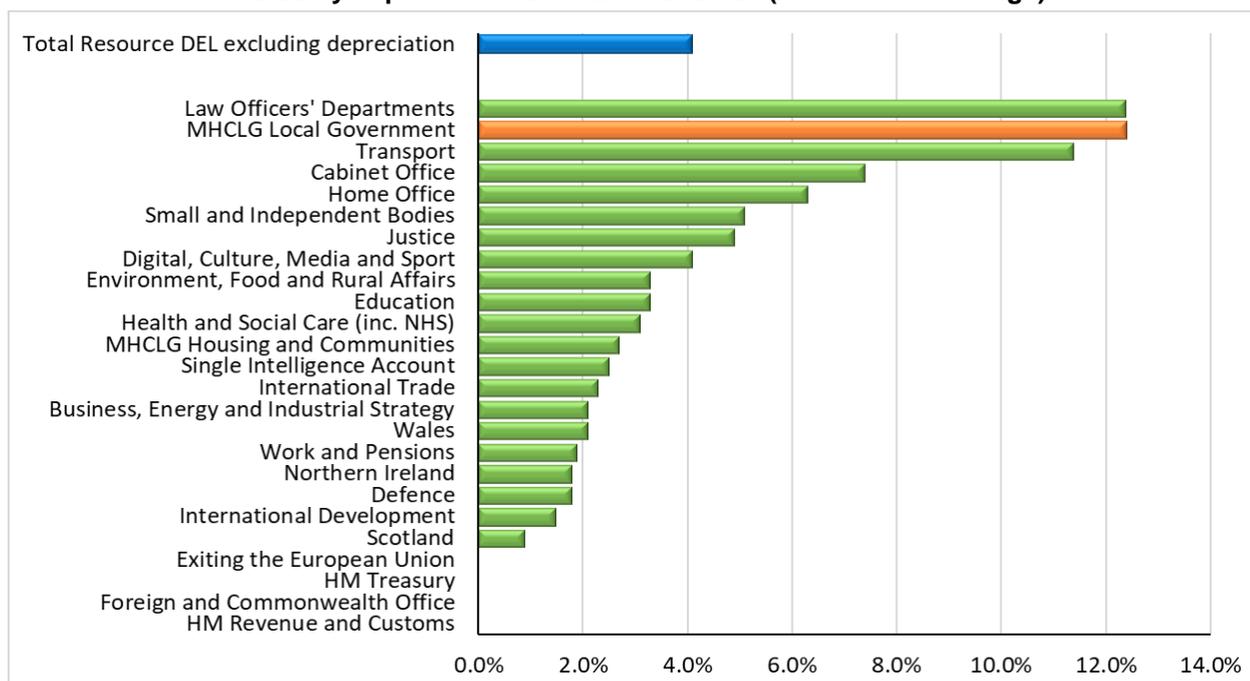
Key Headlines

- **Total departmental spending will increase by £13.8 billion** in real terms next year (4.1 per cent).
- **Local government will have access to an additional £3.5 billion in 2020-21**, with Core Spending Power estimated to increase by 6.2 per cent nationally (an increase of over £400 million in London)
- **SFA will increase in line with the business rates multiplier** (i.e. CPI inflation) next year (the increase across London will be around £54 million).
- The Government intends to **push back the 75 per cent Business Rates Retention and the Fair Funding Review reforms by a year to 2021** and will write to councils to confirm this shortly.
- The London 75 per cent Business Rates Retention Pilot **will not continue in 2020-21**.
- **£1 billion of new grant funding was announced for adult and children's social care** (to be distributed using the adult social care relative needs formula) London boroughs will receive £155 million.
- All the existing **grant funding within core spending power** (including for adult social care and new homes bonus) is expected to continue.
- The Government intends to consult on an **Adult Social Care Precept of 2 per cent** as well as **main Council Tax referendum limit of 2 per cent** in 2020-21.
- **Public Health Grant will increase by around £100 million nationally (over 3 per cent)**. The increase for London boroughs is estimated to be around £20 million from £631 million to £651 million.
- Overall schools funding will increase by £2.6 billion in 2020-21 rising to £7.1 billion by 2022-23.
- **High-needs funding will grow by £700 million in 2020-21**, but increases are not yet confirmed beyond then.
- Additional funding of **£54 million to reduce homelessness and rough sleeping** was confirmed nationally.
- **Funding for the Troubled Families programme will continue**, but the overall amount is not yet confirmed
- **Building Safety Programme funding of £24 million** was announced nationally for fire safety.
- **Early Years funding will increase by £66 million** nationally in 2020-21
- **Further Education funding will increase by £400 million** nationally in 2020-21
- An increased in funding next year nationally of **over £30 million to improve air quality** was set out.
- **£40 million of new funding for Discretionary Housing Payments** will be awarded nationally next year.

Departmental Spending

- The headline announcement by the Chancellor regarding overall departmental spending was that departmental spending will **increase by £13.8 billion** in real terms next year (4.1 per cent).
- This represents a top-up of £11.7 billion to the provisional spending plans set out in the spring, alongside a £1.7 billion top up to existing capital spending plans for 2020–21, meaning that total spending will be £13.4 billion higher next year than was planned in the spring.
- **All government departments will receive at least a real-terms increase in spending in 2020-21.**
- No economic data was published alongside the SR, so it is unclear yet exactly how the spending increase will be funded, though the government claims it has been delivered within the current fiscal rules.
- The chart below shows the increases in spending for each department, with the **Local Government RDEL growing by 12.4 per cent in real terms**: the joint highest of all departments.
- The funding boost will not be enough to return all departments’ budgets to their pre-austerity levels. In 2020–21, the day-to-day Department of Health and Social Care budget will be £25.3 billion higher than in 2010–11, in today’s prices. But budgets for the Home Office, Justice and Environment, Food & Rural Affairs will be £4.6 billion lower, or 17 per cent lower on average, than a decade earlier.

Chart 1 - Resource DEL by department - 2019-20 to 2020-21 (real terms % change)



Source: SR19 Table A.2 (P.29), The full DEL figures for 2019-20 and 2020-21 can be found at Appendix B

Capital and infrastructure Spending

- This Spending Round focuses on day-to-day resource spending. Departments already have capital budgets for 2020-21, which were set at the Spending Review in 2015. This Spending Round largely leaves these capital budgets unchanged.
- Later in the autumn, the government will announce its plans for future capital spending, including through the publication of the National Infrastructure Strategy. The “zero-based review of capital spending” promised at Budget 2018 to report alongside the 2019 Spending Review as was, is now expected next year: The SR19

documents states that “A full multi-year spending review will be conducted in 2020 for capital and resource budgets beyond 2020-21.”

Local government funding

The following section sets out London Councils’ understanding of changes to local government funding based on the Spending Round document and clarifications from MHCLG civil servants.

Fair Funding and 75% Business rates retention

- While the Spending Round did not officially confirm the Government’s intentions with regard to the implementation of the Fair Funding Review and 75% business rates retention across the sector; we understand from speaking to MHCLG civil servants, that these will **now be postponed by a year to April 2021**, and they will be writing to councils to confirm this imminently.
- The details in the SR therefore reflect a one year “roll forward” of the current funding.
- MHCLG intends to undertake a **technical consultation on the local government finance settlement** shortly (as is normally the case) and to deliver a provisional settlement in early December.

Core Spending Power

- The overall headline referred to in the SR document and by the Chancellor is that “additional resources available to local government” will increase by more than **£3.5 billion**. This includes an increase in existing funding streams and some new funding announcements set out below.
- The SR document sets out an estimated increase in local government Core Spending Power of £2.9 billion or **6.2 per cent in cash terms** – see table below. This assumes all councils raise main council tax by 2 per cent.

Table 2.12: Local Government

	£ billion	
	2019-20	2020-21
Resource DEL excluding depreciation ¹	6.1	8.6
Local Government Core Spending Power ²	46.2	49.1

¹ In this table, Resource DEL reflects a transfer of the New Homes Bonus from MHCLG Housing and Communities DEL. The adjusted baseline used to calculate the growth rate is £7.5 billion, which excludes the effect of 2019-20 Business Rate Retention pilots.

² The figure for Core Spending Power is an estimate and subject to data changes and will be published following final decisions in the 2020-21 Local Government Finance Settlement.

Settlement Funding Assessment

- While the SR document only mentions an increase in Baseline Funding Level (BFL), civil servants have confirmed the intention is to **increase overall SFA (both BFL and RSG) in line with the business rates multiplier** (i.e. September CPI inflation). Currently this is 2 per cent.
- The intention is to **continue to provide negative RSG** to authorities receiving it – uprated in line with the multiplier.

Specific Grants

- The big announcement was **an addition £1 billion grant funding for children and adult social care** - to be distributed using the adult social care RNF). We estimate London boroughs’ share would be £155 million: £33

million less than if both the adult and children's RNF's were used equally. The reason given by civil servants is that the children's RNF is out of date and less robust than the adult social care RNF.

- The **existing adult social care grants (iBCF, social care support grant and winter pressures funding) will all continue for another year** at the same levels as in 2019-20. This totals £3.5 billion across England and £400 million across London boroughs).
- Civil servants confirmed the intention to **continue the New Homes Bonus at the current level** with the current scheme parameters – to be consulted on in the technical settlement consultation shortly. This totalled £918 million nationally (£190 million in London) in 2019-20.
- **Public Health Grant** will increase by around £100 million nationally (or 3.4 per cent). We estimate the grant will increase in London by around £20 million from £631 million to £651 million.
- The NHS contribution to adult social care through **the overall Better Care Fund will increase by 3.4 per cent** in 2020-21.
- £422 million (including **an additional £54 million**) was confirmed to **reduce homelessness and rough sleeping**. Civil servants were unable to confirm how this will be distributed at this stage.
- Funding for the **Troubled Families programme** will continue – although it is not yet known how much.

Council tax principles

- The Government's intention is to consult on a **main Council Tax referendum threshold of 2 per cent** in 2020-21 rather than the current level (3 per cent).
- The Government's intention is to consult on a **2 per cent Adult Social Care precept** as part of the 2020-21 Local Government Finance Settlement process. It estimates this would generate £500 million if all councils took it up. If all London boroughs took it up at 2 per cent, we estimate it would generate around £69 million.

London Business Rates pilot

- The SR document did not include detail regarding the current business rates retention pilots. However, civil servants have confirmed ministers' intention for **the London 75% BRR pilot pool to end in 2019-20 and not be renewed next year. The other 75% pilots are also expected to end. However, the original 2017-18 100% pilots for city deal areas will continue.**
- The GLA's retention share will stay at 37 per cent i.e. it will retain its increase in retention from the TfL grant transfer in 2017-18.

Schools funding

- **Overall schools funding will increase by £2.6 billion in 2020-21**, £4.8 billion in 2021-22 and £7.1 billion in 2022-23, compared to funding levels in 2019-20.
- **Individual school and authority figures will be set out in the next few weeks by the ESFA.**
- As part of this, per-pupil funding for all schools rising in line with inflation (1.8 per cent) in 2020-21. For schools that are already on the National funding Formula allocation, per pupil values in the formula will increase by at least 4 per cent in nominal terms in 2020-21. The minimum per pupil amount for 2020-21 will increase to £3,750 for primary schools and £5,000 for secondary schools, with the primary schools minimum then rising to £4,000 in 2021-22.
- As part of the overall increase there will be an additional **£700 million of high-needs funding for schools** to support children and young people with special educational needs in 2020-21. The overall High Needs increase has not been confirmed for beyond 2020-21. The basis of distribution has not been confirmed yet.

- The Government will also provide almost **£1.5 billion year to compensate schools for the increased cost of employer pensions contributions.**

Summary of relevant policy/funding announcements by department

Ministry of Housing Communities and Local Government (MHCLG)

- MHCLG will see a 2.7 per cent real terms increase in the department's resource budget from 2019-20 to 2020-22, this includes:
 - Continued funding of the **Troubled Families Programme**, however the overall level is still to be confirmed.
 - **£24 million of new funding for the Building Safety Programme** to supplement £600 million towards the removal of dangerous cladding.
 - Additional funding for Homes England and a continuation of the Help to Buy equity loan.
 - **£241 million for the Towns Fund in 2020-21** to support the regeneration of high streets, town centres and local economies.
 - funding for the Midlands Engine and Northern Powerhouse.

Department of Health & Social Care (DHSC)

- The chancellor reaffirmed the NHS five-year settlement, providing an additional £33.9 billion per annum by 2023/24 compared to 2018/19. This equates to a real terms increase of 3.1 per cent in resource budgets.
- There will be a 3.4 per cent real terms increase in the Health Education England budget, providing £150 million for professional development and an £1,000 central training budget for nurses and midwives
- There will be a £1 billion increase to NHS Capital Spending and £854 million of new funding for upgrading of facilities, buildings, and infrastructure in 20 hospitals.
- A £250 million pot was announced for investment in AI, of which £78 million is available in 2020/2021

Department for Education (DfE)

The Department for Education Settlement:

- Represents a 3.3 per cent increase in real terms to the overall resources budget from 2019-20 to 2020-21.
- **An increase to Early Years funding of £66 million in 2020-21**, which will increase the hourly rate paid to childcare providers through the government's free house offers.
- **An increase of £400 million in FE funding in 2020-21**, which will include **£190 million to increase core funding for 16-19 year olds** at a faster rate than core schools funding and **£210 million of funding in targeted interventions.**

Department for Transport (DfT)

The Department for Transport settlement includes:

- An 11.4 per cent real terms increase to the department's resource budget from 2019-20 to 2020-21.

- £1.1 billion funding for the Strategic Road Network.
- A further £275 million for maintaining rail infrastructure in 2020-21 compared to 2019-20.
- Over £200 million of increased funding to transform bus services, making best use of technology and promoting decarbonisation (further details will be announced in due course).
- Continued support for the development of major transport projects including pushing on with work on the Leeds to Manchester route of Northern Powerhouse Rail, and driving forward East West rail links in the Oxford to Cambridge Arc.

Department for the Environment, Food and Rural Affairs

The DEFRA settlement includes:

- A 3.3 per cent increase in real terms to the department's resource budget rising from £1.9 billion in 2019-20 to £2.0 billion in 2020-21.
- More than **£30 million increase in funding for air quality.**
- An additional £30 million for terrestrial and marine biodiversity measures, to support the maintenance and restoration of vital habitats for wildlife, progress nature-based solutions for climate change mitigation and adaptation, and deliver the 25 Year Environment Plan.

Home Office (HO)

The HO settlement includes:

- An additional £45 million in 2019-20 to recruit up to 2,000 police officers, followed by a further £750 million to recruit up to 6,000 officers by the end of 2020-21, contributing to the government's target of 20,000 new police officers by 2023.
- £30 million additional funding to increase protections against child sexual exploitation.
- £110 million additional funding, alongside £65 million of Official Development Assistance (ODA), to support refugees within the asylum system.
- Continuation of £150 million funding for the Global Resettlement Programme.
- The government will undertake a formal review of the powers, capabilities, governance and funding needed across policing and law enforcement in advance of Spending Review 2020.

Department for Work & Pensions (DWP)

The DWP settlement includes:

- **£40m additional funding for Discretionary Housing Payments** to mitigate affordability pressures in the private rented sector in England and Wales.
- £36 million to support DWP decision-making and application processes and to create an independent Serious Case Panel.
- £7 million to expand Jobcentre adviser support in schools for young people with SEND extending eligibility for Access to Work to internships for individuals with disabilities.
- £23 million for other measures, including support for vulnerable claimants migrating to Universal Credit, additional outreach to support those who are homeless, and increasing the number of Armed Forces champions to support veterans entering the labour market.

Ministry of Justice (MOJ) and Law Officers' Departments

The MOJ settlement includes:

- £100 million to increase security in prisons through the introduction of more airport-style security scanners, mobile phone detection and prevention technology, and anti-corruption and intelligence operations.
- £55 million across the criminal justice system as well as £80 million for the Crown Prosecution Service to support the planned increase of 20,000 police officers.
- Funding to begin delivery of government's £2.5 billion commitment to create an additional 10,000 prison places.

Next steps

London Councils will undertake further analysis of the information coming out of the Spending Round and will circulate estimates of London boroughs funding allocations, where possible, shortly.

London Councils, 4th September 2019

Appendix A – Total Managed Expenditure 2019-20 to 2020-21

Table A1 shows that total managed expenditure (TME) will rise from £842.8 billion in 2019-20 to £878.6 billion in 2020-21 (4.2%). Resource DEL excluding depreciation will increase by 6.5% over the same period.

Table A1- Total Managed Expenditure

	2019-20	2020-21	Change (£bn)	Change %
Resource AME	394.9	402.4	7.5	1.9%
Resource DEL excl. dep	330.8	352.3	21.5	6.5%
Depreciation	29.1	29.1	0	0.0%
RDEL incl. depreciation	359.9	381.4	21.5	6.0%
Public sector current expenditure	754.7	783.8	29.1	3.9%
Capital AME	12.6	12.9	0.3	2.4%
Capital DEL	75.5	81.9	6.4	8.5%
Public sector gross investment	88.1	94.8	6.7	7.6%
TOTAL MANAGED EXPENDITURE	842.8	878.6	35.8	4.2%

Source: HMT; Spending Round 2019

Appendix B – Resource DEL (excl depreciation) by department 2019-20 to 2020-21

	£ billion			Per cent
	Outturn ² 2018-19	Baseline ³ 2019-20	Plans 2020-21	Year-on-year real growth 2019-20 to 2020-21
Resource DEL excluding depreciation¹				
Health and Social Care	124.4	132.3	138.9	3.1%
<i>of which: NHS England</i>	114.5	123.7	129.9	3.1%
Education ⁴	61.5	64.0	67.8	3.3%
<i>of which: schools⁴</i>	42.4	44.4	47.6	3.9%
Home Office	10.9	11.9	12.9	6.3%
Justice	7.5	7.6	8.1	4.9%
Law Officers' Departments	0.5	0.6	0.7	12.4%
Defence ⁵	27.7	29.7	30.8	1.8%
Single Intelligence Account	2.1	2.0	2.1	2.5%
Foreign and Commonwealth Office ⁶	2.2	1.1	1.1	0.0%
International Development ⁷	7.2	9.3	9.6	1.5%
MHCLG Housing and Communities ⁸	2.3	1.6	1.6	2.7%
MHCLG Local Government ⁹	4.8	6.1	8.6	12.4%
Transport	2.5	3.7	4.1	11.4%
Business, Energy and Industrial Strategy ¹⁰	0.9	2.2	2.5	2.1%
Digital, Culture, Media and Sport	1.5	1.5	1.6	4.1%
Environment, Food and Rural Affairs	1.7	1.9	2.0	3.3%
Exiting the European Union	0.1	0.1	0.1	0.0%
International Trade	0.4	0.5	0.5	2.3%
Work and Pensions	5.8	5.6	5.8	1.9%
HM Revenue and Customs	3.7	3.8	3.8	0.0%
HM Treasury	0.2	0.2	0.2	0.0%
Cabinet Office	0.5	0.4	0.4	7.4%
Scotland ¹¹	14.7	16.2	16.6	0.9%
Wales ¹²	13.3	11.9	12.4	2.1%
Northern Ireland	10.5	10.7	11.1	1.8%
Small and Independent Bodies ¹³	1.4	1.8	1.9	5.1%
Reserves ¹⁴	–	6.0	7.0	–
Adjustment for baselined funding ³	–	-1.7	–	–
Total Resource DEL excluding depreciation¹⁵	308.6	330.8	352.3	4.1%
Memo:				
Local Government Core Spending Power ¹⁶	45.1	46.2	49.1	4.3%