



Spending Review 2021 and Local Government Funding

Spending Review 2021 sets out the government's spending plans and departmental budgets for the next three years (2022-23 to 2024-25). This briefing provides an overview of the funding announcements and London Councils' initial response to them.

Introduction

On 27th October 2021 the Chancellor of the Exchequer, Rishi Sunak, delivered Spending Review 2021 (SR21) and the Autumn Budget. The latter set out the Governments' taxation and public expenditure plans for the year ahead, and SR21 confirmed resource and capital budgets for the three years 2022-23 to 2024-25. Further detail may emerge the coming days, and at the Local Government Finance Settlement, in December. Key headlines and announcements, however, and what they mean for London Local Government, are summarised below.

Key Headlines

- **Core Spending Power will increase by £8.5bn** (3% per annum in real terms) by 2024-25.
- The **Council tax referendum limit is expected to remain at 2%** and the ASC Precept at 1% per annum
- **LG DEL will increase by £3.6bn by 2024-25** – 30% in real terms - the largest change of any department
- This including **£1.5bn per annum of new grant funding** (the distribution will be confirmed at LGFS)
- There will be **no separate compensation for Covid-19 tax losses** relating to 2021-22.
- **A cumulative £3.6bn for ASC reform** will be "routed through" local authorities within LG DEL (the remaining £1.7bn will support social care and come from the DHSC DEL)
- **Public health grant will rise by inflation** (by £0.5bn nationally and £100m in London over 3 years)
- There was **no confirmation of the timetable for the planned local government finance reforms** (the business rates retention reset and relative review of needs and resources)
- The **outcome of the fundamental review of business rates** confirmed 3 yearly revaluations from 2023, a new temporary relief for eligible retail, hospitality and leisure properties for 2022-23, and a new 100% improvement relief. The multiplier will be frozen in 2022-23. Local government will be fully compensated.
- **Funding for rough sleeping of £639m by 2024-15 was confirmed**
- **£1.8bn was set out for housing supply**, includes £300m locally-led grant funding to unlock smaller brownfield sites and £1.5bn to regenerate underused land

- **£3bn was confirmed over the SR period to remove unsafe cladding** from the highest-risk buildings, supported by revenues raised from the new Residential Property Developer Tax.
- **London will receive £65m (3.8%) of the £1.7bn Levelling Up Fund** across 6 projects – the lowest total of all English regions and the lowest allocation per project (£10.8m vs £16.1m for the UK overall)
- There were very few new funding announcements relating to **climate change/net zero**
- **£2.6bn of capital funding for school places was confirmed for children with SEND**
- **£3.8bn of additional skills funding and £550m for adult skills** was confirmed by 2024/25
- The **UK Shared Prosperity Fund will total £2.6bn** over the SR period, but the distribution is still TBC
- **£20,520 per person for LAs who resettle Afghan families** - £17m available for housing costs an extra £20m pot of flexible funding.

Economic and Fiscal Outlook

- The UK's economy and public finances have recovered faster than expected in the Office for Budget Responsibility's (OBR) November 2020 and March 2021 forecasts.
- Public spending falls from its peacetime high of 53.1% of GDP in 2020-21 to 45.1% in 2021-22 as pandemic related support comes to end.
- **CPI inflation has risen sharply from 0.9% last year to an expected peak of 4.4% in the second quarter of 2022.** This is then likely to fall and stabilise around the MPC's 2% target from 2024 onwards.
- **Unemployment is set to peak at 5.5% in the fourth quarter of 2021,** thereafter, it is set to drop and stabilise at around 4.2 in the medium-term, still higher than the pre-pandemic levels.
- **Government borrowing is set to fall from £319bn in 2020-21 (15.2% of GDP) to £183bn (7.9% of GDP) in 2021-22. Thereafter, borrowing falls back below £100bn next year and to stabilise at around £44bn in the medium term.**

Table 1 – Economic indicators

	Forecast						
	2020	2021	2022	2023	2024	2025	2026
Gross domestic product growth (%)	-9.8	6.5	6	2.1	1.3	1.6	1.7
Public sector net borrowing (£bn)	319.9	183	83	61.6	46.3	46.4	44
Public sector net borrowing (% GDP)	15.2	7.9	3.3	2.4	1.7	1.7	1.5
Public sector net debt (% of GDP)	84.2	96.6	98.2	97.9	97.8	94.7	90.5
LFS unemployment (% rate)	4.6	4.9	4.8	4.3	4.2	4.2	4.2
Employment (millions)	32.5	32.2	32.6	33	33.2	33.3	33.4
CPI Inflation (%)	0.9	2.3	4	2.6	2.1	2	2

Source: OBR October EFO, tables 1.1 and 1.3

Local government funding

Core Spending Power

The following section sets out London Councils' understanding of changes to local government funding based on the Spending Review document and clarifications from DULHC civil servants. Full details will be confirmed in the Provisional Local Government Finance Settlement (PLGFS) in December. Neither the timetable nor the scope of the proposed **reforms to local government finance** (the business rates reset and the Review of Relative Needs and Resources) were confirmed.

Core Spending Power

Table 2 – Local Government Core Spending Power (cash values)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cash change (2021-22 to 2024-25)	Real terms change (2021-22 to 2024-25)
CSP	46.2	49.1	50.4	53.7	56.6	58.9	8.5	4.7
Annual change £bn		2.9	1.3	3.3	2.9	2.3		
Annual change %		6.3%	2.6%	6.5%	5.4%	4.1%	5.3%	3.0%

- **Core Spending Power for local authorities is estimated to increase by £8.5bn from £50.4bn in 2021-22 to £58.9bn in 2024-25 - an average of 3% p/a in real terms (5% in cash terms).** (NB - this includes assumptions about council tax which won't be confirmed until the PLGFS in December).

Adult Social Care (ASC) Reform

- The ASC funding reforms previously announced in September 2021 have been confirmed in the Budget. These will be funded through the **Health and Social Care Levy** on National Insurance contributions.
- **Of the £5.4bn for ASC over SR21, only £3.6bn will go directly to local authorities** (via the LG DEL) to implement the charging reforms and support local authorities to better sustain their local care market by moving towards a fairer cost for care. Further detail will be set out by the government in due course.
- The remaining **£1.7bn will come from the DHSC DEL over three years** to improve the wider social care system, including the quality and integration of care.
- **Of this, £500m will be invested in the adult social care workforce**, and further investment to improve the quality of services and integration with the NHS.

Council Tax

- **The main Council Tax referendum threshold will be confirmed at the PLGFS in December, but the SR states it is "expected to remain at 2 per cent per year".**
- Local authorities with social care responsibilities are expected to be able to **increase the adult social care precept by up to 1% per year.**
- **Police and Crime Commissioners** in England are expected to have the flexibility to increase funding in each year of the SR21 period with a £10 council tax referendum limit, and Shire District councils are expected to continue to have a limit of either 2% on £5 on band d (whichever is higher)

Business rates

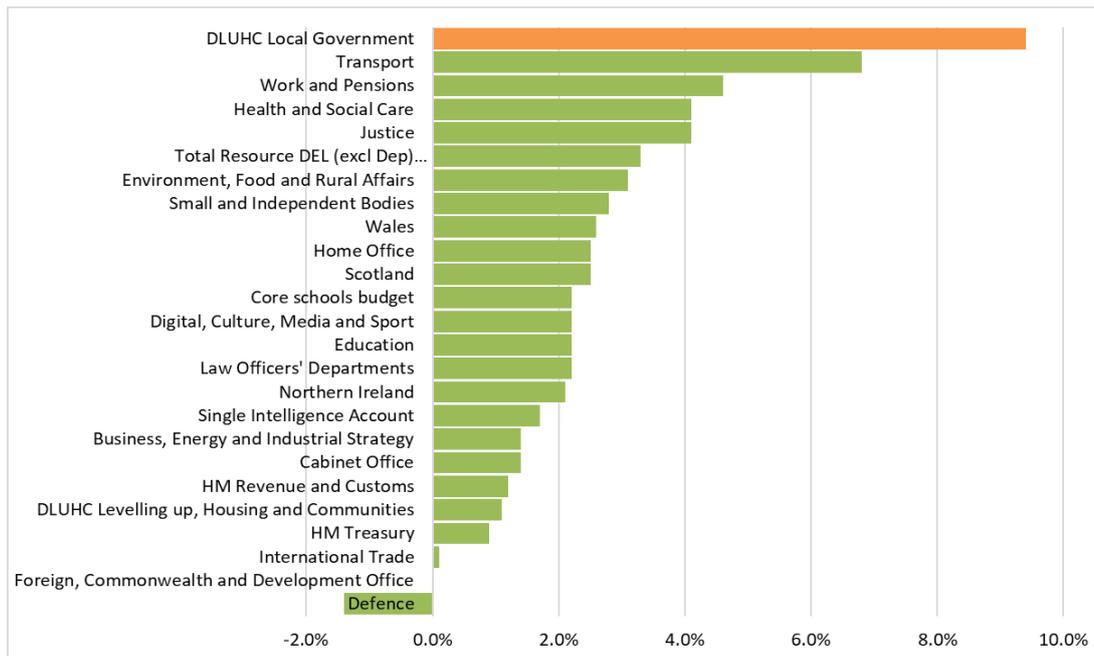
- The final report for the **fundamental review of business rates** has been published [here](#).
- The review conclusions include:
 - A new **temporary relief in England for eligible retail, hospitality and leisure properties for 2022-23**, worth almost £1.7bn. 50% relief up to a cash cap of £110,000 per business.
 - **Freezing the multiplier in 2022-23.** (Est. saving to business £4.6bn over next five years.)
 - A new a **100% improvement relief.** 12 months relief from higher bills for occupiers where eligible improvements to an existing property increase the rateable value. The government will consult on implementation of the relief which will take effect in 2023 and be reviewed in 2028.
 - Targeted **exemptions** for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible heat networks, to support the decarbonisation of non-domestic buildings, to be introduced from 1 April 2023 until 31 March 2035.

- **Three-yearly revaluations from 2023** with a consultation on transitional relief brought forward to 2022 and Reforms to the appeals process.
- A consultation will be published on an Online Sales Tax shortly.
- **Local authorities will be fully compensated for all measures announced in the review.**

Departmental Resource Spending

- Departmental spending will increase by **£150bn a year by 2024-25** (£90bn in real terms) (3.8% a year on average over the Parliament).
- **All government departments will receive a real-terms increase in spending over the SR period.**

Chart 1: RDEL by department 2021-22 to 2024-25 (annual average real terms % change)



- The chart above shows the increases in spending for each department, with the **Local Government RDEL growing by 9.4% per cent in real terms on average per annum:** the highest of all departments.

Capital and Infrastructure Spending

- Budget 2020 announced plans to deliver over £600bn of gross public investment over the next five years; SR21 confirms a total of **£100bn of investment in economic infrastructure over the SR period.**
- **£1.7bn was confirmed via the first round of the Levelling Up Fund** in 105 projects.
- London received just 3.8% of the total funding across the UK – via 6 projects – and received the lowest amount of any English region (see chart below):
- **The Levelling Up White Paper will be published shortly** and will provide further information on the government's plans to enable more areas to agree devolution deals.

UKSPF

- **The UK Shared Prosperity Fund (UKSPF) will be over £2.6bn** over the next three years, totalling £1.5bn by 2024-25.
- Total funding will, at a minimum, match the size of EU Funds in each nation and in Cornwall, each year, however the distribution by region has not yet been announced.
- It will include a **£560m UK-wide adult numeracy programme**, Multiply.

Climate change and Environment

- The Spending Review **reconfirmed the £3.9bn funding** announced in the Heat and Buildings Strategy to decarbonise buildings, including £1.8bn to support tens of thousands of low-income households to make the transition to net zero while reducing their energy bills.
- £1.5bn of investment was confirmed for net zero innovation laying the foundations for the wider transition to a more resilient energy supply by investing in nuclear technologies and offshore wind.
- The government will be introducing a new domestic band for Air Passenger Duty (APD), covering flights within the UK.

Public Sector Pay

- SR21 made three important announcements on pay:
 - public sector workers will **receive pay rises for over the next three** years via the normal pay setting process. The government will be seeking recommendations from Pay Review Bodies
 - a **6.6% increase to the National Living Wage (NLW) to £9.50 an hour**, starting on 1 April 2022.
 - The government is also increasing the National Minimum Wages.

Summary of relevant policy/funding announcements by department

DLUHC

- The Department for Levelling Up, Housing and Communities (DLUHC) settlement provides a £2.6bn cash increase over the Parliament to **£8.9bn in 2024-25**, which represents an annual average 4.7% increase in spending above inflation.
- The rest of this section covers DLUHC announcements not otherwise covered in preceding sections.
- **£35m was confirmed to strengthen local delivery and transparency**, including: procurement and commercial capacity, establishing the Audit Reporting and Governance Authority (ARGA) as the new local audit systems leader, and helping councils meet new transparency requirements.
- SR21 confirms a settlement for housing of **nearly £24bn up to 2025-26**. This includes
 - an additional £1.8bn for housing supply, includes £300m locally-led grant funding that will be distributed to Mayoral Combined Authorities and Local Authorities to unlock smaller brownfield sites for housing and £1.5bn to regenerate underused land, deliver transport links and community facilities, and unlock 160,000 homes in total.
 - **reconfirms £11.5bn investment through the Affordable Homes Programme (2021-26)** of which £7.5bn is over the SR21 period. 65% of the funding will be for homes outside London
 - an **additional £65m to improve the planning regime** through a new digital system
- **confirms over £5bn to remove unsafe cladding from the highest-risk buildings**, of which £3bn is over the SR21 period. This will be supported by revenues raised from the new Residential Property Developer Tax.
- SR21 provides **£639m resource funding by 2024-25 for rough sleeping**, brings total funding to £1.9bn resource and £109m capital.

Department of Health & Social Care (DHSC)

- The **DHSC settlement provides £43.9bn cash increase** in core resource spending over the Parliament to £177.4bn in 2024-25, which is equivalent to a real-terms growth rate of **4.1% on average** over the SR21 period
- **Capital spending** is set to increase by £4.2bn in cash terms over the Parliament to £11.2bn in 2024-25, which is a 3.8% real-terms growth rate over the SR21 period.

- The NHS England and Improvement budget will rise from £136.1bn in 2021-22 to £162.6bn in 2024-25, an average annual growth of 3.8% in real terms.
- Continued £100m investment per year to help people achieve and maintain a healthy weight.
- Investing in the Start for Life offer for families reaching an additional £66m in 2024-25, including breastfeeding advice and parent-infant mental health support.
- £5bn for health-related research and development which includes **£40m of new investment in social care research.**

Department for Education (DfE)

- The Department for Education Settlement provides an additional **£4.7bn cash increase in core resource funding by 2024-25.**
- **Provides £1.8bn specifically for education recovery**, including:
 - £1bn Recovery Premium for the next two academic years for primary and secondary
 - £324m in 2024-25 for additional learning hours for 16-19 year olds
- **£3.8bn by 2024-25 on skills**, which includes:
 - **£1.6bn by 2024-25 for 16-19 year olds' education**
 - **£2.7bn for apprenticeships** and further improvements for employers
 - **£208m by 2024-25 for early years education, childcare, and family services**

Department for Transport (DfT)

- **The Department for Transport's (DfT) settlement includes a £8.5bn cash increase** over the Parliament to £26.2bn in 2024-25 (1.9% real-terms growth rate per year on average over the SR21 period).
- Funding to boost connectivity across all parts of the country: including the Lower Thames Crossing scheme.
- **£2.7bn over the next 3 years for local roads maintenance** in places not receiving City Region Settlements.
- **£2bn of investment in cycling and walking over the Parliament, including £710m of new active travel funding.**
- **£620m of additional investment to support the transition to electric vehicles** (to be spent on public charge points in residential areas and targeted plug-in vehicle grants).

Department for the Environment, Food and Rural Affairs

- The department for Environment, Food and Rural Affairs (Defra) settlement provides a £4.3bn cash increase over the Parliament, to £7.0bn in 2024-25 (equivalent to a real-terms growth rate of 5.3% per year on average over the SR21 period).
- £625m of additional funding for the Nature for Climate Fund.
- Funding to implement free, separate food waste collections in every English local authority from 2025.

Home Office (HO)

- Additional **£540m by 2024-25 to complete recruitment of the final 8,000 officers**, contributing to the government's ongoing target of 20,000 additional police officers by 2023.
- £468m by 2024-25 to protect the vulnerable in the asylum system.
- Funding will be made available to resettle **20,000 refugees from Afghanistan** to the UK over the next five years under the Afghan citizens resettlement scheme. This will include **£20,520 per person for Local Authorities** who resettle Afghan families, with an additional £17m available for housing costs and an extra £20m pot of flexible funding.
- Day 1 access to benefits for those arriving to the UK from Afghanistan – The government has ensured that individuals coming to the UK from Afghanistan, including those under the Home Office resettlement schemes, are eligible for Child Benefit and DWP income-related benefits from their first day in the UK.
- £42m for new programmes that reduce crime and drugs misuse. This brings total investment to £150m a year to programmes that prevent crime, including continuing the Safer Streets Fund and the County Lines programme and Project ADDER.

Department for Work & Pensions (DWP)

- The Department for Work and Pensions (DWP) resource settlement provides a £1.2bn increase over the Parliament to £6.9bn in 2024-25. This is equivalent to a real-terms growth rate of 1.3% per year on average between 2019-20 and 2024-25. The department will receive £1.5bn in capital funding over the SR21 period. Total DEL rises to £7.2bn in 2024-25.
- **Building on the Plan for Jobs and £3.6bn of additional funding provided at SR20, the settlement provides more than £6bn over the SR21 period.** This includes:
 - Continuing the Restart scheme to provide up to 12 months of support to long-term unemployed people
 - Continuing to invest over £900m for each year of the SR on work coaches.
 - Funding approximately £10m a year in the Sector-Based Work Academy Programme
 - Funding to extend the Kickstart scheme to March 2022 investing over £60m over the next three years in the Youth Offer.
 - A further £90m to extend the Job Entry Targeted Support programme
 - £99m over the next three years to expand work coach support in UC to help people progress once in work
 - Over £20m over the next three years for a new, enhanced offer for claimants aged 50 and over
 - £339m per year for the continued funding of existing disability employment programmes such as the Access to Work scheme and the Work and Health programme
 - An additional £156m over the SR21 period to provide job finding support for disabled people, with a focus on additional work coaches.
- Additionally, the government is prioritising support for those coming off furlough and making a UC claim by providing immediate referral to the online Job Finding Support programme. The offer will run until the end of December 2021.
- SR21 supports the government's plan to complete the rollout of UC by March 2025. SR21 supports the transition of legacy claimants onto UC, providing:
 - £504m resource and £54m capital funding to complete its rollout over the next three years
 - £113m for the Future Support Offer, to support new claimants in making a claim for UC across the SR21 period.
 - £5.5bn across the SR21 period for the welfare system:
 - £2.6bn over the SR21 period for digital transformation including £310m new resource spending and £213m new capital investment.
 - £2.8bn over the SR21 period to maintain and upgrade DWP estates
 - £90m resource spending and £13m capital spending to continue to fund SB21 measures to tackle Fraud and Error in the benefits system over the SR21 period.
 - Further investment in the Reducing Parental Conflict programme to test what works in disadvantaged families.
- The government is providing funding to help those in financial difficulties through:
 - Additional funding over the SR21 period for the provision of debt advice and funding for Debt Relief Order (DRO) administration in England
 - Continuing the Household Support Fund.

Commentary

The Spending Review and Autumn Budget provided a welcome return to multi-year financial plans after two consecutive single year events and built on the March 2021 Budget which provided the framework for the negotiation of departmental settlements announced yesterday. In overall terms, it was a big event with substantial spending commitments accompanied by confirmation of a substantial increase in the overall tax burden. While London Councils has

welcomed the much-needed increase in funding announced by the Chancellor, early analysis of the available details suggests this will not be enough to establish an age of optimism in local government finance.

Our Spending Review submission, estimated that London boroughs require an between £1.5bn and £2bn of additional funding over the SR period to meet underlying demand, inflation, and the ongoing impact of covid-19 on lost income and additional spending. The announced funding increases are the largest in a decade, and while they broadly meet the underlying demand and inflation pressures (around £1.2bn), overall they fall short of what is required.

Despite the September's announcements on adult social care (ASC) reform, this remains an area of serious concern as the additional monies allocated to local authorities will be largely consumed by the associated policy commitments. Of the £5.4bn for ASC over the spending review period, the SR confirmed that £3.6bn will go directly to local authorities via the LG DEL. This will be used to implement the charging reforms and support local authorities to better sustain their local care market. However, there are concerns that this funding may not be enough to cover the costs of these reforms.

In addition, the wider impact of the NICS increase on local government supply chains, and of the national living wage increase, and rising inflation (expected to peak at 4.4% in the second quarter of 2022), will drive significant additional pressures on council budgets.

Arguably, of even greater concern are the legacy pressures caused by Covid-19. We estimate that London boroughs are facing over £400 million of pressures on budgets due to tax losses caused by Covid-19 in 2020-21 and 2021-22, which won't affect budgets until 2022-23. Unlike this year, no separate compensation has been identified for to cover the losses being felt in 2021-22, and which makes for a very difficult start to the SR21 period.

These big pressures – from adult care reform, the legacy of covid-19 and rising inflation – mean the Government's £1.5bn of additional funding per annum, and assumptions of 3% rises in council tax each year, are likely to be insufficient to meet the scale of the funding pressures facing London boroughs.

More broadly, while the indicative CSP figures and CT principles give some degree of welcome certainty over funding, the lack of clarity on the scope and timeline for implementing the planned reforms to local government finance (the Fair Funding Review and business rates baseline reset) was disappointing.

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Links:

[Autumn Budget and Spending Review 2021 documents](#)

This member briefing has been circulated to:

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