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Spending Round 2019/20

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FINANCE WITH VISION

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1. Introduction

- 1.1 The government previously stated its intention to hold a new Spending Review in 2019, covering the period 2020/21 to 2022/23. However, with the current political turbulence around Brexit, it was announced that a one-year Spending Round would be provided, covering the financial year 2020/21; and that this would be followed in 2020 by a full Spending Review, reviewing public spending as a whole and setting multi-year budgets.
- 1.2 This briefing note highlights the main issues contained within the Spending Round 2019 (SR19) announced by the Chancellor, Sajid Javid, today.
- 1.3 The SR19 documents can be accessed via the HM Treasury website [here](#).
- 1.4 This briefing note initially provides an overview of SR19 in section 2, and then goes on to consider specific announcements relevant to local government in section 3, with analysis from LG Futures shown in section 4. LG Futures will be providing subscribers with further briefings and information relating to funding assumptions, as further details are announced, in particular in any technical consultation on the Local Government Finance Settlement for 2020/21.
- 1.5 This note is structured as follows:
 - Section 2 – Spending Round 2019: an overview;
 - Section 3 – Spending Round 2019: local government;
 - Section 4 – LG Futures’ Analysis
 - Section 5 – Implementation and Next Steps.

2. Spending Round 2019 - Overview

Background

- 2.1. There have been three Spending Reviews since 2010, each of which has had an impact upon local government's strategic financing.
- SR10: published in October 2010, and established the initial path of reductions to local government grant funding and the introduction of Council Tax Freeze grant. At the same time as the SR10 took effect, New Homes Bonus was launched for the period of the SR.
 - SR13: published in June 2013, and continued with the reductions to local government grant funding; the rolling forward of the Council Tax Freeze grant; and the introduction of the Better Care Fund.
 - SR15: published in November 2015, and again continued with reductions to local government grant funding; introduced reforms to New Homes Bonus; ended Council Tax Freeze grant, set council tax referendum limits at 2% per annum or £5 for District Councils (whichever was higher); and introduced the Social Care Precept at 2% per annum.
- 2.2. Therefore, the publication of a Spending Round, which covers only one financial year, is a departure from the norm that has been established over the last decade. In essence, this is the result of political and financial uncertainty surrounding Brexit, which has meant the government has been unable to produce the Spending Review as originally planned. This is also a Spending Round where there are no recent or updated forecasts from the Office for Budget Responsibility, and therefore, spending commitments are based on fiscal forecasts produced back in March 2019.

Funding Levels

- 2.3. The SR has been delivered within the current fiscal rules, as set out in the Charter for Budget Responsibility. These are to keep the cyclically adjusted deficit below 2% of GDP by 2020/21 (the borrowing rule) and have debt falling as a proportion of GDP in 2020/21 (the debt rule).
- 2.4. The government highlights that the deficit was 1.1% in 2018/19, compared to nearly 10% of GDP in 2010 and they therefore believe that it is now possible to spend more on public services. In its March 2019 forecast, the OBR set out that the government had headroom against its borrowing rule in 2020/21.
- 2.5. The government has therefore announced an increase to current and capital spending by £13.4 billion in 2020/21, compared to the OBR's forecast at Spring Statement 2019.

- 2.6. With this in mind, the SR has set out that Resource Departmental Expenditure Limits (DEL) (excluding depreciation) across government departments will increase from £330.8bn to £352.3bn, representing growth of 4.1%.

The UK Economy and public finances

- 2.7. The SR has been delivered without an accompanying forecast from the Office for Budget Responsibility, which will next be provided at the time of Budget 2019, planned for later in 2019.
- 2.8. However, the government re-affirms that making sure the UK is prepared to leave the European Union on 31 October 2019 is its top priority. The government states that it will not be until this has been delivered that clearer and more meaningful forecasts for the economy and public finances can be made, to set against the spending plans for 2020/21.

The government's spending choices

- 2.9. The government announced their top priorities in the SR, to where much of the additional funding has been allocated, and these included:
- Health and social care – the government reaffirmed the existing five-year settlement for the NHS, with an additional £33.9bn more per year by 2023/24, compared to 2018/19 budgets, with a real terms 3.1% increase in Resources DEL in 2020/21. There will also be an additional £1bn for adult and children's social care and the government will be consulting on a 2% adult social care precept to enable councils to access a further £0.5bn.
 - Education and skills - the schools' budget will rise by £2.6bn in 2020/21, which will include per pupil funding of £3,750 at primary and £5,000 at secondary schools. The additional funding is inclusive of £700m more funding in 2020/21, to support children and young people with special educational needs. £400m of additional funding for Further Education has also been announced.
 - Tackling crime – an extra £750m for policing to pay towards the government's commitment to recruit an additional 20,000 officers by 2023, which forms part of a 6.3% real terms increase in Home Office funding;
 - Brexit - the Spending Round confirms £2bn of core funding provided to departments for Brexit in 2019/20 will be continued into 2020/21. This money will be used to help pay for the costs of establishing a new relationship with the EU.
 - No real terms decrease for any government department, and a real terms increase for most.

3. Spending Round 2019 - Local Government

3.1. This section sets out information with direct relevance to local government

Local Government Revenue Funding

3.2. The government has provided headline details of the Departmental totals for local government funding at pages 16-17 of their Spending Round document. This highlights funding changes as follows:

Local Government

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

3.3. The government has indicated that it projects that Core Spending Power (CSP) will increase by £2.9bn in 2020/21, a real terms increase of 4.3% (i.e. a cash increase of 6.3%). This compares to a cash increase in CSP of £1.7bn between 2015/16 to 2019/20.

3.4. Within this, the government has indicated that there will be £1bn for Social Care, which will be in addition to grants of £2.5bn already being paid, which might be taken to include the current Improved Better Care Fund (IBCF), Winter Pressures Grant and Social Care Support grant. In addition, the government will consult on a 2% Adult Social Care Precept for 2020/21.

3.5. Within the increase to Core Spending Power, the government has also indicated that business rates baseline funding will increase in line with inflation.

Social Care

3.6. As stated above, the government has indicated that there will be additional Social Care funding of up to £1.5bn in total, partly delivered through grant (over and above funding currently received in 2019/20) and through an additional year of Adult Social Care Precept.

3.7. In addition, the Better Care Fund will increase by 3.4% in real terms, as part of the increase to NHS funding.

Public Health Grant

3.8. The SR has indicated that there will be a real terms increase in Public Health Grant, although the level of this increase is not stipulated, but may well be in line with the increase in the Better Care Fund.

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Education – High Needs Funding and Further Education

- 3.9. The SR has indicated that there will be an extra £700m in 2020/21 for high-needs funding, an increase of 11% on 2019-20.
- 3.10. £400m of additional funding for Further Education has also been announced.

Council tax

- 3.11. There has not been any announcement of the potential referendum limit for 2020-21. However, it is likely that, implicit within the increase in Core Spending Power, is an assumption for council tax increases (and council taxbase increases). It might therefore reasonably be assumed that the referendum limit that would be consulted upon will be between 2.5% and 3.0%, with possibly the flexibilities for District Councils made available during SR15 (see section 4 below).

Other funding

- 3.12. An additional £54m in 2020/21 to help reduce homelessness and rough sleeping to add to the funding already provided in 2019/20.
- 3.13. £24m of additional funding for the Building Safety Programme.
- 3.14. Confirmation that a total of £241m will be made available through the Towns Fund in 2020/21 to support the regeneration of high streets and town centres.

4. LG Futures' Analysis

4.1. As identified in 3.2 above, the figures provided for local government in the SR19 documents are as follows:

	£ 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.

4.2. In examining these figures, it is important to note that:

- The funding lines are not mutually exclusive; for example, New Homes Bonus is included in the Resources DEL figures and also the Core Spending Power amounts.
- Core Spending Power figures do not include other specific grants, such as Public Health Grant, but do include Council Tax income (and therefore assumptions on tax rate and base increases).
- The 2019/20 Resource DEL adjusted base figure is £7.5bn (as per the notes provided in the documents), reflecting pilot funding being included.

4.3. In examining the amounts for 2020/21, as per the SR19 papers, there is a £1.1bn increase in the Resource DEL (assumed to include the £1.0bn increase in social care funding) i.e. £8.6bn less the adjusted base of £7.5bn. The figures also suggest that the £1.4bn in pilot funding has remained with MHCLG. This could mean that pilots are set to continue for an additional year or the funding is to be used elsewhere. However, given both the £1.4bn and the £1.0bn additional social care funding are both included in the £8.6bn figure, it suggests that the pilot funding is not being simply transferred to fund the additional social care funding.

4.4. The Core Spending Power figures also allow some level of analysis (although this should be treated with caution, due to the number of assumptions needed). If it is assumed that the additional £1.1bn of DEL funding has been included and there is £0.5bn of additional social care precept, this would leave an increase of £1.3bn to be accounted for via council taxbase/tax rate increase, as per the table below.

		£bn
	2020/21 Core Spending Power	49.1
Less	2019/20 Core Spending Power	(46.2)
Less	Additional Funding	(1.1)
Less	Soc Care Precept	(0.5)
Equals	Council Tax increases (exc. soc care precept)	1.3

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- 4.5. Based on previous years' Core Spending Power assumptions, it would appear likely that government would forecast a national taxbase increase of between 1.6% and 1.8% for 2020/21, therefore meaning a tax rate increase of between 2.5% and 3.0% would be needed to arrive at an increase in overall council tax revenues of £1.8bn (including the additional £0.5bn social care precept).
- 4.6. We have attempted to derive a Core Spending Power table, based on the above analysis for 2020/21. In doing so, a key decision to be made is whether or not there would be a full reset. Due to the binary yes or no nature of this assumption, both options are considered, as there are significant funding implication differences between the two options.
- 4.7. If the reset was to go ahead, there would be additional funding between £1.0bn and £1.4bn going into Baseline Need (i.e. growth rolled in from local government). This could mean that the additional £1bn in social care funding could theoretically be funded from the reset. However, this would be very difficult to achieve in terms of allocating the funding i.e. the reset should increase baseline need by the growth and it would be difficult to claim that this was then social care funding.
- 4.8. The second option, which would appear more likely, is that, either the reset is not going to go ahead, or it is yet to be factored into the Core Spending Power figures (a distinct possibility, given the SR19 document flags them up as estimates only). The table below is based on the reset being delayed and shows a 6.3% increase in 2020/21.

	2019-20	2020-21
	£ millions	£ millions
Settlement Funding Assessment	14,560	14,851
Compensation for under-indexing the business rates multiplier	400	408
Council Tax of which;	27,755	29,374
<i>Council Tax Requirement excluding parish precepts (including base and levels growth)</i>	25,853	26,954
<i>additional revenue from referendum principle for social care</i>	1,810	2,310
<i>Potential additional Council Tax from £5 referendum principle for all Districts</i>	92	110
Improved Better Care Fund	1,837	1,936
New Homes Bonus	918	800
Rural Services Delivery Grant	81	81
Winter pressures Grant	240	240
Social Care Support Grant	410	410
New Social Care Funding		1,000
Core Spending Power	46,200	49,100
Change (% change)		6.3%

Spending Round 2019

- 4.9. If the Core Spending Power was to resemble something broadly similar to the above, the SR19 allocations would appear to be targeted only towards Social Care authorities (i.e. £1bn in additional funding plus £0.5bn social care precept, plus additional Public Health Grant Funding). However, by not having a reset or changing the approach to New Homes Bonus, this would benefit district councils.
- 4.10. Even if the above is broadly correct, issues that would still need to be addressed by MHCLG (within the provisional settlement technical paper), would be:
- How will changes to SFA be distributed? i.e. if Baseline Need is increased by CPI, does RSG still go down by an equal and opposite amount? (this would mean those authorities would not receive the same funding increases as those with negative RSG); and is negative RSG still not to be paid back (no other solution seems probable given past years);
 - What will the pilot funding (up to £1.4bn) that is still in MHCLG's resource DEL for 20/21 be used for?; and
 - Could there still be a reset, with some of the gains being used to fund the increase in Core Spending Power? (i.e. core Spending Power increases by 6.3%, but with local government not seeing all of the gains, as the business rates growth outside of the Core Spending Power of £1bn to £1.4bn is lost).

5. Implementation and Next Steps

- 5.1. In the last few years, MHCLG has issued a technical consultation in advance of the publication of the Provisional Settlement. Given the potentially positive news within the Spending Round, but due to the many questions that still remain (e.g. what the likely referendum limit will be in 2020/21, has a Reset definitely been ruled out), it would clearly be welcomed if there was a technical paper issued by MHCLG in advance of the Provisional Settlement for 2020/21.
- 5.2. We will provide a briefing on such a consultation paper if and when it is published.
- 5.3. If you have any queries regarding the contents of this briefing note, please contact Lee Geraghty at lee.geraghty@lgfutures.co.uk or by calling 07738 000 368.