

From: Peter Oakford, Deputy Leader and Cabinet Member for Finance, Corporate & Traded Services

Zena Cooke, Corporate Director - Finance

To: Cabinet 30<sup>th</sup> September 2021

Subject: **Spending Review 2021**

Key decision: No

Classification: Unrestricted

Past Pathway of Paper: N/A

Future Pathway of Paper: N/A

**Summary:**

The Chancellor of The Exchequer announced the timetable for the Spending Review (SR2021) on 7<sup>th</sup> September 2021. SR2021 will set out public expenditure plans for the next 3 financial years 2022-23 to 2024-25. The outcome will be announced on 27<sup>th</sup> October 2021 alongside the Autumn Budget. The deadline for submissions to the review by external stakeholders is 30<sup>th</sup> September. KCC will be making a submission which will be available for Cabinet members to review at the meeting prior to submission.

**Recommendations**

Cabinet is asked to note the timetable for SR2021 and endorse the Spending Review submission.

**1. Introduction**

- 1.1 The Spending Review is a key component of the Council's financial planning as it sets out the government's plan for public spending over the forthcoming years to deliver its priorities. Each of the last two years (2020-21 and 2021-22) have been based on one-year spending plans. This coupled with the last year of the previous multi-year spending review (2016-17 to 2019-20) means effectively we have been working within a short one-year financial planning horizon for the last 3 years.
- 1.2 The Spending Review will set out government departmental revenue and capital resources for the next 3 years. The announcement included the overall planned spending totals as set out in the March 2021 budget and the revised spending to take account of the additional spending on health and social care following the proposed increases in National Insurance Contributions also announced on 7<sup>th</sup> September. The revised spending total will see government departmental revenue spending increase by £97.5bn between 2019-20 and 2024-25 (5% average increase per year in cash terms, 3.1% average annual growth in real terms). Increase in capital spending remains unchanged from March 2021 increasing by £42.5bn between 2019-20 and 2024-25 (9.3% average annual increase in

cash terms, 7.3% in real terms). The overall annual spending is summarised in table 1 below.

Table 1 – Annual Spending Totals

	2019-20 £bn	2020-21 £bn	2021-22 £bn	2022-23 £bn	2023-24 £bn	2024-25 £bn
March 21 Revenue	343.0	362.7	385.0	393.4	409.6	426.7
Sept 21 Revenue	343.0	362.7	385.0	408.4	422.0	440.5
March 21 Capital	70.4	91.6	99.8	107.3	109.1	112.8
Total SR2021	413.4	454.3	484.8	515.6	531.2	553.3

- 1.3 The spending totals exclude any additional spending associated with the Covid-19 pandemic. Although there are increases in spending set out for future years the commitments with regard to health, social care reforms and schools could leave very little extra spending for other departments including local government. The outcome of SR2021 is planned to be announced on 27<sup>th</sup> October alongside the Autumn Budget. The deadline for submissions by external stakeholders is 30<sup>th</sup> September. In light of this tight timescale the final KCC submission will be published before the Cabinet meeting but after the standard agenda publication date.
- 1.4 The funding for local government is complex. Capital expenditure is supported by a mixture of government departmental capital grants e.g. basic need for school places, highways asset management, etc.; other external sources e.g. lottery funds, developer contributions; and locally financed e.g. borrowing, capital receipts. Similarly, revenue spending is financed by a combination of government departmental grants (including un-ringfenced grants which the council can use according to local priorities and ring-fenced specific grants which have conditions attached to spending); income generation (including sales, fees and charges, and contributions from other bodies e.g. health); and local taxation (council tax and retained business rates).

## 2. Local Government Spending

- 2.1 Local government receives funding from a separate departmental total for the Ministry of Housing, Communities and Local Government through Revenue Support Grant (RSG), Improved Better Care Fund (iBCF), Social Care Support grant, New Homes Bonus (NHB) and other grants. In total these MHCLG grants account for 13.5% of the overall core spending power for all local authorities. The departmental spending total will enable us to forecast the likely amounts the County Council will receive in the local government finance settlement which will follow some time after the SR2021 announcement. However, it should be noted that this represents a relatively small share of the council's overall resources.
- 2.2 The funding from council tax and retained business rates (including redistribution through tariffs and top-ups) is not included in departmental spending as this is included as "locally financed spending" in the Annually Managed Expenditure (AME) element of public spending. Planned AME spending is normally identified in the Autumn Budget and should provide us with a good indication of the government's plans for council tax referendum limits. The actual referendum limits themselves could be

included as part of SR2021/Autumn Budget announcements but could also not be announced until the local government finance settlement.

- 2.3 Local government also receives grant funding from other departmental budgets including Dedicated Schools Grant from Department for Education, Public Health and Social Care grants from Department for Health and Social Care, Unaccompanied Asylum Seeking Children grant from Home Office, etc. The Spending Review usually only sets the overall departmental totals with details of grants emerging at a later date. It is more difficult to forecast grant allocations solely from the departmental totals.
- 2.4 Following the Government's recent announcement earlier this month, a total £36bn of the additional receipts from the increase in National Insurance Contributions is planned to be available for the Department of Health and Social Care between 2022-23 to 2024-25. The government's publication "Build Back Better Our plan for health and social care" identified that £30.6bn is to be invested in healthcare services and £5.4bn for social care over the next 3 years. The publication identified that the additional social care spending is to support the cap on personal care costs, provide financial assistance to those without substantial assets, deliver wider support for the social care system, and to improve the integration of health and social care systems. The publication states that demographic and unit cost pressures will need to be met from council tax (including social care precept) and long-term efficiencies within core spending identified in the Spending Review. A separate paper on the announcements on health and social care is included elsewhere on the Cabinet agenda

### **3. Spending Review Submission**

- 3.1 The Council's submission will include some background context about population changes (and the extent to which these have been recognised in previous spending reviews and settlements), the unique geographical challenges in Kent, and the Kent economy. The submission will identify the challenges for the capital programme and in particular the adequacy of central government funding for essential infrastructure and the impact of legacy and future borrowing on the Council's financial resilience.
- 3.2 The submission will identify the challenges on the revenue budget and in particular the challenge of rising demands and costs for key council services and the need for these to be adequately recognised in spending plans (or at least to acknowledge the impact on the council's ability to sustain services). The submission will identify the challenge from high proportion of spending that is supported by local taxation and the case for reform of local taxation. The submission will continue to identify the need for fundamental reforms to local government funding through Fair Funding and reform to business rate retention.

### **4. Conclusion**

- 4.1 The Spending Review is a key component of the Council's financial planning, but is unlikely to address all the uncertainties reported to Cabinet

in the medium term financial outlook in June. KCC will be making a submission to respond to the Spending Review to ensure that the key financial issues facing the Council are taken into account.

## **5. Recommendations**

- 5.1 Cabinet is asked to note the timetable for SR2021 and endorse the Spending Review submission.

### **Contact details**

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