

Local Government Finance update: Spending Review 2021

Purpose of report

For information.

Summary

This report provides a summary of the key local government finance announcements in the 2021 Autumn Budget and Spending Review.

Recommendations

The Executive Advisory Board is asked to note the update.

Action

Officers will proceed with the delivery of the LGA's work on local government finance, including the Spending Review and the 2022/23 Local government Finance Settlement.

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Local Government Finance update: Spending Review

Introduction

1. This report provides a summary of the key local government finance announcements in the 2021 Autumn Budget and Spending Review which was [delivered](#) by the Chancellor on 27 October. The LGA published an [on-the-day briefing](#) which covers all the announcements relevant to local government.
2. This was supported by a sustained campaign including press releases and social media activity in the run up to the announcement (all campaign work can be found on the LGA [Spending Review hub](#)). Key features of this campaign include highlighting issues around [council tax](#) and ongoing [cost pressures](#), as well as service specific outputs on [adult social care](#), [children's social care](#), [retrofitting](#), [social housing](#), and [public health](#).
3. On the day of the Budget and Spending Review, the LGA issued press releases reacting to a number of announcements in addition to the [general response](#). As well as responses to several specific announcements, on a service level these included:
 - 3.1. A [response](#) to the adult social care funding announcement
 - 3.2. A [response](#) to the public health funding announcement
 - 3.3. A [response](#) to funding for the UK's culture, tourism and sport sectors
 - 3.4. A [response](#) to the measures to reduce and prevent crime
 - 3.5. A [response](#) to funding for children with SEND
 - 3.6. A [response](#) to funding for supporting families

Core funding

4. Local government core spending power¹ is projected by the Government to rise by 3% per annum in real terms by 2024/25, or £8.5bn. This includes funding for adult social care reform funded by the Health and Social Care Levy as announced on 7 September which amounts to £5.4 billion over the SR period. It also includes £1.6bn per annum of

¹ The definition of Core Spending Power can change from year to year and will be defined for 2022/23 in the Local Government Finance Settlement due to be published later this year but in 2021/22 it included council tax, the business rates baseline, the Improved Better Care Fund, the Social Care Grant, the New Homes Bonus, the Rural Services Delivery Grant, and the Lower Tier Services Grant.

new funding via grants, the exact details of which will be outlined in the local government finance settlement, expected in mid-December.

5. The remaining £4.9 billion growth in core spending power assumes that councils use the entire flexibility provided around council tax and that the council tax base grows in line with recent trends. The Government expects the general referendum limit to be 2% with an additional 1% Adult Social Care Precept for relevant authorities.
6. Taken together, initial LGA analysis suggests that the increases to core spending power projected by the Government, including all councils increasing council tax to the maximum, will meet estimated forward pressures in 2022/23 to keep services at the at their 2019/20 level of quality and access, but will fall short by more than £1 billion in the last year of the Spending Review period. No funding was provided to meet the existing funding pressures faced by councils.

Business Rates

7. In the Spending Review and Autumn Budget, the Chancellor published the final report of the [Business Rates Review](#). The Government announced that it wants to preserve what it sees as the benefits of business rates but make their operation fairer and more effective. The Government is not proposing to change the nature of the tax or the basis of valuation, thus ruling out, for example, capital value or land value taxation.
8. New business rates reliefs were announced, including a new temporary business rates relief for eligible retail, hospitality and leisure properties for 2022/23, and relief from higher bills resulting from improvements made to businesses. English local authorities will be fully compensated for loss of income as a result of the new business rates reliefs.
9. The Chancellor also announced a freeze to the business rates multiplier for a second year, from 1 April 2022 until 31 March 2023, and an increase in the frequency of business rates revaluations so that they take place every 3 years instead of every 5 years, starting in 2023. The Government also announced that it will introduce a package of measures aimed at ensuring ratepayer compliance and promised to consider further an online sales tax, a further consultation is expected shortly.
10. There will be a technical consultation on new improvement reliefs and other matters before the 2023 revaluation; this is expected before the end of 2021. In addition, a further consultation on digitalising business rates (DBR), evasion and avoidance and transitional relief is expected during the course of 2022/23. The LGA has consistently called on the Government to take action on business rates avoidance.

Audit

11. In the Spending Review and Autumn Budget, the Chancellor announced £34.5 million of additional funding over the SR21 period to further strengthen local delivery of audit and transparency. This funding will help strengthen the sector's procurement and commercial

capacity, establish the Audit Reporting and Governance Authority as the new local audit systems leader, and help local councils meet new transparency requirements. We are seeking clarity over what this additional funding is expected to cover.

Future finance reform

12. The Chancellor did not make any announcements about the future of the fair funding review (also known as the Review of Relative Needs and Resources), the move to further business rates retention, the business rates reset, or new homes bonus reform. There was no comment on whether local government can expect a three-year local government finance settlement.
13. Giving evidence to the Housing, Communities and Local Government Select Committee on 8 November Michael Gove suggested that the future of the local government finance reforms would become clearer at the Local Government Finance Settlement in December. He also said that “It goes against the broader principle of levelling up to move precipitately to a system whereby 75% of business rates is retained, because that works against the process of redistributing money to those who need it most, particularly in the wake of covid, which has reinforced some inequalities” and that the Government is looking to see “what headroom we have for a redistribution of funding to better reflect the additional needs and responsibilities that local government has in those areas where it does not, for whatever reason, have the same resilient council tax base or the same level of business rates on which to draw.”

Next steps

14. Members are asked to note this update.
15. Officers will proceed with the delivery of the LGA’s work following the 2021 Spending Review including preparing for the 2022/23 provisional local government finance settlement expected in December.

Implications for Wales

16. The Spending Review has an impact on Welsh councils through Government announcements, and through the Barnett consequential system and subsequent decisions by the Welsh government. The Welsh LGA is leading on work related to this although we are engaging regularly with the Welsh LGA and the other local government bodies in the devolved nations to exchange intelligence, ideas and consider joint work.

Financial Implications

17. The work covered in this paper is included in the LGA’s core budget.