



SPENDING REVIEW 2021 - A FINANCIAL PLATFORM FOR DELIVERY

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Representations in advance of Autumn 2021 Spending Review (scheduled for 27 October 2021) submitted on 30 September 2021 by ICAEW Public Sector team in response to **HM Treasury's invitation** dated 7 September 2021. It was also included in a letter dated 30 September 2021 to the Chief Secretary to the Treasury, the Right Honourable Simon Clarke MP, from Alison Ring, Director, Public Sector, ICAEW.

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RESPONSE

1. ICAEW believes that it is vital that the Spending Review establishes a firm financial platform that enables departments and local government to deliver on the Government's plans to rebuild the economy following the pandemic, level up opportunity across the country, fix the social care crisis and achieve net zero carbon emissions by 2050.
2. As you know, ICAEW supports over 180,000 chartered accountants and students worldwide. Our members – those in business (working in internal finance and management teams), those in practice (acting as external professional advisors) and those in the public sector (in audit and financial management) – guide more than three million companies and organisations across every sector and region as they seek to start up, scale up, and succeed.
3. As the Government seeks to build on the economic recovery and level up our regions, chartered accountants will again be at the heart of this process, whether they are running businesses or acting as a catalyst for local economic growth through their advice and support, both commercially and in the public sector.
4. Our closeness to this breadth of economic activity has informed the three principles we believe that the Government should approach the Spending Review with: Stable Funding, Fiscal Resilience, and Financial Capability.

Stable Funding

5. The purpose of the Spending Review is to provide funding certainty for public bodies across the public sector over the next three financial years, enabling them to plan the delivery of public services with more confidence, implement improvement programmes, and invest in essential economic, social and green infrastructure. There is a case for extending capital budgets beyond the end of the Spending Review period to provide public bodies with the confidence they need to plan ahead, particularly on infrastructure.
6. The Spending Review also provides an opportunity to rationalise the hundreds of different local government funding streams and grant awards (448 between 2015/16 and 2017/18 according to the LGA), so reducing wasted time, effort and costs incurred preparing bids as opposed to delivering improvements in public services.

Fiscal resilience

7. Balance sheets across the public sector have been severely weakened by the pandemic, hampering the ability to improve public services and invest for the future. Higher debt and other liabilities have increased the vulnerability of the public finances to increases in interest rates and inflation.
8. There needs to be a clear strategy for strengthening the overall public balance sheet and building a more resilient government machine that has the capacity to respond to potential future fiscal emergencies. This issue is particularly acute in local government where many local authorities, faced with reduced spending power and growing social care costs, have turned to commercial investments in an attempt to generate income to fund essential services, increasing their level of financial risk significantly.
9. Other local authority finance officers could be forced to follow the example of Slough Council and issue section 114 'bankruptcy' notices unless the low level of reserves in many local authorities is addressed, potentially by recapitalising local government balance sheets. The potential costs of inaction could be even higher, as well as jeopardising the Government's ambitions to improve public services and deliver the investment needed to achieve policy objectives.

Financial capability

10. Recent NAO reports on central government capabilities and high-profile failures in local government have highlighted the importance of strengthening financial management,

governance, and accountability across the public sector. Maximising the value delivered while keeping costs under control requires greater investment in financial and risk management skills both within finance teams and amongst decision-makers, in improving financial systems and processes, in the quality of financial information and reports used in decision-making and holding public bodies accountable, and in high-quality internal and external audit.

11. We would welcome an opportunity to discuss these points further and how high-quality financial information and financial management can help improve decision-making, as well as how ICAEW and our members across the UK might be able to support you in dealing with these challenges.