

# Budget 2015

## London Councils: On The Day Briefing

London Councils represents London's 32 borough councils and the City of London. It is a cross party organisation that works on behalf of all its member authorities regardless of political persuasion.

### Overview

On 18 March 2015, Chancellor George Osborne delivered the last Budget of this Parliament. It built on the previous announcements made in the Autumn Statement 2014 and provided an update on the public finances, including the overall economic outlook and future plans for both public spending and taxation up to 2019-20.

Further information on the Budget can be found on the Treasury's website<sup>1</sup>.

The Budget contained a number of policies, which are likely to impact on local government. At this stage, it is too early to confirm what the exact impact on local government will be and more detail is likely to emerge over time.

### Key Headlines

- Budget 2015 confirmed that overall public spending – known as Total Managed Expenditure (TME) – will fall in real terms in 2016-17 and 2017-18 at the same rate as over the period 2010-11 to 2014-15.
- In 2018-19, TME will be held flat in real terms. In 2019-20, TME will increase in line with nominal GDP – previously, TME had been expected to be held flat in real terms.
- The Government has launched its long term review of business rates and is seeking views on a range of issues that reflect the use of business rates as both a form of business taxation and a form of funding local public services.
- Pilot schemes will be undertaken to allow some local areas (Greater Manchester, Cambridgeshire, Peterborough and East Cheshire) to retain 100% of business rates growth.
- There are a range of initiatives focused on the use of public sector land and assets, specifically:
  - The introduction of public sector land housing targets, and
  - The creation of the London Land Commission (LLC),

<sup>1</sup> <https://www.gov.uk/government/publications/budget-2015-documents>

## Economic Outlook

Alongside the Budget, the independent Office for Budget Responsibility (OBR) published new forecasts for the economy and the public finances, taking into account Budget policy measures. It has assessed whether the Government is on course to meet its medium-term fiscal objectives:

- the new “fiscal mandate”: to balance the cyclically-adjusted current budget (CACB) by the third year of a rolling, five-year period.
- the new “supplementary target”: to see public sector net debt (PSND) falling as a share of GDP in 2016-17; and
- the “welfare cap” - the new limit on total welfare spending, set at Budget 2014, applying to all welfare spending in AME.

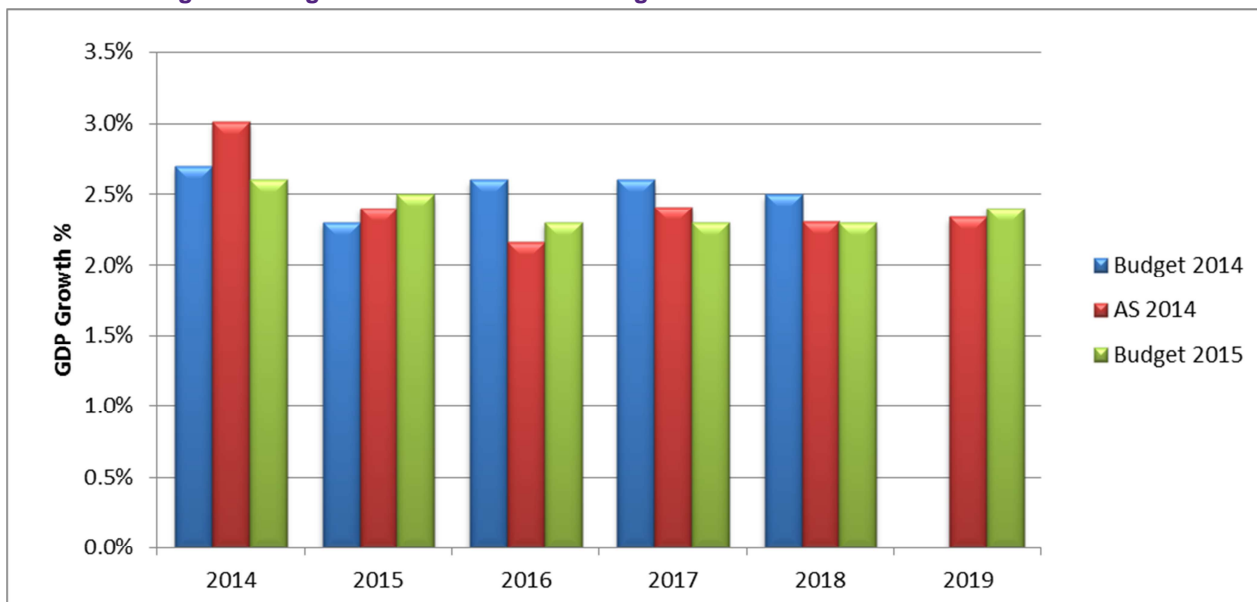
The OBR has concluded that the Government is on track to meet its new fiscal mandate with £16.8 billion to spare. It believes that achieving the mandate with this margin depends heavily on cuts in public spending – particularly on public services and administration – implied by the first two years of the Government’s medium-term spending policy assumption. The OBR has also confirmed that the Government is on target to meet the new supplementary target. This is the first time since Budget 2012 that it has been forecast that this target will be met.

The OBR’s assessment at Autumn Statement 2014 was that the welfare cap was met. Performance against the cap will next be assessed in autumn 2015. At Budget 2015, the OBR’s forecast for spending within scope of the cap is on average £2 billion per year lower than at Autumn Statement 2014.

## Growth

GDP growth figures for 2014 have been revised downwards since Autumn Statement 2014 from 3.0% to 2.6%. Figures have been revised up slightly for 2015 and 2016 with forecasts for 2017, 2018 and 2019 showing small movements since December (see Chart 1 below).

**Chart 1 - Change in GDP growth forecasts since Budget 2014**



Source: Office for Budget Responsibility; Economic and Fiscal Outlooks

## Key Economic & Fiscal Indicators

Table 1 below outlines the key economic and fiscal indicators underpinning the Budget.

The budget deficit is expected to fall by £7.3 billion this year to £90.2 billion. This is an improvement of £1.1 billion compared to the OBR estimate in December 2014. Public sector net borrowing will decrease each year until 2018-19, when there will be a small surplus of £5.2 billion, increasing to £7.0 billion in 2019-20. The surplus in 2019-20 is £16.1 billion smaller than the OBR expected in December (£23.1 billion).

The OBR expects CPI inflation to be below target at 1.5% in 2014 reducing to 0.2% in 2015, and gradually reaching the 2.0% target in 2019. This is a significant downwards revision relative to the December forecasts, when CPI was expected at 1.2% in 2015, and to stabilise at the 2% target from 2017 onwards.

Unemployment will continue to fall, reducing from 7.6% in 2013-14 to 5.3% by 2019-20, and employment will increase to 31.9 million by the end of the period.

**Table 1 – Key Economic & Fiscal Indicators**

	2013	2014	2015	2016	2017	2018	2019
Growth (GDP % on prior year)	1.7%	2.6%	2.5%	2.3%	2.3%	2.3%	2.4%
Public sector net borrowing (£bn)	97.5	90.2	75.3	39.4	12.8	-5.2	-7.0
Public sector net borrowing (deficit % of GDP)	5.6%	5.0%	4.0%	2.0%	0.6%	-0.2%	-0.3%
Public sector net debt (%)	79.1%	80.4%	80.2%	79.8%	77.8%	74.8%	71.6%
Unemployment rate (%)	7.6%	6.2%	5.3%	5.2%	5.3%	5.3%	5.3%
Employment (millions)	30.0	30.7	31.1	31.4	31.5	31.7	31.9
CPI inflation	2.6%	1.5%	0.2%	1.2%	1.7%	1.9%	2.0%

Source: HMT – Budget 2015; OBR - Economic & Fiscal Outlook, March 2015

## Key Announcements

### Public Spending

- Overall public spending – known as Total Managed Expenditure (TME) – will fall in real terms in 2016-17 and 2017-18 at the same rate as over the period 2010-11 to 2014-15.
- The government estimated that a further £30 billion of savings are likely to be required. This is likely to be funded by £13 billion from government departments, £12 billion from welfare savings and £5 billion from tax avoidance and evasion.
- In 2018-19, TME will be held flat in real terms and in 2019-20, it will increase in line with nominal GDP.

### Public sector reform and efficiency

- **Progression pay:** The government has agreed proposals with all departments to remove any remaining entitlement to contractual progression pay in the civil service workforce.
- **Survivors' pensions:** On 1 April 2015, the government will be introducing new and reformed public service pension schemes. All these new schemes will allow widows, widowers and civil partners across the public sector workforces to retain survivor benefits if they remarry, cohabit or form a civil partnership.

- **Land and property reform:** The government will implement a new commercially-driven model of land and property asset management across the central government estate, based on departments paying market-level rents for the freehold assets they own. The government will create a new central body or bodies to own and manage relevant property and land assets. Subject to legislation, the model will be operational by March 2017.
- **Integrating services for people with multiple-needs:** The Budget announces that the government is exploring options to integrate spending around vulnerable groups of people in order to improve cost effectiveness, including:
  - continuing to join-up services for people with health and social care needs;
  - improving the links between health and employment support for people who are unable to work because of a health condition;
  - improving housing so that people with care needs can stay in their homes longer;
  - supporting individuals struggling with homelessness, addiction and mental health problems ; and
  - designing a more integrated, multi-agency approach to divert female offenders convicted of petty, non-violent offences from custody where appropriate.

#### Health

- **Defibrillators:** The government will provide £1 million in 2015-16 to the Department of Health to incentivise the purchase of defibrillators for use in public places, and provide training on how to use the equipment.
- **Perinatal mental health:** The government will provide an additional £75 million over the next 5 years for services to support women with mental ill health in the perinatal or antenatal period.
- **Co-locating Improving Access to Psychological Therapies (IAPT) in Jobcentres:** The government will begin to co-locate IAPT therapists in over 350 Jobcentres from summer 2015, to provide integrated employment and mental health support to claimants with common mental health conditions.
- **Children's and young people's talking therapies:** The government will provide £118 million over the next 4 years to support children's mental health services in England.
- **Better access to children's mental health services:** The government will provide over £1 billion over the next 5 years to ensure that by the end of the next Parliament, an additional 110,000 children and young people receive support.
- **Veteran's community mental health services:** The government will provide £8.4 million over the next 5 years to expand mental health services for Armed Forces veterans.

#### Devolution and local growth

- **Additional Business Rate retention pilots:** From April 2015, the government will pilot schemes in Cambridgeshire and Peterborough, Greater Manchester and East Cheshire to allow the retention of 100% of any additional growth in business rates above expected forecasts.
- **Croydon Growth Zone:** The government commits, subject to a business case, to provide £7 million revenue funding from 2015-16 to 2019-20 to the Greater London Authority to enable them to support the delivery of the Croydon Growth Zone. This will support the delivery of over 4,000 homes and 10,000 jobs.
- **Brent Cross regeneration scheme:** The government will provide £97 million funding and ring fence the local 50% share of business rate growth to support the London Borough of Barnet and the Greater London Authority plans for the regeneration of Brent Cross, unlocking 7,500 new homes.

#### London: Other

- **London Land Commission:** The London Long Term Economic Plan (LTEP) announced the launch of a London Land Commission (LLC) tasked with producing a database of public sector land and mapping brownfield land in London. This will be funded by £1 million RDEL funding. The terms of reference are currently being agreed between the Greater London Authority and the government.
- **Devolution of planning powers:** The government will consult on devolving planning powers over sightlines and wharves to the Mayor of London with a view to accelerating the provision of new homes and reducing planning delays.
- **Skills devolution to London:** The government is giving to the Mayor of London and the Greater London Authority power over the Apprenticeship Grant for Employers budget and a role in the re-commissioning of Further Education skills provision in the capital.

- **Croxley rail link:** The government will provide a further £34 million to support the delivery of the Croxley rail link project, subject to a £16 million contribution from Transport for London and final approval of the scheme.

### Housing

- **Barking Riverside:** The government continues to work with the Greater London Authority, London Borough of Barking and Dagenham and developers to unlock Barking Riverside, to support the construction of up to 11,000 homes. Transport for London will shortly launch the next public consultation on the proposed route of the railway extension.
- **Public sector land housing target:** The government is committed to releasing land with capacity for up to 150,000 homes between 2015 and 2020. The government will look to set departmental contributions by the Spending Round.
- **Housing Finance Institute:** The government will work with Keith House and Natalie Elphicke to implement a Housing Finance Institute, as recommended by their review, of the role of local authorities in housing supply.
- **Shared ownership:** Following an earlier consultation, the Homes and Communities Agency will amend guidance and model leases to help streamline the sales process for shared ownership properties in outright ownership. The government will also launch a wider review into shared ownership.
- **Homeless families:** The government will consider options to support long-term investment in private rented accommodation for homeless families.

### Welfare

- **DWP fraud and error: use of Real Time Information:** The government will invest £15 million from 2015-16 to 2017-18 in the greater use of Real Time Information to reduce fraud and error in Pension Credit and Housing Benefit.
- **EEA nationals' access to Universal Credit:** From 2015, the government will restrict access to Universal Credit for EEA migrants who are out of work.
- **Universal Credit waiting days updated delivery schedule:** The government plans to implement 7 waiting days for Universal Credit in July 2015.

### Business Rates

- **Business Rates: long term review:** As announced at Autumn Statement 2014, the government will conduct a review of Business Rates to report by Budget 2016. The terms of reference for this review have now been published.<sup>2</sup>
- **Business Rates: local newspapers:** The government will consult on whether to introduce a Business Rates relief for local newspapers in England.
- **Business Rates: Sharing Economy:** The government will encourage local authorities to use their Business Rates discretionary relief powers to support the sharing economy including shared workspaces.

### Sharing economy

- **Responsibilities of landlords in dealing with requests to sub-let and share space:** The government will look to clarify and strengthen private residential landlords' legal responsibilities when considering requests from tenants to sub-let.
- **Digitalising criminal record checks:** The government will further improve and speed-up the process of applying for criminal record checks by ensuring that the application process is digital by default and can be conducted online.
- **National platform for sharing central and local government space:** The government will build on the Space for Growth programme by exploring with the Local Government Association and others, the extension of a national platform to advertise spare central and local government space to businesses, individuals and community groups where appropriate.
- **Updating government procurement frameworks to include sharing economy platforms:** The government will lead by example by enabling government employees to use sharing economy solutions to

<sup>2</sup> <https://www.gov.uk/government/consultations/business-rates-review-terms-of-reference-and-discussion-paper>

book accommodation and transport when travelling on official business where this represents value for money. This will be effective by autumn 2015.

- **Renting out parking spaces:** The government will update its planning guidance to Local Authorities in March 2015 to clarify that it should be possible for non-residential properties to rent out their existing parking spaces without requiring planning permission, provided there are no substantive planning concerns.

#### Transport and infrastructure

- **Compulsory purchase consultation:** The government has launched a consultation into the compulsory purchase regime to make it clearer, faster and fairer to support brownfield development.

#### Education and skills

- **Universal infant free school meals:** The government will provide £10 million to support the provision of universal infant free school meals in small schools and a further £10 million capital funding to help schools improve kitchen facilities.

#### Culture and heritage

- **WiFi in public libraries in England:** The government will provide £7.4 million funding to support libraries in England to provide internet access and WiFi.
- **Culture announcements in regional long-term economic plans:** The government confirmed that £8.98 million funding was announced for culture, tourism and spending, investments as part of the government's regional long-term economic plans.

#### Digital

- **The digital ambition will extend beyond central government and arms-length bodies, to consider local services.** HM Treasury, CLG and the Government Digital Service will collaborate with partners in local government, as the sector develops a set of proposals that will enable more customer-focussed, digitally-enabled and efficient local services in time to inform future budget allocations.

## Appendix A

Today's Budget outlines the current planned public spending figures to 2019-20 (see Table A1 below). Under the current plans, Resource AME continues to rise (from £332.5 billion in 2014-15 to £389.7 billion in 2019-20). Overall Government Resource DEL<sup>3</sup> (which is largely where local government funding comes from) will fall from £336.9 billion in 2014-15 to £330.4 billion in 2019-20. This is a cut of £6.5 billion (1.9%) in cash terms, or 9.4% in real terms.

It is estimated that TME reached 40.7 per cent of GDP in 2014-15 and will fall to 39.6 per cent in 2015-16, the final year of detailed spending plans. The Government's TME assumptions imply that spending will fall considerably further as a share of GDP, to 36.0 per cent of GDP in 2018-19 and 2019-20.

**Table A1 – Key Economic & Fiscal Indicators**

Source: Budget 2015 (Table 2.3) p.68

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Current Expenditure</b>						
Resource AME	332.5	335.7	347.0	361.5	375.5	389.7
Resource DEL excl. depreciation	315.6	316.3				
Depreciation	21.3	22.3				
RDEL incl. depreciation	336.9	338.6	323.8	312.0	310.1	330.4
<b>Public sector current expenditure</b>	669.3	674.3	670.9	673.4	685.6	720.1
Capital expenditure						
Capital AME	22.2	20.6	21.7	21.6	21.2	21.5
Capital DEL	45.6	47.7				
<i>Implied Capital Del</i>			47.7	48.9	52.4	55.7
<b>Public Sector gross investment</b>	67.8	68.3	69.4	70.5	73.6	77.2
<b>TOTAL MANAGED EXPENDITURE</b>	737.1	742.6	740.3	743.9	759.2	797.3
Time as % GDP	40.7%	39.6%	38.1%	36.8%	36.0%	36.0%

**Table A2 – Real terms % change on previous year**

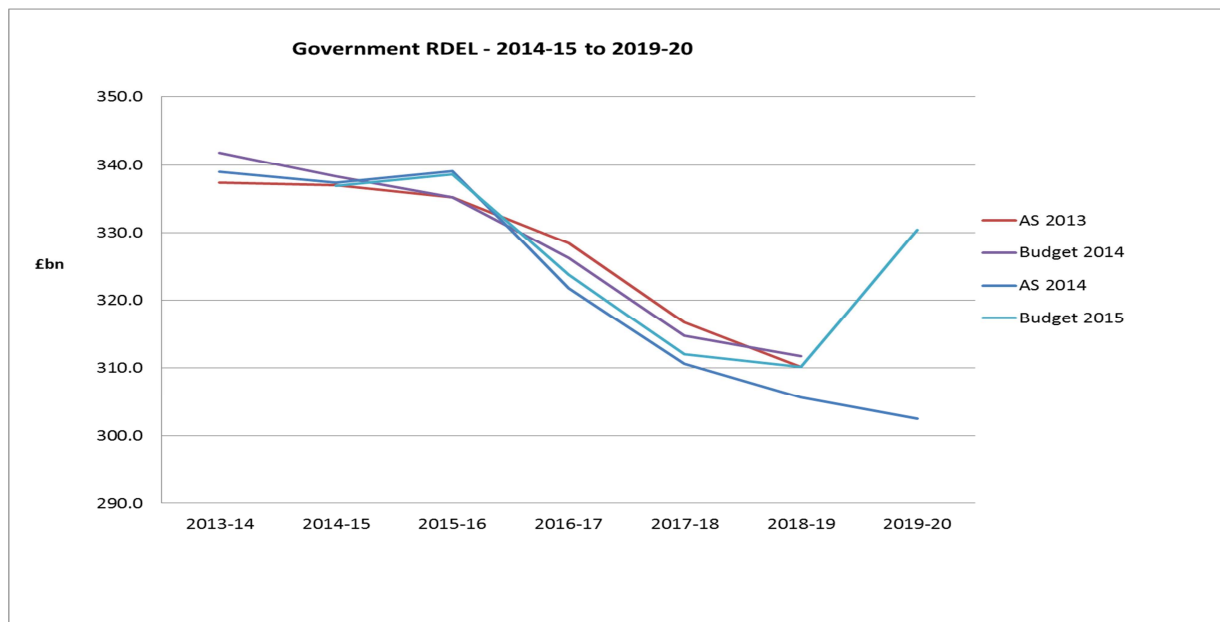
Real terms % change on previous year

	2013-14	2015-16	2016-17	2017-18	2018-19	2019-20
Resource AME	-	-0.4%	2.1%	2.5%	1.7%	1.2%
Resource DEL (incl. dep)	-	-0.9%	-5.5%	-5.2%	-2.7%	3.8%
<b>Public sector current expenditure</b>	-	<b>-0.6%</b>	<b>-1.7%</b>	<b>-1.2%</b>	<b>-0.3%</b>	<b>2.4%</b>
<b>Total Managed Expenditure</b>	-	<b>-0.6%</b>	<b>-1.5%</b>	<b>-1.1%</b>	<b>0.0%</b>	<b>2.4%</b>

The latest Resource DEL figures for 2015-16 and beyond are slightly lower than previously forecast when compared to those announced at Autumn Statement 2014. Though as illustrated in Chart A3 below, there is a significant change in spending plans for 2019-20 as TME rises in line with nominal GDP.

<sup>3</sup> Includes depreciation

Chart A3 Projected Government RDEL (incl. depreciation) 2013-14 to 2019-20



Sources: Budget 2014 (Table 2.3); Autumn Statement 2014 (Table 2.3); Budget 2015 (Table 2.3)

## Potential impact on local government

The Resource DEL figures outlined in the Budget 2015 show a real terms reduction to overall government DEL in 2015-16 of 0.9%. The 2013 Spending Round outlined a 10% cut in real terms for the Department for Communities and Local Government in 2015-16, leading to a reduction in core funding of 15 per cent for London local government.

With funding protections likely to remain in place for health, education and international development, local government, and other 'unprotected' departments, are likely to continue to face a disproportionate share of the overall reductions in public spending. London Councils officers will be analysing these new figures to understand the potential impact on London local government and will provide an update as appropriate. Though, it is clear that the major change from previous assumptions focuses on the spending decisions for 2019-20, driven by an adjustment to the planned budget surplus for that year.