

Spending Round 2013: Update

Introduction

On 26 June 2013 the Chancellor of the Exchequer George Osborne revealed details of the Spending Round outlining government spending plans for the year 2015-16. Unlike previous Spending Reviews, this year's Spending 'Round' relates to one year only and is being announced earlier than usual.

The last Spending Review (SR2010) outlined spending plans for the four years up to and including 2014-15 as part of the government's plan to eliminate the structural deficit by the 2015. However, slower than anticipated economic growth has delayed the target date and meant further departmental spending cuts are being made in 2013-14 and are planned for 2014-15.

The Spending Round confirms a further £11.5 billion of reductions will be made in 2015-16 and provides a breakdown of how these cuts fall across government departments. It includes a package of growth measures designed to stimulate the economy including £3 billion of capital investment in infrastructure (totalling £18 billion over the next parliament), details for which will be announced by the Chief Secretary to the Treasury tomorrow.

This briefing summarises the key aspects of the Spending Round 2013 for local authorities in London. It is, necessarily, high level. **Further analysis will be undertaken by London Councils as more detailed information becomes available.**

The full Spending Round 2013 report, press notices and further details can be found on the HM Treasury website at:

<https://www.gov.uk/government/topical-events/spending-round-2013>

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1. Economic overview

The 2013 Spending Round is set within the context of a challenging fiscal and economic environment. Economic growth since the last Spending Review has been slow which has delayed the Coalition government's intention that the structural deficit (the gap between tax receipts and government spending when the economy is operating at full capacity) would be eliminated by 2015. The 2013 Budget provided updates on the government's two primary economic rules, outlined at SR2010:

- that the government balance the cyclically-adjusted current budget over the coming five years; and
- that net debt will reduce as a share of the economy by 2015-16.

The Office for Budget Responsibility (OBR) concluded that the government was 'on course' to meet the first fiscal mandate, but predicted that the second rule would be missed by two years with debt not falling until 2017-18. Further cuts of 1 per cent to government departmental budgets in 2014-15 were announced in the Budget and additional cuts of £11.5 billion were earmarked for 2015-16.

Today's Spending Round provides details of how the £11.5 billion of funding cuts will be allocated across government departments.

Further detail about how £3 billion of additional funding will be spent in order to boost growth will be announced by the Chief Secretary to the Treasury tomorrow.

2. Public spending cuts in 2015-16

The total amount that the government spends is known as **Total Managed Expenditure (TME)**. This is split up in to:

- **Departmental Expenditure Limits (DEL)** – the fixed budgets allocated to that government departments at each Spending Review.
- **Annually Managed Expenditure (AME)** - money spent in areas outside budgetary control on programmes which are demand-led – such as welfare, tax credits or public sector pensions.

Total managed expenditure in 2015-16 will be fixed at £745 billion (up £15 billion (2 per cent) on 2014-15); of which £694 billion will be allocated to resource spending and £50.4 billion to capital spending. Table 1 shows how TME breaks down into DEL and AME, and capital and revenue expenditure.

Table 1 – TME, DEL and AME 2013-14 to 2017-18

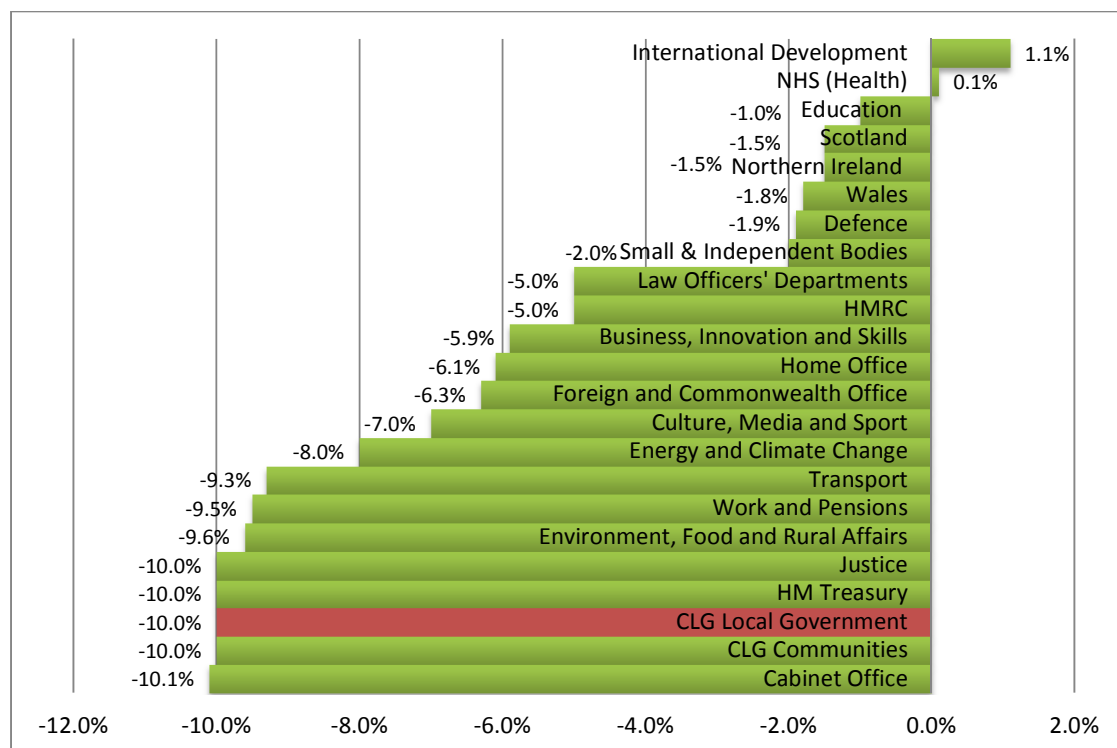
	2013-14	2014-15	2015-16	2016-17	2017-18
Resource AME	334.0	343.8	359.1	377.8	395.2
Resource DEL (including depreciation)	338.8	336.1	335.2	325.8	317.8
Public sector current expenditure	672.8	679.9	694.2	703.7	713.0
Capital AME	5.0	5.5	3.1	8.7	9.2
Capital DEL	42.2	44.9	47.3	42.6	42.9
Public sector gross investment	47.2	50.4	50.4	51.3	52.1
TME	720.0	730.3	744.7	754.9	765.1
TME as % of GDP	45.2%	44.0%	43.1%	41.8%	40.5%

Within the resource spending AME will increase by 4.5 per cent to £359 billion while overall RDEL will be cut by 0.3 per cent to £335 billion. This is underpinned by the assumption that resource spending will continue to fall in 2015-16 at the same rate as over the Spending Review 2010 period.

The overall cut to government RDEL has been distributed unevenly across government departments. Funding for health, schools, international development and frontline military has been protected, magnifying cuts for the remaining departments. The Department for Communities and Local Government (CLG) has one of the largest cuts of all departments at 10 per cent.

Chart 2 below shows the 2015-16 percentage changes in RDEL (a fuller table with RDEL totals for each department can be found at Annex A).

Chart 2 – 2015-16 real terms change in RDEL



Source: Spending Round 2013, Table 1

CLG has received a larger cut than most other departments, following the trend established at SR2010. From 2010-11 to 2014-15 the CLG local government RDEL received the largest cut to funding (in cash terms) of any government department and one of the largest percentage cuts overall. As a result, core funding to councils has been cut by around 35 per cent in real terms over that period¹.

¹ Core funding here relates to formula grant up to and including 2012-13 and “start-up funding” in 2013-14 and 2014-15 following the implementation of business rates retention.

Impact on Local government funding in 2015-16

Local authorities receive funding from a number of different government departments but core funding comes from the CLG Resource DEL. The Spending Round includes figures for the CLG RDEL in 2014-15 (£25.6 billion) and 2015-16 (£23.5 billion). These are higher than previously stated in the 2012 Autumn Statement and 2013 Budget. This is primarily because the effect of business rates retention has now been taken into account. These figures also include other revenue funding streams that go to local government which sit outside the business rates retention scheme.

Possible impact on RSG

London Councils' latest estimates suggest that the effect of the 1 per cent cuts to departmental RDELs announced in the 2013 Budget would be to reduce the control total to around £23.6 billion in 2014-15². Applying the 2015-16 10 per cent real terms cut (an 8.2 per cent cash cut) to the 2014-15 total gives a control total in 2015-16 of £21.6 billion.

Table 2 shows the possible impact on RSG of the estimated reduction to the control totals in 2014-15 and 2015-16. These are reductions of 19 per cent and 18 per cent respectively. The impact for London boroughs is estimated to be reductions of around £500m in 2014-15 and £400m in 2015-16.

Table 2 – Local government control total since SR2010 and projected RSG in 2014-15 and 2015-16

	2013-14	2014-15	2015-16
Local government RDEL		25,600	23,500
% cut on previous year			-8.2%
Control total/Start-up funding	26,074	23,573	21,639
% cut on previous year		-9.6%	-8.2%
Local share NNDR	10,899	11,258	11,573
<i>September RPI</i>	3.3%	2.8%	3.2%
RSG	15,175	12,315	10,066
% cut on previous year		-18.8%	-18.3%

The above figures are current estimates by London Councils based on the latest information available. Further analysis will be undertaken once CLG has confirmed how it will deal with the 1 per cent cut in 2014-15 and as more detail emerges around how the 2015-16 reduction will affect the control total.

3. Measures to stimulate growth

The government has stated the three principles underpinning the Spending Round are reform, growth and fairness. This section looks at its measures to stimulate growth.

The Spending Round sets out a series of areas for investing public sector savings, which the Government believes to yield the highest economic returns:

- transport;
- science and innovation;
- education and skills;

² This assumes the 1% cut to CLG RDEL is shared proportionately between local government and communities budgets and that grants rolled into SUFA will be cut along the lines of their previous parent department.

- business support;
- reforms to drive competition and cut red tape.

It sets out capital spending allocations for all departments in 2015-16 (see Annex B). It also gives a general overview of the government's long-term plans for capital investment to 2020 and beyond, but much more detail will be published tomorrow in *Investing in Britain's Future*, to be announced by the Chief Secretary to the Treasury.

The main highlights from the Spending Round document include:

Transport

- £9.5 billion in the UK's transport network in 2015-16.
- High Speed 2 will be set out in *Investing in Britain's Future*.

Education and skills

- Continue to roll out academies.
- Funding for up to 180 new Free Schools, 20 new Studio Schools and 20 University Technical Colleges a year.
- Traineeships programme extended to 19-24 year olds.

Enabling local growth

- The creation of a Single Local Growth Fund (SLGF) in 2015-16 in response to Lord Heseltine's review³

Science and innovation

- Resource funding to be maintained in cash terms at £4.6bn in 2015-16, as well as providing an additional £185m for the Technology Strategy board.
- Capital funding to be increased in real terms to £1.1bn, and in line with inflation each year to 2020-21.
- Specific targets for some departments' use of the Small Business Research Initiative in 2013-14.

Other areas

- Libraries: Government to consult on plans to extend Public Lending Right scheme to cover on-site borrowing of e-books and audiobooks with effect from July 2014.
- Social rents to increase by CPI+1% a year from 2015-16 to 2024-25.
- Flood protection: resource spending to be maintained in cash terms and a commitment to provide capital investment for flood defences.
- Energy Bill reforms to be supported £7.6 billion (in 2012 prices) in support for low-carbon generation by 2020-21.
- In 2015-16, the Government will provide £5.3 billion through the Levy Control Framework including funding for low-carbon energy generation projects.
- Agreement to a new funding mechanism for the Welsh Assembly, following the Silk Commission's first report (details to be finalised).
- Announcements on capital borrowing for the Scottish Government and the Northern Ireland Executive.
- There were a range of announcements and targets on promoting overseas trade and inward investment.

London councils will follow up with a summary of the announcements in *Investing in Britain's Future*.

³ *No Stone Unturned*, The Rt Hon the Lord Heseltine of Thenford CH, October 2012.

4. Impact on Local government funding streams by government department

Communities and Local Government (CLG)

Local government spending

- Despite the 10 per cent reduction in RDEL the government is predicting there will be a reduction of local government spending of 2.3 per cent. “Local government spending” here includes central government grants to local authorities (including Revenue Support Grant) plus the OBR’s forecast of council tax and the local share of business rates, and is a measure of resources available for council services.

Council Tax Freeze Grant (CTFG)

- CTFG is to be continued in 2014-15 and 2015-16
- Authorities that freeze or reduce their Band D Council Tax will receive a grant equivalent to a 1% increase on 2013-14 Band D Council Tax levels⁴.
- London Councils understands that local authorities freezing council tax in 2014-15 will receive funding in both years whether or not they freeze again in 2015-16.
- Similarly, it is our understanding that local authorities freezing council tax in 2015-16 will receive funding whether or not they froze it in 2014-15⁵.
- It seems likely that the freeze in grant for 2015-16 will only be awarded for one year.
- CTFG for 2013-14 was announced in October 2012 as a two-year grant. It totals £241m for local authorities including the GLA but excluding police authorities. The Spending Round states that this will continue to be awarded in 2015-16.

Council Tax referenda

- Confirmed the intention to hold the Council Tax referendum threshold to 2 per cent for the next 2 years.

Health & social care integration

- See DH section below (page 8).

Troubled Families Programme

- This will be expanded to provide targeted help to an extra 400,000 households at risk of suffering from a number of social problems.
- Funding worth £200m will be made available from the five departments that currently deliver the programme (CLG; DfE; DWP; DH; and the MoJ).
- A payment-by-results scheme will be used in the expanded scheme.
- Councils will be eligible to receive up to £4,500 when they ‘get to grips’ with a family’s problems.

Collaboration and efficiency fund

- DfE and DCLG will work with local government to examine the scope to improve outcomes, reduce burdens and drive efficiency in children’s services, and report back on progress in the autumn.

⁴ <https://www.gov.uk/government/news/eric-pickles-hails-council-tax-5-year-freeze-and-38-billion-for-social-care>

⁵ <http://www.lqcplus.com/news/tax-freeze-extended-for-two-years/5060319.article?blocktitle=Spending-Round&contentID=13126>

- A collaboration and efficiency fund of £100 million will be made available to enable the re-engineering of service delivery and realisation of efficiencies.
- It will help local authorities to cover the upfront costs of working with each other and encourage better ways of operating. There is no further detail of how this will be distributed.

Housing

- The Government is committing to a significant package of capital spending on housing and will set out its approach to affordable housing in *Investing in Britain's Future*.

Fire & rescue

- a £45 million capital fund for the Fire and Rescue Service alongside a £30 million resource fund from the local government settlement to encourage greater collaboration between the Fire Service and other emergency services.

CLG running costs

- £126 million savings from reductions in the Department's resource budget and further efficiencies through a 10 per cent reduction in the administration budget, including a move to share accommodation with the Home Office in 2015-16.

Department for Education (DfE)

Schools

- Education Services Grant to be reduced by £200 million in 2015-16.
- Real terms protection of the schools budget and pupil premium.
- Commitment to consult on how to introduce a national funding formula for schools in 2015-16.
- Continued roll out of academies with the aim to drive down the central costs of the programme and deliver savings of £150 million in 2015-16.
- Funding for 180 new Free Schools, 20 new Studio Schools and 20 new University Technical colleges a year.
- DfE to consult this autumn regarding how these reductions can be implemented.

Early Years

- 15 hours a week of free early education for all three- and four-year olds will be maintained.
- Free entitlement still extended to most disadvantaged two-year olds in September 2013 and to around 40 per cent in 2014-15.

16-19

- The Government is committed to raising the quality of apprenticeships and to implementing key reforms in the Richard Review.

Department of Health (DH)

NHS Spending and Reform

- Increase in resources to frontline NHS services as a result of 10 per cent real term cuts to administration budgets.
- £1 billion savings from an overhaul of NHS procurement. Plans will be published in the summer.

- In 2015-16 the NHS to invest in mental health services to provide better access to psychological therapies, and every accident and emergency department will have access to mental health professionals.

Health and Social Care Integration

- £3.8 billion will be put into a pooled budget for health and social care services shared between the NHS and local authorities.
- This shared budget includes the existing NHS funding for social care of just under £1 billion; an additional £2 billion from the NHS and further funds for carers and people leaving hospital who need support to regain their independence.
- It also includes £350 million of capital funding for projects to improve integration, including IT funding and improving facilities for disabled people.
- An extra £200 million will be available to local authorities from the NHS in 2014-15 for investment in new systems and integrated ways of working.
- The Government will also ensure that both local government and Clinical Commissioning Groups are given their funding allocations further in advance and are working towards the same outcomes, to encourage local services to work together.

Social Care and Support

- £335 million will be provided to local authorities in 2015-16 to prepare for delivery of the reformed Social Care funding system including the introduction of capped costs from April 2016 and universal deferred payment agreements from April 2015.
- £350 million has been allocated for spending on programmes and support for people with a disability or long term health condition to move into and stay in work.

Department for Transport (DfT)

- As part of the settlement, the Government is setting long-term capital budgets for national roads, local roads, Transport for London and High Speed 2. Further details will be set out in *Investing in Britain's Future*.
- Efficiency savings have been identified by Transport for London and within rail budgets.
- The long-term funding certainty provided to the Highways Agency and Transport for London will generate significant efficiency savings in budgets beyond 2015-16.

Home Office (HO)

- Police and Crime Commissioners will drive considerable further savings through improving procurement and collaboration across operational areas and support services.
- An innovation fund of up to £50 million for police forces to work jointly with each other and local authorities on new and more efficient ways to prevent crime and ensure people feel safe.
- The Home Office will work with other departments to drive efficiencies in the Criminal Justice System.

Department for Work & Pensions (DWP)

Welfare Reform

- It is planned to deliver £350 million in savings annually with a phased introduction of the following initiatives from April 2014, with full implementation by April 2015. Features include:
 - requiring claimants to do more at the start of their claim;

- introducing weekly signing for around half of all job seekers, combined with quarterly restart interviews for all job seekers;
- expecting claimants whose spoken English is a barrier to work to improve their language skills, with sanctions for those who fail to attend mandatory courses;
- requiring all claimants who are subject to conditionality to verify their claim each year;
- expecting lone parents to prepare for work when their youngest child turns three.

Welfare spending cap

- The Government will set the cap at Budget 2014 alongside the OBR's fiscal forecast and will be applied to over £100 billion of welfare spending.
- It will exclude the basic and additional state pension and also most counter-cyclical elements of welfare, such as JSA and any passported expenditure. All other social security and tax credits expenditure will be included.

Other welfare announcements

- The Warm Home Discount will continue in 2015-16. It will provide £320 million for discounts on electricity bills for some of the least well-off pensioners and other vulnerable households.
- From 2015-16 Winter Fuel Payments will no longer be payable to individuals who live in countries with an average winter temperature above the warmest region of the UK.

Public sector pay reform

- Announcement to end automatic time-served pay progression in the civil service by 2015-16.
- Further review of pay for staff within other areas of the public sector including schools and health.

5. Beyond 2015-16?

While the 10 per cent cut to the CLG budget in 2015-16 is concerning for local government, perhaps more concerning is the outlined reductions to RDEL in 2016-17 and 2017-18 (see Table 3 below). An overall government RDEL cut of 0.3 per cent translated to a 10 per cent reduction for CLG in 2015-16. Further reductions of 2.8 per cent in 2016-17 and 2.5 per cent in 2017-18 would suggest local government would be hit even harder in those years were the protections awarded to other departments in 2015-16 to be repeated.

Table 3 – Annual percentage changes to TME, DEL and AME 2014-15 to 2017-18

	2014-15	2015-16	2016-17	2017-18
Resource AME	2.9%	4.5%	5.2%	4.6%
Resource DEL (including depreciation)	-0.8%	-0.3%	-2.8%	-2.5%
Public sector current expenditure	1.1%	2.1%	1.4%	1.3%
Capital AME	10.0%	-43.6%	180.6%	5.7%
Capital DEL	6.4%	5.3%	-9.9%	0.7%
Public sector gross investment	6.8%	0.0%	1.8%	1.6%
TME	1.4%	2.0%	1.4%	1.4%

6. The CLG RDEL and the Local Government Control Total

It is worth noting that a comparison of the local government control total and the CLG Local Government RDEL is not on a like-for-like basis.

- The RDEL includes all of the business rates that government expects local government to bring in plus other departmental funding for the new policy announcements in the SR (such as the Troubled Families money),
- The control total simply relates to the funding elements within the business rates retention system.

At present, work is being undertaken to reconcile these two figures and we are seeking further clarification from CLG officials.

In our latest calculations, the 1% cut to CLG RDEL in 2014-15 (announced in the 2013 Budget) has been factored into the calculations and applied to the 2014-15 control total from the provisional settlement.

This means a reduction from £23.9bn to £23.6bn for 2014-15, which leaves around £2bn in the pot. It is likely that this additional resource could be used to fund NHB and some of the new policy announcements.

The table below replicates table 2 above. This shows the calculation of the possible impact of the 10% real terms cut on RSG if it is applied directly to the control total (this is an assumption as the Government has only announced that it will be applied to the RDEL). If it is passed onto the control total then it will reduce by 8.2% in cash terms from £23.6bn to £21.6bn.

Because of the fixed parameters of the business rates retention system this would mean a cut to RSG in 2015-16 of 18.3%.

In the absence of further information on what the government intends to do with the spare capacity in the RDEL (i.e. difference between RDEL and control total) it is difficult to know whether the 10% cut will be passed directly on. So the 18% is likely to be a worst case scenario.

	2013-14	2014-15	2015-16
Local government RDEL		25,600	23,500
% cut on previous year			-8.2%
Control total/Start-up funding	26,074	23,573	21,639
% cut on previous year		-9.6%	-8.2%
Local share NNDR	10,899	11,258	11,573
September RPI	3.3%	2.8%	3.2%
RSG	15,175	12,315	10,066
% cut on previous year		-18.8%	-18.3%

7. New Homes Bonus

The Government has committed to create a Single Local Growth Fund under the strategic direction of LEPs. It is planned that £2 billion will be available in 2015-16.

As part of the funding package, the Government is proposing that £400 million will come from New Homes Bonus. Although the scheme will continue to operate as a financial reward scheme for local government, there will be a new requirement for a proportion of this funding to be pooled by local authorities as part of the Single Local Growth Fund. It is then expected that LEP and member local authorities will then agree how to spend this funding. The government has confirmed its intention to consult on the mechanism for this.

In line with SR 2010, the Government has also confirmed that it will continue to set aside £250 million for the purposes of NHB in 2015-16. As in previous years, the Government will continue to topslice an additional amount from the local government control totals to fund this grant.

At present, we are seeking further information on these proposals and will provide a further update as and when appropriate.

8. London Councils Future Work

We are currently analysing the detail of the announcement and will be pulling together two distinct pieces of work that will seek to analyse what this could mean for individual authorities within London. This will include:

- An estimate of core funding levels for both 2014-15 and 2015-16, and
- The potential impact of the New Bonus transfer to the LEP.

We hope to be able to circulate this within the next week or so.

Annex A – Resource DELs by government department 2014-15 and 2015-16

Source:	2014-15	2014-15	2015-16	Real terms %
	Budget 2013	SR 2013	SR 2013	change SR 2013
Education	53.8	52.8	53.2	-1.0%
NHS (Health)	109.8	108.3	110.4	0.1%
Transport	4.4	3.5	3.2	-9.3%
CLG Communities	1.3	1.2	1.1	-10.0%
CLG Local Government	21.7	25.6	23.5	-10.0%
Business, Innovation and Skills	13.8	13.6	13.0	-5.9%
Home Office	7.4	10.4	9.9	-6.1%
Justice	6.8	6.8	6.2	-10.0%
Law Officers' Departments	0.5	0.5	0.5	-5.0%
Defence	24.5	23.9	23.9	-1.9%
Foreign and Commonwealth Office	1.1	1.2	1.1	-6.3%
International Development	8.3	8.3	8.5	1.1%
Energy and Climate Change	1.1	1.0	1.0	-8.0%
Environment, Food and Rural Affairs	1.7	1.7	1.6	-9.6%
Culture, Media and Sport	1.1	1.2	1.1	-7.0%
Work and Pensions	7.4	5.5	5.0	-9.5%
<i>DWP non-baseline funding</i>		1.9	0.9	-
Scotland	25.3	25.6	25.7	-1.5%
Wales	13.5	13.6	13.6	-1.8%
Northern Ireland	9.5	9.6	9.6	-1.5%
HMRC	3.5	3.2	3.1	-5.0%
HM Treasury		0.1	0.1	-10.0%
Cabinet Office	2.3	0.4	0.3	-10.1%
Small & Independent Bodies	1.4	1.3	1.3	-2.0%
Reserve	2.8	2.8	2.8	0.0%
Special Reserve	1.8	1.8	1.0	-44.1%
Green Investment Bank	-1.2	0.0	0.0	
Single Intelligence Account		1.6	1.7	3.4%
<i>Localised business rates</i>		-11.2	-11.6	
Subtotal	323.6	316.0	312.9	-2.7%
Adjustment for DEL/AME switches	-6.9	-0.4	0.0	
OBR Allowance for shortfall	-1.0			
Total	315.7	315.7	312.9	-2.7%

Note: 2014-15 figures have been restated from the previous government figures published in the 2013 budget for completeness

Annex B – Capital DELs by department 2015-16

	2014-15	2015-16	Real terms % change
Education	4.6	4.6	-1.7%
NHS (Health)	4.6	4.7	0.1%
Transport	8.9	9.5	5.5%
DCLG Communities	4.8	3.1	-35.6%
Business, Innovation and Skills	2.1	2.5	15.3%
Home Office	0.5	0.4	-17.6%
Justice	0.3	0.4	14.2%
Law Officers' Departments	0.0	0.0	1.7%
Defence	8.7	8.7	-2.3%
Foreign and Commonwealth Office	0.1	0.1	-1.8%
International Development	2.0	2.6	25.6%
Energy and Climate Change	2.2	2.3	3.1%
Environment, Food and Rural Affairs	0.5	0.5	-7.7%
Culture, Media and Sport	0.3	0.1	-57.6%
Work and Pensions	0.2	0.2	-22.5%
Scotland	2.8	3.0	2.7%
Wales	1.4	1.5	0.3%
Northern Ireland	1.0	1.1	1.5%
HMRC	0.1	0.1	-1.9%
HM Treasury	0.0	0.0	-26.3%
Cabinet Office	0.0	0.0	-31.7%
Single Intelligence Account	0.3	0.3	24.2%
Small & Independent Bodies	0.1	0.1	5.7%
Green Investment Bank	0.0	1.3	-
Adjustment for Devolved Administrations borrowing	0.1	0.3	-
Spending commitments not yet in budgets	0.0	0.4	-
Reserve	0.9	0.5	-
Special Reserve	0.3	0.0	-
Total Capital DEL	46.9	48.3	1.3%

Note – CLG local government does not have a capital budget in 2015-16