

London Councils

Chief Officers' briefing

The Autumn Statement 2014

On 3rd December 2014, Chancellor George Osborne delivered his 5th annual Autumn Statement. It built on his previous announcements made in the Budget 2014, providing an update on the economy and future plans for public spending and taxation. The Government also published the National Infrastructure Plan 2014, which outlines major infrastructure projects planned up until 2020¹. Both documents, and further information about the Autumn Statement, can be found on the Treasury's website².

Key issues for London Councils

The Autumn Statement contained a number of policies, which will directly impact on local government. The key headlines for London local government are outlined below.

1. The pace of spending reductions in 2016-17 and 2017-18 appear, at this early stage, to be faster and steeper than previously thought.
2. The OBR believes that, at the end of this parliament, there will be a further 60% of savings to go.
3. There are a range of measures to reduce the tax burden on business rate payers, including capping the business rates multiplier at 2% in 2015-16; extending Small business rates relief; and increasing retail relief. Government will also conduct a long term review of the structure of business rates.
4. An extra £2 billion will be spent on frontline NHS services in 2015-16.
5. The principles of the Troubled Families programme will be extended to other groups of people with complex needs from the next Spending Review.
6. The Government is committing to give local authorities and CCGs indicative multi-year budgets as soon as possible after the next Spending Review.

1. See Annex B for more detail

2. <https://www.gov.uk/government/topical-events/autumn-statement-2014>

Economic Outlook

Alongside the Autumn Statement, 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:

1. the “fiscal mandate” - to balance the cyclically-adjusted current budget (CACB) by the end of a rolling, five-year period, which is now 2019-20;
2. the “supplementary target” - to see public sector net debt (PSND) falling as a share of GDP in 2015-16; and
3. the “welfare cap” - the new limit on total welfare spending, set at Budget 2014, applying to all welfare spending in AME.

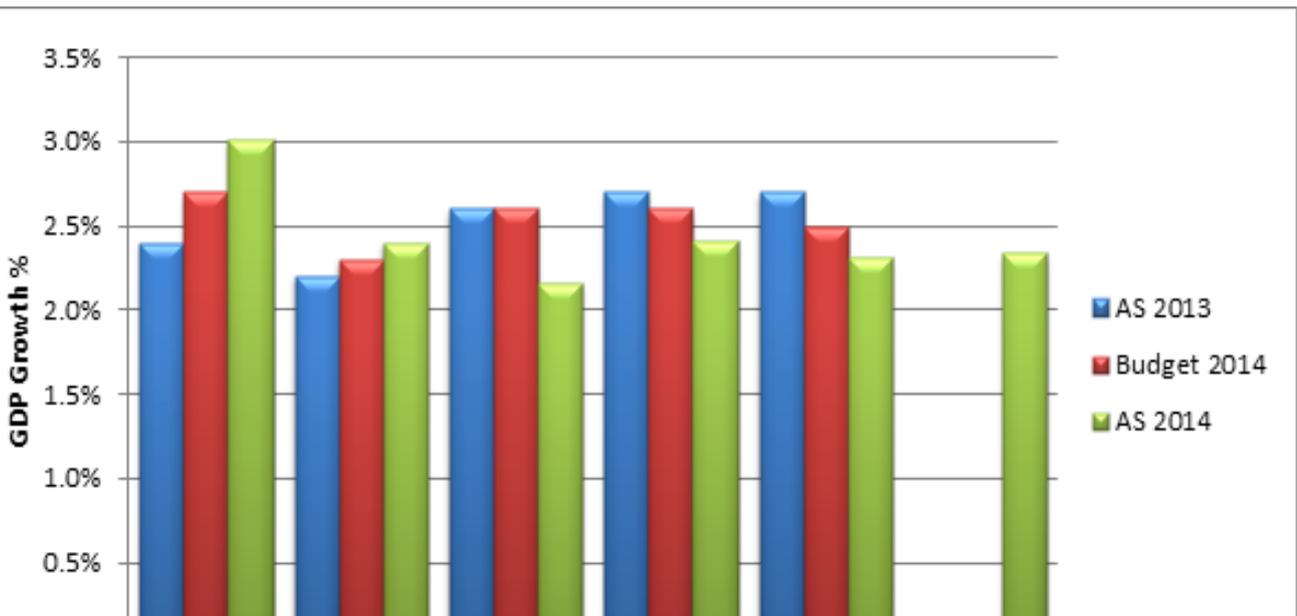
The OBR has concluded that the Government is on track to meet its fiscal mandate – to borrow only what it needs to pay for investment, adjusting for the state of the economy, at the end of the five-year forecast – with £50.6 billion to spare. It remains on course to miss its supplementary target, to have net debt falling as a share of GDP in 2015-16.

In its first formal assessment, the OBR judged that the Government is on course to keep spending on social security and tax credits (excluding the state pension and those benefits that vary most with the state of the economy) within the permitted margins of the ‘welfare cap’.

Growth

GDP growth figures for 2014 have been revised up since the 2014 Budget from 2.7% to 3.0%; likewise figures have been revised up slightly for 2015. However, forecasts for 2016, 2017 and 2018 have fallen since March (see Chart 1 below).

Chart 1 - Change in GDP growth forecasts since Autumn Statement 2013



Source: Office for Budget Responsibility; Economic and Fiscal Outlooks

Economic & fiscal indicators

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

The budget deficit is expected to fall by £6.3 billion this year to £91.3 billion, around half the decline the OBR expected in March. Public sector net borrowing will then decrease each year until 2018-19 when there will be a small surplus of £4 billion, increasing to £23.1 billion in 2019-20.

The OBR expects CPI inflation to be below target at 1.5% in 2014 reducing to 1.2% in 2015, increasing to 1.7% in 2016, before stabilising at the 2.0% 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 31.7 million by the end of the period.

	2013	2014	2015	2016	2017	2018	2019
Growth (GDP % on prior year)	1.7%	3.0%	2.4%	2.2%	2.4%	2.3%	2.3%
Public sector net borrowing (£bn)	97.5	91.3	75.9	40.9	14.5	-4.0	-23.1
Public sector net borrowing (deficit % of GDP)	5.6%	5.0%	4.0%	2.1%	0.7%	-0.2%	-1.0%
Public sector net debt (%)	78.8%	80.4%	81.1%	80.7%	78.8%	76.2%	72.8%
Unemployment rate (%)	7.6%	6.2%	5.4%	5.2%	5.3%	5.3%	5.3%
Employment (millions)	30.0	30.7	31.2	31.4	31.5	31.6	31.7
CPI inflation	2.6%	1.5%	1.2%	1.7%	2.0%	2.0%	2.0%

Source: HMT - Autumn Statement 2014; OBR - Economic & Fiscal Outlook, December 2014

Key announcements for local government

Public spending

- Total Managed Expenditure (TME) (ie overall public spending) in 2018-19 and 2019-20 will be held flat in real terms. Following Spending Round 2013 and in line with previous policy, TME in 2016-17 and 2017-18 will fall in real terms **at the same rate as over the period 2010-11 to 2014-15** (see Annex A for further detail).

Public service efficiency and transformation

- **Efficiency:** Government will seek a further £10 billion of efficiency savings by 2017-18 led by the Cabinet Office, working with HM Treasury and departments.
- **Public service transformation:** Responding to the recommendations of the Service Transformation Challenge Panel, the Government will:
 - look to extend the principles of the Troubled Families programme to other groups of people with complex needs from the next Spending Review.
 - commit to giving local authorities and CCGs indicative multi-year budgets as soon as possible after the next Spending Review.
 - work towards enabling greater multi-year certainty in funding for schools.

Business Rates

- **Business rates indexation** – Government will continue the 2% cap on the RPI increase in the business rates multiplier for an additional year from 1 April 2015.

- **Business rates long-term review** – Government will conduct a review of the future structure of business rates to report by Budget 2016. The review will be fiscally neutral and consistent with the Government’s agreed financing of local authorities. Terms of reference will be published in due course.
- **Business rates administration review** – Government will publish its interim findings in December 2014.
- **Business Rates Avoidance** – Government will publish a discussion paper on the nature and scale of business rates avoidance in December 2014.
- **Small Business Rate Relief (SBRR)** – Government will extend the doubling of SBRR for a further year from 1 April 2015.
- **Transitional arrangements** – Government will extend transitional arrangements for properties with a rateable value of £50,000 and below facing significant bill increases due to the ending of Transitional Rate Relief from 1 April 2015 to 31 March 2017.
- **Backdating** – Government will change rules so that alterations to rateable values can only be backdated to the period between 1 April 2010 and 1 April 2015 for Valuation Office Agency (VOA) alterations made before 1 April 2016 and ratepayers’ appeals made before 1 April 2015.
- **Business rates discount** – Government will increase the business rates discount for retail and food and drink premises with a rateable value of £50,000 and below to £1,500 up to the state aids limit for 1 year from 1 April 2015.

Stamp Duty Land Tax (SDLT)

- Government will change the calculation of SDLT on purchases of residential property so that rates apply to the portion of the purchase price within each band - similar to how income tax works. The government will also amend the rates and thresholds taking effect on and after 4 December 2014 (Stamp Duty Land Tax Bill 2014).

Welfare

- Autumn Statement 2014 sets the level of the **welfare cap** in 2019-20 at £129.8 billion
- **Universal Credit delivery schedule** – Universal Credit will be implemented in line with plans set out by the Secretary of State for Work and Pensions on 13 October 2014.
- **Universal Credit: childcare package** – From April 2016, the Government will increase childcare support within Universal Credit to 85% of eligible costs for all families. In addition, if a claimant leaves Universal Credit and returns within a 6-month period, they will be able to keep their existing assessment period.
- To offset the cost of these policies, the Universal Credit work allowances will be maintained at their current level for a period of 1 year from April 2017.

Health

- **NHS Funding** – Government will spend an extra £2 billion on frontline NHS services in 2015-16. This is part of a multi-year £3.1 billion UK-wide investment in the future of the NHS.
- £1.5 billion used to help the NHS **meet increased demand** and deliver the best patient care in 2015-16.
- £200 million invested in a **transformation fund** to help deliver first year of NHS’s

'Five Year Forward View'.

- From 2015-16, £250 million per year invested in modern premises and technology to bring GPs, nurses and specialists together so that patients can get the best care close to home. New facilities will be encouraged to **join up closely with local job centres, social services and other community services.**
- **Children's mental health services:** £150 million will be invested over 5 years, on services for the treatment of eating disorders.

Housing

- **Affordable housing** - affordable housing capital investment extended to 2018-19 and 2019-20, to ensure 275,000 new affordable homes delivered over next Parliament.
- **Public sector land housing delivery** - new targets will be set for the release of public sector land between 2015 and 2020. The Government is committed to releasing land with capacity for up to 150,000 homes.
- **Housing associations** - Government will consult on ways to increase borrowing capacity of housing associations in relation to the valuation of properties transferred from local authorities.
- **Estates regeneration** – Following a bidding round, regeneration projects in Grahame Park, Blackwall Reach, Aylesbury Estate and New Union Wharf have all now been approved for funding.
- **Shared ownership** - Government to work with housing associations, lenders and regulator to lift barriers to extending shared ownership. This includes consultation on options for streamlining the process for selling-on shared ownership properties.
- **Local authority housing** - Cllr Keith House and Natalie Elphicke are currently leading the review to consider the role local authorities can play in supporting overall housing supply within existing fiscal plans.
- **Housing Benefit fraud and error local authority incentive scheme** – New financial rewards will be paid to local authorities that reduce the amount of money lost through fraud and error in Housing Benefit.

Local Growth

- **Local Growth Deals:** Government will allocate a further £1 billion from the £12 billion Local Growth Fund between 2016-17 and 2020-21 to support a second round of Growth Deals.
- **Enterprise Zones:** Further decisions on Enterprise Zones will be announced at Budget 2015.

Planning

- **Establishing the principle of development** – Government will take forward measures to ensure the principle of development need only be established once.
- **Section 106 negotiations** – Government will take steps to speed up section 106 negotiations, to reduce delays to the planning process.
- **Speed of decisions** – Government will keep the speed of major decisions under review, with minimum performance thresholds increasing to 50% of major decisions made on time as performance improves.

- **Small applications** – Government to publish new data on LA performance in meeting statutory duty to process smaller planning applications within 8 weeks.
- **Small sites** – Government will work with industry and local authorities to test whether more can be done to support the approval of small sites in the planning system.
- **Compulsory Purchase reforms** – Government will publish proposals for consultation at Budget 2015 to make processes clearer, faster and fairer, with the aim of bringing forward more brownfield land for development.

Education and skills

- **Early intervention pilot for 0 to 2 year-olds** – Government will pilot a new approach to ensure the most effective early intervention actions are taken during a child's very earliest years, to prevent avoidable problems later.
- **Childcare Business Grant scheme extension** – Government will fund £2 million extension of existing Childcare Business Grant scheme to cover 2015-16.
- **Adult community learning and mental health** – Government will commit £20 million in 2015-16 and 2016-17 to fund courses to help adults experiencing mild to moderate depression, anxiety and sleep disorders in England.
- **Careers advice** – government will invest £20 million to improve careers advice and support for young people.

Markets and regulation

- **Local authority licensing** – Government will work with local authorities and businesses on a simplification programme with an expectation that, by 2018, every local authority in England will offer a single online application process where businesses only need register their details once.

Personal tax and welfare

- **Tax exemption for travel expenses of members of local authorities** – from 6 April 2015, local councillors will be exempt from Income Tax and employee NICs travel expenses. The exemption will be limited to the Approved Mileage Allowance Payment (AMAP) rates where it applies to mileage payments.

Appendix A – Public spending reductions to 2019-20

Today's Autumn Statement outlines the current planned public spending figures to 2019-20 (see Table A1 below). Under the current plans, Resource AME continues to rise (from £334.3 billion in 2014-15 to £404.5 billion in 2019-20). Overall Government Resource DEL (which is largely where local government funding comes from) will fall from £337.4 billion in 2014-15 to £302.5 billion in 2019-20. This is a cut of £34.9 billion (10%) in cash terms, or £59 billion (17%) in real terms.

Following Spending Round 2013 and in line with previous policy, TME in 2016-17 and 2017-18 will fall in real terms at the same rate as over the period 2010-11 to 2014-15. Total Managed Expenditure (TME) in 2018-19 and 2019-20 will be held flat in real terms.

TME as a percentage of GDP will therefore fall from 41.5% in 2014-15 to 35.2% in 2019-20 on current plans.

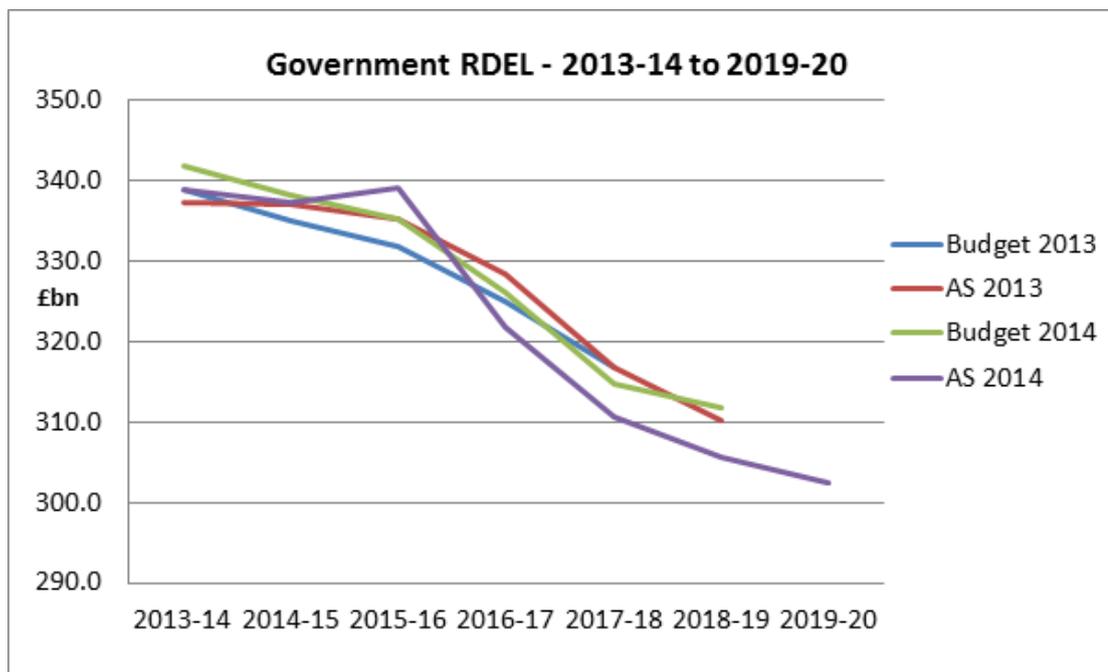
Table A1 – Total Managed Expenditure to 2018-19

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Current expenditure							
Resource AME	319.6	334.3	341.4	358.9	373.5	389.7	404.5
Resource DEL excl. depreciation	316.9	316.8	316.8				
Depreciation	22.1	20.6	22.3				
RDEL incl. depreciation	339.0	337.4	339.1	321.8	310.6	305.6	302.5
Public sector current expenditure	658.5	671.7	680.4	680.6	684.1	695.3	707.0
Capital expenditure							
Capital AME	19.3	19.1	17.9	19.0	20.0	18.2	17.9
Capital DEL	42.0	46.3	47.9				
<i>Implied Capital Del</i>				47.0	47.2	51.8	55.0
Public sector gross investment	61.4	65.4	65.8	66	67.2	70	72.9
TOTAL MANAGED EXPENDITURE	719.9	737.1	746.2	746.7	751.3	765.3	779.9
TME as % of GDP	41.5%	40.5%	39.5%	38.2%	36.9%	36.0%	35.2%

Source: Autumn Statement 2014 (Table 2.3, p.67)

Resource DEL figures in the Autumn Statement for 2015-16 are higher than previously forecast at Budget 2014 (see the purple line in Chart A1 below). Resource DEL forecasts for 2016-17, 2017-18 and 2018-19 are lower than forecast in March.

Chart A1 Projected Government RDEL (incl. depreciation) 2013-14 to 2019-20



Sources: Autumn Statement 2013 (Table 2.3); Budget 2014 (Table 2.3); Autumn Statement 2014 (Table 2.3)

Potential impact on local government

The Resource DEL figures outlined in the Autumn Statement (see Tables A2 and A3 below) 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. From this, the illustrative local government finance settlement shows a real terms cut to Settlement Funding Assessment (ie core funding) for local authorities of 15% (16% for London boroughs).

With ring-fencing of health, education and international development likely to continue, and local government continuing to bear a disproportionate share of the cut to the remaining Resource DEL, the steeper cuts to overall DEL in 2016-17 to 2019-20 suggest further substantial cuts to local government funding. London Councils will update its modelling of Revenue Support Grant for circulation to finance officers shortly.

Table A2 - Government spending projections (Autumn Statement 2014)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Resource AME	319.6	334.3	341.4	358.9	373.5	389.7	404.5
Resource DEL (incl. dep)	339.0	337.4	339.1	321.8	310.6	305.6	302.5
Public sector current expenditure	658.5	671.7	680.4	680.6	684.1	695.3	707.0
Total Managed Expenditure	719.9	737.1	746.2	746.7	751.3	765.3	779.9

Table A3 - Real terms % change on previous year

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Resource AME	-	2.4%	0.7%	3.8%	2.3%	2.4%	1.9%
Resource DEL (incl. dep)	-	-2.5%	-0.9%	-6.3%	-5.1%	-3.4%	-2.9%
Public sector current expenditure	-	-0.1%	-0.1%	-1.3%	-1.2%	-0.3%	-0.2%
Total Managed Expenditure	-	0.3%	-0.2%	-1.2%	-1.1%	0.0%	0.0%

Annex B - National Infrastructure Plan – Key points London

The National Infrastructure Plan sets out the progress made on previously announced major infrastructure schemes and outlines a series of further projects in the forthcoming years. This includes:

Achievements since 2010

- completion of the redevelopment of **King's Cross**
- significant progress on **Crossrail**, with almost 90% of tunnelling complete and flagship stations in construction
- completion of **Heathrow Terminal 2**
- completion of the **London Gateway** port and logistics park
- **Victoria and Jubilee line** upgrades
- **Western Riverside Waste Authority**
- **Deptford Creek Frontages** flood defence
- **Mogden** sewage treatment works

Projects underway in 2014-15

- **Crossrail**
- Thameslink including **London Bridge station upgrade** and a new direct interchange with Crossrail at Farringdon
- Northern and sub-surface line **tube upgrades**
- **London Power Tunnels**
- **Francis Crick Institute**
- **Lee Tunnel**

Future plans

- the High Speed Rail Preparation Act received Royal Assent, paving the way for **HS2**
- the **Airports Commission** published its interim report in 2013 and is now consulting on shortlisted options (final report due summer 2015)
- **Thames Tideway Tunnel** received development consent and the tender process for construction of the tunnel is underway
- following a consultation on the location options for the **lower Thames Crossing**, one option has been dropped and work to develop the remaining two options continues
- **Victoria and Jubilee line upgrades** (Phase 2)
- **Northern Line Extension**
- Major schemes to reduce flood risk to homes including **TEP 2100 and the River Thames: Datchet to Teddington**
- **South London Waste Partnership**

NIP 2014 – announcements affecting London

Roads Investment Strategy – the Government is committing £15 billion between 2015-16 and 2020-21.

Flood defences – the Government has published its 6-year programme of investment in flood defences, allocating the £2.3 billion capital funding provided at the 2013 Spending Round.

Barking Riverside – the Government will agree a principal heads of terms agreement for a loan of £55 million to support the extension of the London Overground to Barking Riverside, to unlock the delivery of 11,000 homes.

Brent Cross – the Government supports the London Borough of Barnet and GLA plans for the regeneration of Brent Cross which could deliver 7,500 homes, subject to a full business case.

Ebbsfleet – the government is making the first £100 million available to fund infrastructure and land remediation at Ebbsfleet, taking forward its commitment to build the first new garden city for almost 100 years, which will deliver up to 15,000 new homes.

Access to Ebbsfleet – the Government will undertake a review of transport provision for the Ebbsfleet area, including Crossrail, High Speed 1, Southern and Southeastern rail services.

Queen Elizabeth Olympic Park redevelopment (Olympicopolis) – the Government will invest £141 million to support the London Legacy Development Corporation and Mayor of London's plans to build a new higher education and cultural quarter at the Queen Elizabeth Park.

Crossrail 2 – the Government will provide £2 million between 2014-15 and 2015-16 to support the development of a comprehensive business case produced jointly by the Department for Transport and Transport for London. This will be completed ahead of the next Spending Review; this will be combined with a **full options appraisal of all potential major transport projects in London**, including an extension of the Bakerloo Line to improve connectivity in South East London, and the devolution of South Eastern rail services to London.

Ultra-low emission vehicles in London – the Government will provide an additional £10 million between 2017-18 and 2019-20 to increase ultra-low emission vehicles in London, in support of the ambition to introduce an Ultra-Low Emission Zone by 2025.

Local highways maintenance grant – the Government has already announced that local highways maintenance funding will be increased, totalling £5.8 billion over the next six years, and can now announce how the formula grant will be broken down by region.

Croydon Growth Zone: The Government will discuss plans for a Growth Zone with the London Borough of Croydon, which will be subject to value for money.

Gatwick Airport rail station – The Government has signed a Heads of Terms agreement with Gatwick Airport and Network Rail to support a £120.5 million redevelopment of Gatwick Airport railway station, on the basis of a contribution of £30 million from Gatwick Airport and a £30 million contribution from Network Rail.