

# The Budget 2014

## Overview

On 19 March 2014, Chancellor George Osborne delivered his 5<sup>th</sup> annual Budget. It built on his previous announcements made in the Autumn Statement 2013 providing an update on the economy and future plans for public spending and taxation. Full details and further information on the Budget can be found on the Treasury's website.<sup>1</sup>

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

### Key issues for London Councils ...

1. Government Property Unit's Strategic Land and Property Review has identified scope to generate £5bn of receipts from land and property nationally
2. Help to Buy: equity loan scheme extended to March 2020
3. £150m fund to be set up to kick start the regeneration of large housing estates through repayable loans
4. The Government will work with the Mayor of London and the GLA to develop proposals for extending the Gospel Oak to Barking Line to Barking Riverside
5. It will also work with the GLA and the London Borough of Barnet to look at proposals for the Brent Cross regeneration scheme
6. Government will publish a prospectus by Easter 2014, setting out how local authorities can develop proposals for bringing forward new garden cities
7. Welfare cap to be set at £119bn in 2015-16, rising with inflation to £127bn in 2018-19
8. Phase 2 of the Troubled Families programme to be rolled out in 2014-15
9. £50m for an early years pupil premium, to help improve outcomes for the most disadvantaged three and four year-olds
10. £140m of new funding to repair flood defences that have suffered damage
11. £200m "potholes challenge fund" established across UK
12. Public Works Loan Board borrowing limit to increase from £70bn to £95bn

## 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:

1. to balance the cyclically-adjusted current budget (CACB) by the end of a rolling, five-year period, which is now 2018-19; and
2. to see public sector net debt (PSND) falling as a share of GDP in 2015-16.

The OBR has concluded that the Government has "a greater than 50 per cent chance" of meeting the fiscal mandate. The current projections suggest that the second rule will not be met with debt only starting to fall as a proportion of GDP in 2016-17<sup>2</sup>.

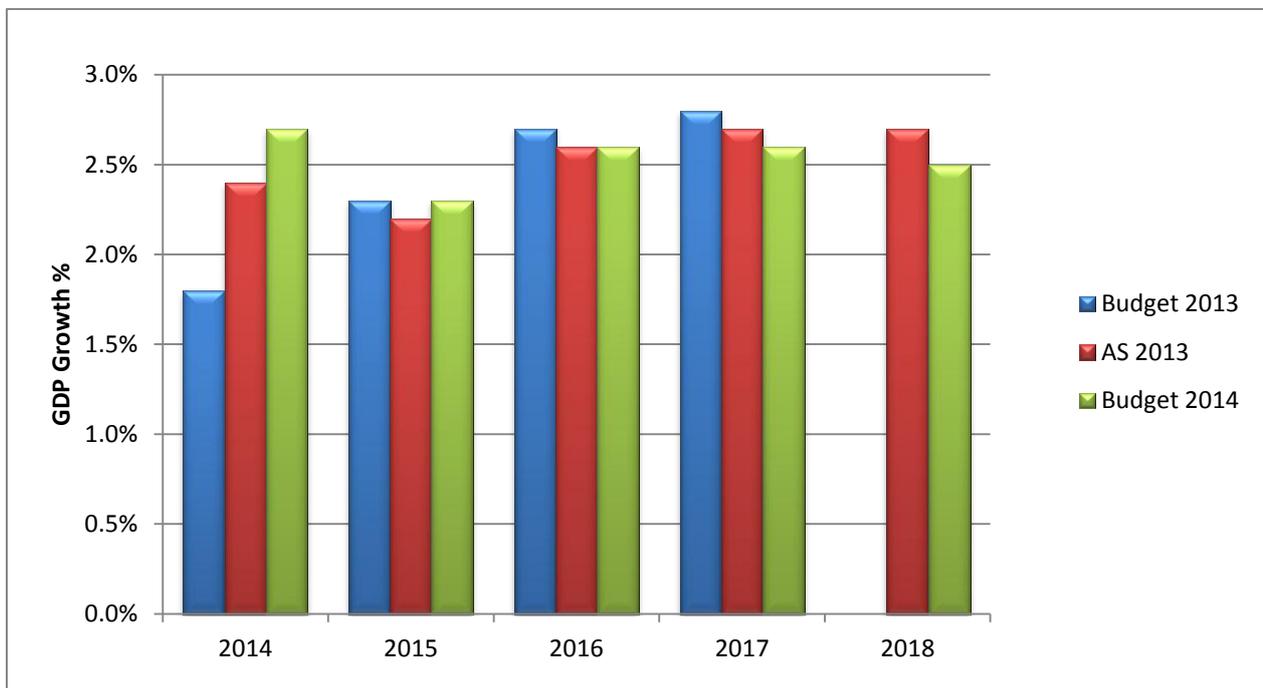
<sup>1</sup> <https://www.gov.uk/government/topical-events/budget-2014>

<sup>2</sup> <http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2014/>

## Growth

GDP growth projections for 2014 and 2015 have been revised up since the 2013 Autumn Statement. However, forecasts for 2017 and 2018 have fallen since December (see Chart 1 below).

**Chart 1 – Change in GDP growth forecasts since Budget 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 Budget. Public sector net borrowing will decrease each year until 2018 when there will be a small surplus.

The OBR expects CPI inflation to be below target at 1.9% in 2014 and then to stay at the 2.0% target for the rest of the forecast period.

Unemployment will continue to fall, reducing from 7.6% to 5.4% by 2018. At the start of 2014 the claimant count was 1.2 million, the lowest level since December 2008, and the OBR now expects it to fall below 1 million in 2017 for the first time since 2008.

**Table 1 – Key economic and fiscal indicators**

	2013	2014	2015	2016	2017	2018
Growth (GDP % on prior year)	1.8%	2.7%	2.3%	2.6%	2.6%	2.5%
Public sector net borrowing (£bn)	107.8	95.5	75.2	44.5	16.5	-4.8
Public sector net debt (% of GDP)	74.5%	77.3%	78.7%	78.3%	76.5%	74.2%
Public sector net borrowing (deficit as % of GDP)	6.6%	5.5%	4.2%	2.4%	0.8%	-0.2%
Unemployment rate (%)	7.6%	6.8%	6.5%	6.1%	5.7%	5.4%
Employment (millions)	29.9	30.4	30.6	30.9	31.2	31.4
CPI inflation (%)	2.6%	1.9%	2.0%	2.0%	2.0%	2.0%

Source: HMT – Budget 2014; OBR - Economic and Fiscal Outlook March 2014

## Budget 2014 – Announcements affecting London local government

### Public Spending

- Total Managed Expenditure (TME) will continue to fall in 2016-17 and 2017-18 at the **same rate as over this Parliament**.
- By 2018-19 this is equivalent to a **£4.5 billion reduction in TME**.
- TME will be reduced by around a further **£2 billion each year from 2016-17** taking account of permanent reductions in departmental revenue budgets announced at the Autumn Statement.
- A permanent reduction to Annually Managed Expenditure (AME) of £725 million will be made in 2015-16 to ensure that public sector employers are meeting the cost of public service pension schemes, rising to around £1 billion a year from 2016-17 onwards.
- Spending cuts will continue to affect local government funding from central government (see appendix B for further explanation).

### Public sector pay & pensions

- The Government confirmed that in 2014-15 pay awards for most public sector workers covered by the recent Pay Review Body recommendations will be **limited to 1%**.
- The Government **is removing progression pay in the civil service** by 2015-16. Proposals have now been agreed with departments covering over 50% of the civil service workforce.
- The Government will pilot **pay bill control** in a number of central government organisations from 2014-15. This is a new method of pay restraint where the overall pay budget is controlled for the organisation, rather than average pay awards.
- The Government will introduce **new employer contribution rates** for the Principal Civil Service Pension Scheme, the NHS Pension Scheme (E&W), the Police Pension Scheme (E&W) applying from 1 April 2015 and for the Teachers' Pension Scheme (E&W) applying from 1 September 2015.

### Public sector land and property

- Government Property Unit's **Strategic Land and Property Review** has identified scope to generate £5 billion of receipts from land and property nationally.
- By Autumn Statement 2014 the Government will look to quantify its housing and growth ambitions for this new surplus land programme.
- **Government Property Unit will increase its work with local areas** on better use of public sector assets, linking in with Growth Deals and building on the Strategic Land and Property Review.
- As with the **One Public Estate pilots** already taking place, this work will focus on opportunities for cross public sector working, efficiency and growth.

### Housing

- The Government will **extend the Help to Buy**: equity loan scheme to March 2020 to help a further 120,000 households purchase a home.
- The **Help to Buy: mortgage guarantee** scheme will continue to support access to high loan to value mortgages until the scheme ends on 31 December 2016.
- The Government will consult on creating a new 'Right to Build', giving custom builders a right to a plot from councils, and a £150 million repayable fund to help provide up to 10,000 serviced plots for custom build.
- The Government will also look to make the Help to Buy: equity loan scheme **available for custom build**.
- The Government will shortly consult on the design of a priority '**Right to Move**' for social tenants to increase their mobility for work-related reasons. Options will include giving such tenants priority when a new social home becomes available, and setting aside a pool of vacant lets to enable them to move across local authority boundaries.

- The Government will **establish a £150 million fund** to kick start the regeneration of large housing estates through repayable loans. Expressions of interest have already been made through the GLA relating to the Aylesbury Estate, Blackwall Reach and Grahame Park regeneration projects in London.
- The Government will work with the Mayor of London and GLA to develop proposals for extending the **Gospel Oak to Barking Line to Barking Riverside**, and to ensure that any public investment unlocks the construction of up to 11,000 new homes.
- It will also work with the GLA and the London Borough of Barnet to look at proposals for the **Brent Cross regeneration** scheme, subject to value for money and affordability.
- The Government will support a **new Garden City at Ebbfleet** with capacity for up to 15,000 new homes, based on existing brownfield land. Up to £200 million of infrastructure funding will be available to kick start development.
- The Government will publish a **prospectus by Easter 2014**, setting out how local authorities could develop their own proposals for bringing forward new garden cities.

### Welfare cap

- The Budget 2014 **caps welfare spending** in scope for the years 2015-16 to 2018-19 at the level of the OBR's forecast, as published in the OBR's March 2014 'Economic and fiscal outlook' (see Table 2, and Chart 2 for a comparison with past trends).

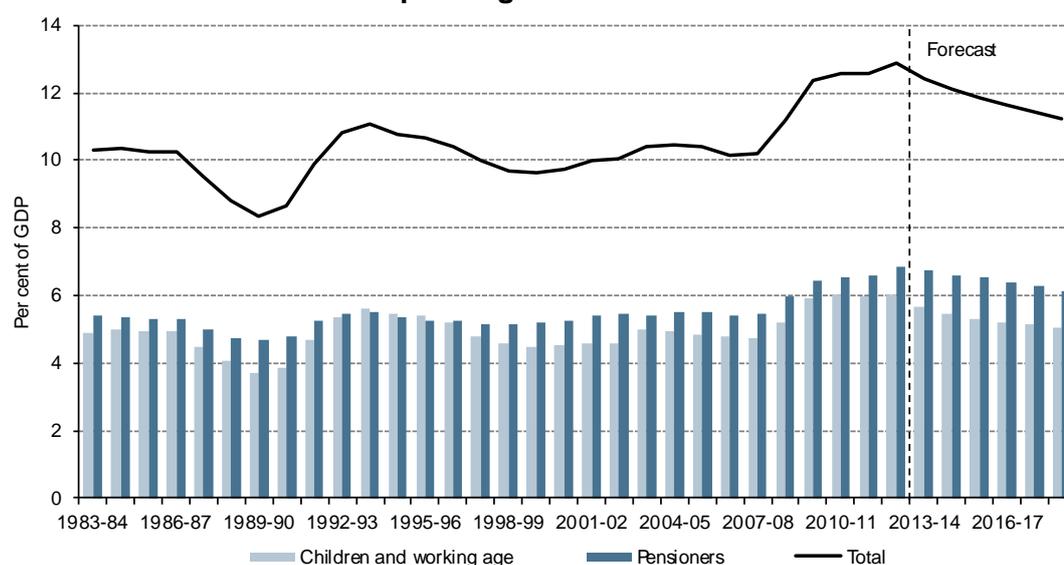
**Table 2 – Welfare Spending Cap**

	2015-16	2016-17	2017-18	2018-19
Welfare cap (£bn)	119.5	122.0	124.6	126.7

Source: OBR, March 2014 EFO (Table 4.28)

- The cap will apply to **all welfare spending in AME**, with the exception of the state pension and the automatic stabilisers.
- A forecast **margin of 2%** above this level will ensure that policy action is not triggered by small fluctuations in the forecast, but will not allow for discretionary policy action which breaches the level of the cap
- In future, any new lines of spending that fall within the OBR's social security or personal tax credits forecasts and impact upon Public Sector Current Expenditure will be presumed to be included within the cap.
- The welfare cap will be included in the '**Charter for Budget Responsibility**' alongside the fiscal mandate. (OBR's first assessment of performance in Autumn Statement 2014).

**Chart 2 - Trends in welfare spending**



Source: OBR, March 2014, EFO (Chart 4.5)

### Troubled Families Programme

- The Government will roll-out **Phase 2 of the Troubled Families programme** in 2014-15, providing support for up to 40,000 families with multiple and costly problems.

### Tax-Free Childcare

- Budget 2014 confirms that the **Tax-Free Childcare costs cap will be increased to £10,000** per year for each child.
- This will mean that eligible parents can now benefit from greater support, worth up to **£2,000 per child** from autumn 2015.
- Tax-Free Childcare will be rolled out to all eligible families with children under 12 within the first year of the scheme's operation

### Education and skills

- Budget 2014 announces £50 million for an **early years pupil premium**, to help improve outcomes for the most disadvantaged three and four year-olds in government-funded early education.
- The Government is investing £350 million to increase the per-pupil school budgets of the least fairly funded local areas in 2015-16.
- The Government is building on the **Apprenticeship Grants for Employers** scheme, by providing an extra £85 million in 2014-15 and 2015-16 for over 100,000 grants to employers.
- The Government will provide £20 million over 2 years to support **apprenticeships up to postgraduate level**.

### Arts & culture

- The Government will introduce **Theatre Tax Relief** from September 2014. This relief will support the production of plays, musicals, opera, ballet and dance at a rate of 25% for touring productions and 20% for other theatre productions. A consultation on the relief will be launched shortly.

### Infrastructure

- Budget 2014 provides **£140 million of new funding to repair flood defences** that have suffered damage.
- The Government is developing **a long-term plan** that will direct this investment to protect the country from future flooding and will publish this in the autumn.
- Budget 2014 provides an extra £200 million, across the UK, to set up a **potholes challenge fund** to help authorities to repair up to 3.2 million potholes following the severe weather.
- The Government has commissioned HS2 Ltd to develop proposals for accelerating the HS2 project and opening the line to Crewe by 2027, 6 years earlier than planned, as well as exploring options for undertaking **a substantial redevelopment of Euston station**.
- The Government will provide £20 million for a grant scheme for repairs to cathedrals in recognition of their heritage significance and role in forthcoming remembrance activities to commemorate the First World War.
- The Government will take the legal powers needed to increase the **current Public Works Loan Board (PWLB)** limit of £70 billion to up to £95 billion in future to enable local authorities to continue to borrow from the PWLB.
- There will be a new air ambulance for London.

### Reform of the planning system

- The Government will review the **General Permitted Development Order**, consulting on specific change of use measures, including greater flexibilities for change to residential use, for example from warehouses and light industry structures, and allowing businesses greater flexibilities to expand facilities such as car parks and loading bays within existing boundaries, where there is little impact on local communities.

### Local growth

- Business rate discounts and Enhanced Capital Allowances in Enterprise Zones **will each be extended by 3 years** as an incentive for new and expanding businesses to locate there.

### Waste and other environmental taxes

- The aggregates levy rate will remain at £2 per tonne in 2014-15.
- Legislation will be introduced to suspend elements of the aggregates levy that are subject to a formal state aid investigation by the European Commission, from 1 April 2014.
- The standard and lower rates of **landfill tax** will increase in line with the RPI, rounded to the nearest 5 pence, from 1 April 2015.
- The government will introduce a **loss on ignition testing regime** on fines (residual waste from waste processing) from waste transfer stations by April 2015. Only fines below a 10% threshold would be considered eligible for the lower rate. Full proposals will be set out in a consultation document later in 2014.
- The value of the **landfill communities fund** for 2014-15 will be reduced to £71 million. As a result, the cap on contributions by landfill operators will be amended to 5.1%.
- Measures announced at this Budget will result in the proportion of revenue from environmental taxes increasing from 0.5% to 0.8% over this Parliament, in accordance with the coalition commitment.

## Appendix A – Public spending reductions to 2018-19

Today's Budget outlines overall public spending figures to 2018-19 (see Table A1 below). While Resource AME continues to rise, overall Government Resource DEL (which is largely where local government funding comes from) will fall by £30bn in cash terms from 2013-14 to 2018-19.

In line with previous policy, the government has set a fiscal assumption that Total Managed Expenditure (TME) in 2016-17 and 2017-18 will continue to fall at the same rate as over this Parliament. As set out in Autumn Statement 2013, TME will be held flat in real terms in 2018-19. Reflecting permanent reductions to spending as a result of the spending reductions announced at Autumn Statement and the reduced AME costs of public service pensions, TME will be reduced by around a further £2 billion each year from 2016-17. Departments remain ahead of their consolidation targets and are forecast to underspend by £7 billion in 2013-14.

**Table A1 – Total Managed Expenditure to 2018-19**

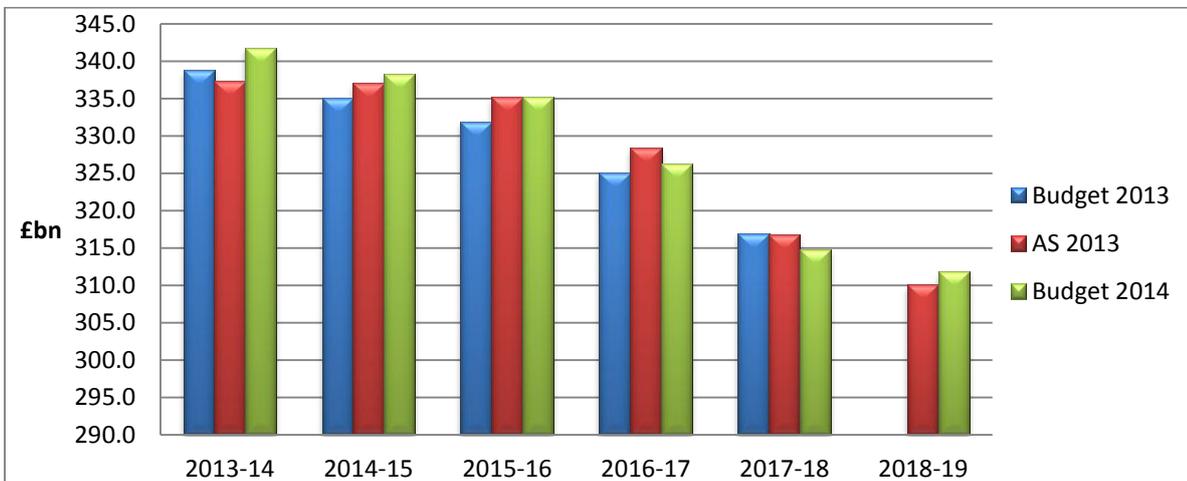
	£ billion					
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
<b>CURRENT EXPENDITURE</b>						
Resource AME	326.2	341.6	356.3	373.6	391.6	407.5
Resource DEL, excluding depreciation	315.4	317.9	312.9			
Ring-fenced depreciation	26.4	20.4	22.3			
<i>Implied Resource DEL, including depreciation<sup>2</sup></i>				325.2	314.8	311.8
<b>Public sector current expenditure</b>	<b>667.9</b>	<b>679.9</b>	<b>691.5</b>	<b>698.8</b>	<b>706.4</b>	<b>719.3</b>
<b>CAPITAL EXPENDITURE</b>						
Capital AME	6.5	6.3	5.1	3.4	5.5	6.0
Capital DEL	41.1	45.9	47.0			
<i>Implied Capital DEL<sup>2</sup></i>				50.3	49.2	51.2
<b>Public sector gross investment</b>	<b>47.6</b>	<b>52.1</b>	<b>52.1</b>	<b>53.8</b>	<b>54.8</b>	<b>57.2</b>
<b>TOTAL MANAGED EXPENDITURE<sup>3</sup></b>	<b>715.5</b>	<b>732.0</b>	<b>743.6</b>	<b>752.5</b>	<b>761.2</b>	<b>776.5</b>
<i>Total Managed Expenditure (% GDP)</i>	<i>43.5%</i>	<i>42.5%</i>	<i>41.6%</i>	<i>40.2%</i>	<i>38.9%</i>	<i>38.0%</i>

*Memo: average annual real growth in Total Managed Expenditure (2010-11 to 2015-16): -0.7%*

Source: Budget 2014 (Table 2.3, p.60)

Resource DEL figures in the Budget are slightly higher in 2013-14 and 2014-15 than previously forecast at the 2013 Autumn Statement (see Chart A1 below). Forecasts for 2016-17 and 2017-18, are lower than forecast in December, while the 2018-19 figures are up slightly because of revisions to ONS and OBR GDP deflators.

**Chart A1 - Projected Government RDEL (incl. depreciation)**



Source: Budget 2013 (Table 2.3); Autumn Statement 2013 (Table 2.3); Budget 2014 (Table 2.3).

## Appendix B – Potential impact on local government

The Resource DEL figures outlined in the Budget (see Tables B1 and B2 below) show a real terms reduction to overall government DEL in 2015-16 of 2.5%. We know from Spending Round 2013 and the illustrative 2015-16 local government finance settlement that this translated to a real terms cut of 10% to local government RDEL, and a 15% real terms cut to Settlement Funding Assessment for local authorities (16% for London boroughs).

It is, therefore, concerning that the figures published today show overall government RDEL reducing by 4.5% in real terms in 2016-17 and 5.3% in 2017-18 and 2.9% in 2018-19. If the Government continues to ring-fence certain departments, then further cuts to local government of similar or greater severity are likely over the medium-term.

**Table B1 - Government spending projections (Budget 2014)**

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Resource AME	326.2	341.6	356.3	373.6	391.6	407.5
Resource DEL (incl. dep)	341.8	338.3	335.2	326.2	314.8	311.8
<b>Public sector current expenditure</b>	<b>667.9</b>	<b>679.9</b>	<b>691.5</b>	<b>698.8</b>	<b>706.4</b>	<b>719.3</b>
<b>Total Managed Expenditure</b>	<b>715.5</b>	<b>732.0</b>	<b>743.6</b>	<b>752.5</b>	<b>761.2</b>	<b>776.5</b>

Source: Budget 2014 (Table 2.3)

**Table B2 - Real terms % change on previous year**

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Resource AME	-	2.5%	2.7%	2.9%	2.9%	2.0%
Resource DEL (incl. dep)	-	-3.2%	-2.5%	-4.5%	-5.3%	-2.9%
<b>Public sector current expenditure</b>	-	<b>-0.4%</b>	<b>0.1%</b>	<b>-0.8%</b>	<b>-0.8%</b>	<b>-0.2%</b>
<b>Total Managed Expenditure</b>	-	<b>0.1%</b>	<b>0.0%</b>	<b>-0.7%</b>	<b>-0.7%</b>	<b>0.0%</b>

Source: Budget 2014 (Table 2.3)