

## **CABINET – 16 JULY 2013**

### **Impact of the 2015/16 Central Government Spending Round**

**Report by the Assistant Chief Executive & Chief Finance Officer**

#### **Introduction**

1. This report outlines the key features and implications of the 2013 Spending Round announced on 26 June 2013, which sets out public spending totals for the financial year 2015/16. Spending totals for the period 2011/12 to 2014/15 were set out in the previous Spending Review in 2010.
2. This Spending Round confirmed that until 2017/18 the total amount of government spending will continue to fall in real terms at the same rate as over the 2010 Spending Review period.
3. A further £11.5bn of public sector savings in 2015/16 are required to achieve the spending plans. Health, schools and overseas aid have been protected, with the burden of the savings falling on other departments. Savings are focussed on day-to-day expenditure, with funding prioritised to capital investment to achieve economic growth.
4. The Chancellor identified the three principles on which this Spending Round has been based as:
  - Reform: an obligation to ensure more is gained from every pound spent of taxpayers' money;
  - Growth: to provide the schools, science, transport links and reliable energy to enable business to grow;
  - Fairness: ensuring all sections of the population play their part and that those with the broadest shoulders bear the greatest burden.

#### **Main announcements**

##### ***Capital investment***

5. The Chancellor announced a range of new capital spending commitments and the intention to provide for £50bn of capital spending in 2015/16. Spending will be prioritised in the areas that yield the highest economic returns: transport, science and innovation, education and skills.
6. The Single Local Growth Fund, established in response to Lord Heseltine's review of economic growth, will be £2bn each year from 2015. This funding will be available for bids from local enterprise partnerships.

7. Other capital investment plans for 2015/16 include £9.5bn for the transport network, £3bn for affordable housing and £1.1bn for science. Details of these, and all of the £100bn infrastructure investment over the next Parliament, was provided in a separate announcement '*Investing in Britain's Future*'. This is covered later in the report.

### **Local Government**

8. The Department for Communities and Local Government (DCLG) resources budget for local government will reduce by 10% in real terms (8.2% in cash terms) between 2014/15 and 2015/16. The government suggests that when council tax, other local income and other central government funding (including the pooled funding for health and social care outlined below) are taken into account local government spending will reduce by only 2.3%.
9. The government will make funding available to freeze council tax in 2014/15 and 2015/16. This is in addition to £833m funding for previous freeze grants for 'those local authorities who have kept council tax down since 2011/12'. It is not clear from this wording whether there are implications for freeze grant received for previous years for local authorities who have not frozen council tax in each of the years 2011/12 – 2013/14. According to the DCLG website '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 levels'. It is not made clear whether this is one-off or on-going funding. In addition, the government plans to set the council tax referendum threshold at 2% for 2014/15 and 2015/16.
10. A key plank of the Chancellor's reform package has been to encourage public services in a local area to work more closely together, building upon the Whole Place Community Budget pilots. The Spending Round announced:
- A £100m 'transformation fund' to help local authorities to cover the initial costs of working with each other more closely, for instance on new joint IT systems.
  - £30m to enable the opportunities identified in the recent Knight Review for greater collaboration and integration between fire services and other emergency services.
  - A £50m 'innovation fund' for police forces to work jointly with each other and with local authorities on new, more efficient ways to prevent crime and ensure community safety.

### **Health and Social Care**

11. The government will provide £3.8bn pooled funding in 2015/16, for services commissioned jointly and seamlessly by the local National Health Service (NHS) and local authorities. Some of this money is already used to benefit adult social care. It includes the existing £900m already transferred from the NHS to adult social care and the £300m made available for reablement. (In Oxfordshire, reablement resources are already included in the Older People Pooled Budget). It also includes £100m of existing NHS money for carers (in Oxfordshire this is effectively pooled with County Council resources for carers). There is effectively £2.1bn of new NHS investment. However, the government has already made clear that the use of this

money will have to be agreed with health through Health and Wellbeing Boards. In addition, £1bn will be dependent on the delivery of outcomes, such as keeping people out of hospital. The £3.8bn includes £400m of capital resources.

12. In 2014/15 £200m additional funding for local authorities from the NHS will be provided to support this move with investment in new systems and ways of working.
13. In addition, £335m will be made available to local authorities in 2015/16 to enable them to prepare for social care funding reforms, including the introduction of a cap on care costs from April 2016 and a universal offer of deferred payment agreements from April 2015.
14. The government states that local authorities will be fully funded for the costs arising from the transfer of the Independent Living Fund to the local authority social care system in April 2015. Previous statements by the government agency responsible for this change indicate that we will receive 95% of the current level of spending.

### ***Children's Services***

15. The Troubled Families programme is being extended with an additional £200m in 2015/16 to expand this work from 120,000 to 400,000 high risk families. This will be the first year of a 5-year programme.
16. The Department for Education (DfE) and DCLG will work with local government to examine the scope to improve outcomes, reduce burdens and drive efficiency in children's services, reporting on progress in the autumn.

### ***Education and skills***

17. The Spending Round includes real terms protection for the schools budget and the Pupil Premium. However, the Education Services Grant (for central education support services and statutory duties) will be reduced by £200m in 2015/16 (approximately 20%). DfE will consult in the autumn on the details of the reduction.
18. The government will also consult on the introduction of a national funding formula for schools in 2015/16. This is intended to address the unfair differences in funding between schools in different local authorities. The government will also consult on options for major reform of apprenticeship funding following recommendations from the Richard Review of apprenticeships.
19. The Spending Round supports the continued roll out of academies and funding for up to 180 new Free Schools, 20 new Studio Schools and 20 new University Technical Colleges a year.

**Public sector workforce**

20. Public sector pay rises will be limited to an average of 1% for a further year (2015/16). Automatic pay progression will be abolished in the Civil Service by 2015/16 and automatic pay rises for time served will be removed in schools, the NHS, prisons and the police.
21. The public sector workforce is expected to fall by a further 144,000 by 2015/16.

**Other**

22. Government funding for local community arts, sports and museums will reduce by 5%, although the government is looking at piloting new operational freedoms to help them be more financially independent.
23. The Military Covenant will be permanently funded through fines levied against banks.
24. A cap on welfare spending (excluding the state pension) will be introduced from 2015/16 and will be announced as part of the 2014 Budget. Further welfare reforms will be introduced, including upfront worksearch and a seven day wait before becoming eligible for financial support, to deliver annual savings of over £350m. Savings of £30m a year will be achieved by linking the Winter Fuel Payment to a temperature test.

**'Investing in Britain's Future'**

25. On 27 June 2013 the Chief Secretary to the Treasury announced the details of the government's infrastructure investment plan 'Investing in Britain's Future'. This updated the 'National Infrastructure Plan' which was first published in 2010. The update has four strands:
  - Public investment in infrastructure worth over £100bn to 2020
  - Policy reform to stimulate private investment in energy generation
  - Transforming the financing of major projects by developing the UK guarantees scheme
  - Learning from the successful approaches taken in the Olympics and elsewhere
26. 'Investing in Britain's Future' covers nine major areas: roads; rail; energy; science and innovation; housing; digital communications; other sectors (schools, flood defence etc.); local leadership on economic development (local enterprise partnerships); delivery and finance.
27. Key points from the plan are as follows:
  - **Roads** - Local authority funding for major projects is shown as a constant £819m per year, over the six years from 2015/16 to 2020/21 inclusive (£4.9bn in total). Similarly, local authority funding for maintenance is shown as a constant £976m a year over the six year period (£5.8bn in total). The government claims that the latter would allow local authorities to fill the equivalent of 19 million pot holes a year. There is also £458m a year over the six year period for the integrated

transport block. It is noted in the plan that the funding for major projects and £200m each year of the integrated transport block funding will form part of the Single Local Growth Fund.

- **Housing** - £3.7bn will be invested and £12bn of guarantees will be provided across the UK through Help to Buy. In addition there will be £3.3bn of funding for new affordable housing to deliver 165,000 new affordable homes in England over the next three years and £1bn of loan finance to support new build private rented homes in England.
- **Broadband** - A further £250m will be made available to extend superfast broadband coverage from the current target of 90% of UK premises to 95% by 2017.
- **Schools** - A further £21bn will be invested in schools over the next Parliament. This will provide over 275,000 new primary school places and 245,000 new secondary places to respond to demographic pressures. Also this funding will be used to rebuild 150 schools in very poor condition and address all essential schools maintenance needs, as well as funding the new free schools etc. referred to earlier in the report.
- **Health and Social Care** – the government has allocated £4.7bn for capital investment in the health and social care system in 2015/16. This includes £220m funding for home adaptations through the Disabled Facilities Grant and an additional £115m for supported housing.
- **Flood Defence** - A specific long term funding settlement for flood defence will provide security for home owners and businesses in flood risk areas. Funding will rise to £370m in 2015/16 and then be protected in real terms until 2020/21. This should improve protection for 300,000 homes by the end of the next Parliament.
- **Enterprise Zones** - The Local Infrastructure Fund will be increased by a further £50m in 2014/15 to ensure that Enterprise Zones have the infrastructure they need to attract businesses. This is in addition to the £59m awarded to successful Enterprise Zones in June 2013.
- **Local Enterprise Partnerships and New Homes Bonus** – The Single Local Growth Fund, mentioned previously, will bring together just over £2bn a year of funding from across transport, skills and housing budgets, of which £1.4bn will be capital in 2015/16. Overall, £20bn of funding will be made available to local enterprise partnerships during the period 2012/13 to 2020/21. Local enterprise partnerships will also be given the responsibility to decide how the £5.3bn EU Structural and Investment Funds for 2014/20 will be spent in their area.

£400m of the funding for the Single Local Growth Fund is from the New Homes Bonus. The government says that the New Homes Bonus will continue on a payment-by-results basis in order to incentivise house building. The government will however consult on a mechanism that will require that a proportion of the New Homes Bonus is pooled by local authorities and becomes part of the Single Local Growth Fund. As the New Homes Bonus is predicted to be worth around £1bn in

2015/16, this implies that 40% of it will be top sliced to include in the Single Local Growth Fund. Funding for the majority of the New Homes Bonus is already top-sliced from the localised business rate system. Thus top-sliced funding is to be further top-sliced to put into the Single Local Growth Fund. In shire areas, 80% of the New Homes Bonus is paid to Districts and 20% to the County.

## **Implications for Oxfordshire**

### ***Council Tax***

28. The 2013/14 - 2016/17 Medium Term Financial Plan (MTFP) includes Council Tax increases of 2.5% in 2014/15 and 3.75% in 2015/16. To restrict Council Tax increases to the 2% referendum limit announced by the government would require savings of £1.3m in 2014/15, a further £4.9m in 2015/16 and on-going savings of £6.5m in future years.
29. To take up the Council Tax Freeze Grant would require additional savings (over and above those required to reduce the Council Tax increase to 2%) of £2.7m in 2014/15 and a further £2.8m in 2015/16 and on-going savings of £5.8m in future years, assuming the freeze grant funding is on-going. Further on-going savings of £5.8m a year would be required if the grant is one-off.

### ***Grant funding***

30. The Council's general funding comprises Revenue Support Grant, Business Rates Top-Up, Business Rates from District Councils (our local share) and Council Tax. The reduction in local government resources set out in the Spending Round is based on the total for the first three of those elements. However, as Business Rates Top-Up and Business Rates from District Councils are assumed to go up within inflation, all of the reduction falls on Revenue Support Grant.
31. The MTFP assumed a combined reduction in Revenue Support Grant (RSG), Business Rates Top-Up and Business Rates from District Councils in 2015/16 of 7.2%, in line with the level of reductions seen in the 2010 Spending Review. Within this, RSG reduced by 15.1% and both elements of Business Rates increased by 2.7%.
32. The Spending Round implies that the reduction in RSG in 2015/16 is increased to 17.5%, with Business Rates Top-Up and Business Rates from District Councils remaining broadly in line with the estimates in the MTFP. On this basis RSG for 2015/16 will be £1.9m less than in the MTFP, a reduction of £14.2m on 2014/15 as set out in the following tables:

Comparison to MTFP	2015/16 MTFP	2015/16 SR2013 Forecast	Difference	
	£m	£m	£m	%
Revenue Support Grant	69.2	67.3	-1.9	-2.8
Business Rates Top-Up	37.8	37.9	0.1	0.4
Business Rates from District Councils	28.9	28.9	0.0	-0.1
<b>Total</b>	<b>135.9</b>	<b>134.1</b>	<b>-1.8</b>	<b>-1.3</b>

Comparison to 2014/15	2014/15 MTFP	2015/16 SR2013 Forecast	Difference	
	£m	£m	£m	%
Revenue Support Grant	81.5	67.3	-14.2	-17.5
Business Rates Top-Up	36.8	37.9	1.1	3.1
Business Rates from District Councils	28.0	28.9	0.9	3.1
<b>Total</b>	<b>146.3</b>	<b>134.1</b>	<b>-12.2</b>	<b>-8.4</b>

33. The Spending Round forecast for RSG assumes that £250m of funding for the New Homes Bonus, promised for the period of the 2010 Spending Review, continues in 2015/16.
34. In addition to the reduction in the local government resources budget, the Spending Round has implications for specific grant funding from all government departments. The 20% reduction Education Services Grant in 2015/16 implies a loss of £1.8m grant funding for the Council. The MTFP includes estimated New Homes Bonus of £2.9m in 2015/16, of which £0.5m is planned to go into the Capital Rolling Fund Reserve. A 40% top-slice of this funding (£1.1m) has implications for the revenue budget and possibly the capital programme. The impact on other specific grants is not yet known, however it is estimated that these could reduce by about £1m in total.
35. Meeting the care and support needs of current Independent Living Fund users costs about £4m per year in Oxfordshire, so confirmation that these costs will be fully funded by government is welcomed.

### ***Public sector integration***

36. Oxfordshire is leading the way on the integration of health and social care, with the recently announced expansion to the Older People's Pooled Budget arrangement. The Council would therefore expect to benefit from the additional £2bn NHS investment set out in the Spending Round as well as from the other integration funding announced, including the expansion to the Troubled Families programme.

### ***Public sector workforce***

37. The MTFP assumes a 2.5% pay award in 2015/16. Limiting the pay award to 1% would save about £2m.

38. The removal of pay progression in the Civil Service and other parts of the public sector does not automatically apply to the local government workforce, however this is something that may be explored.

### ***Capital investment***

39. The infrastructure investment plan 'Investing in Britain's Future' includes two major local projects:
- The East-West rail link from Oxford to Aylesbury, Milton Keynes and Bedford
  - Major upgrades and new facilities at Harwell Science and Innovation Campus

As well as confirming funding for High Speed 2, who's route runs through the north east of the County.

40. There are no road improvement schemes specific to Oxfordshire mentioned in the infrastructure investment plan, however the Council would hope to benefit from the increased investment in major projects (via the Oxfordshire Local Enterprise Partnership) and roads maintenance.
41. The Oxfordshire Local Enterprise Partnership will be able to bid for funds from the Single Local Growth Fund to enable growth in the City Deal priority areas of Bicester, Oxford and Science Vale. This could help to mitigate the impact of top-slicing of New Homes Bonus funding.
42. The implications for the other areas of capital investment, including schools, health and social care and flood defences are not yet known.

### **Equality and Inclusion Implications**

43. There are no equality and inclusion implications arising directly from this report. Any savings required as a result of the Spending Round announcement will be addressed as part of the service and resource planning process. This will include a general assessment of the impact of budget proposals and impact assessments for all significant changes.

### **Financial and Legal Implications**

44. This report is mostly concerned with finance and the implications are set out in the main body of the report.



## **RECOMMENDATION**

**45. The Cabinet is RECOMMENDED to note the report.**

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