

Commentary on the Spending Review & Autumn Statement – 25 November 2015

1. Background

- 1.1 On 25 November 2015 the Government announced the detail of its Spending Review and Autumn Statement in a combined statement to Parliament. It is the third major economic statement this year after the Budget in March 2015 and the post-election Summer Budget in July 2015.
- 1.2 The Spending Review gives a five-year view of the Government's spending plans, looking at the budgets of all the Government's departments. It confirms how £4 trillion of taxpayers' money will be spent by setting the maximum amount that each department can spend. Deep spending cuts were announced as the Chancellor of the Exchequer tries to balance the books.
- 1.3 The Autumn Statement was included within the Chancellor's speech, with MPs updated on the Government's taxation and spending plans based on the economic projections provided by the Office for Budget Responsibility (OBR).
- 1.4 This is an initial review of the Spending Review and Autumn Statement. It is not possible to confirm the impact on the Council's grant funding and future spending requirements until further information is released. The Provisional Local Government Finance Settlement issued in December 2015 will give the full detail about the impact the 2015 Spending Review and Autumn Statement will have on Oldham.
- 1.5 Whilst the Spending Review (SR) covered a wide range of financial and policy issues covering all aspects of Government business, set out below are some key headline issues which will impact on Local Government.

2 Key Headlines for Local Government Finance

- 2.1 There are a wide range of potential implications arising from the announcement, of which the most significant having an impact on Local Government finance are:

- a) Reductions to Local Government grant of £6.1 billion by 2019/20.

Overall Local Government spending will be higher in cash terms by 2019/20 than in 2015/16 through given forecast increases to other sources of Local Government income. This will be achieved by the planned implementation of the 100% business rate retention by the end of Parliament.

- b) Support for Adult Social Care

There will be £3.5 billion of support for adult social care by 2019/20 through a new social care 'precept' and an expanded Better Care Fund to support health and social care integration.

- An additional 2% Council Tax precept can be charged to fund costs of adult social care. This will not trigger a local referendum on Council Tax increases. The additional income raised from this 2% increase will need to be ringfenced against adult social care costs. This measure favours authorities with larger Band D tax bases. Oldham's housing stock (2015/16) at Band A to Band C accounts for 86.2%, with 13.8% at Bands D to H. It should be noted that the

additional 2% Council tax precept is in addition to the already allowable increase in Council Tax (up to 1.99% without triggering a local referendum – although the referendum threshold is yet to be confirmed).

- The Government's view is that taken together, the new precept and the additional Local Government Better Care Fund contribution mean Local Government has access to the funding it needs to increase social care spending in real terms by the end of the Parliament. The Government advised that this will support Councils to continue to focus on core services and to increase the prices they pay for care, including covering the costs of the National Living Wage, which is expected to benefit up to 900,000 care workers.
- The spending review sets out an ambition that by 2020 health and social care are integrated across the country.
- There is confirmation of the Government's commitment to implement the 'Dilnot' social care reforms with funding provided in 2019/20 to cover the costs of Local Authorities preparing for these changes. The cap on reasonable care costs and extension of means tested support will then be introduced and funded from April 2020.

c) Changes to the System of Local Government Finance

The Department for Communities and Local Government (DCLG) plans to consult on changes to the Local Government finance system to pave the way for the implementation of 100% business rates retention by the end of the Parliament. This will take account of all resources available to Councils. There is confirmation that Revenue Support Grant (RSG) will be phased out but additional responsibilities will be given to Councils. For example the Government may consider the transfer of responsibility for the payment of Housing Benefit for pensioners.

The system of top-ups and tariffs which redistributes revenues between Local Authorities will be retained. The Uniform Business Rate will be abolished and this will allow any local area to cut Business Rates as much as they like.

d) Council Tax Increases/Council Tax Freeze Grant

In addition to the Adult Social Care precept, the Government seems to be continuing with policy of allowing Council Tax increases but with a requirement to hold a referendum if the increase exceeds a set level. The referendum threshold in 2015/16 is 2% but this has not been confirmed for 2016/17. Currently the Government pays Council Tax Freeze Grant (CTFG) to those Councils who either reduce or freeze Council Tax and past practice has been to roll this grant into RSG in the following financial year.

The SR made no reference to CTFG and therefore any funding for a past or future Council Tax freeze has yet to be confirmed. For 2016/17, a Council Tax Freeze Grant of £926,000 has been estimated and used in financial projections.

e) Education/Skills/Employment

- The current school funding formula is to be phased out with a new national funding formula to begin in 2017. Consultation will begin on this in the New Year.

- The Chancellor has confirmed his plans for 30 hours of free childcare for parents of three and four year olds which is an increase from 15 hours per week. However the upper income limits per parent for tax free child care will be lowered from £150k to £100k and there will be an increase in the minimum income level per parent from the equivalent of 8 hours to 16 hours at the national living wage.
- Schools budgets in England have been protected in real terms with the total education spending increasing by £5bn in 2020. This enables a per pupil protection for the Dedicated Schools Grant and the Pupil Premium.
- The Government is investing £23bn in school buildings, opening 500 new free schools, creating 600,000 school places, rebuilding and refurbishing over 500 schools and addressing essential maintenance needs.
- The Government's goal is to end local authorities' role in running schools with all schools becoming an academy.
- There is to be a national reduction in Education Services Grant of £600m however detail of how this is to be apportioned has yet to be detailed.
- Funding for universal free school meals will be maintained.

f) Use of Capital Receipts for Revenue Purposes

In order to allow the reform of services and to make them more efficient, Local Authorities will have new flexibilities to spend 100% of their capital receipts to fund revenue costs. Detail will be released as part of the Provisional Local Government Finance Settlement in December.

g) Change to the New homes Bonus Scheme

The Government will consult on reforms to New Homes Bonus (NHB), including the means of sharpening the incentive to reward communities for additional homes. It will further consult on reducing the payment of the grant from a period of 6 years to 4 years. This will include a preferred option for savings of at least £800m, which can be used for social care. The current financial projections rely on £2.7m NHB in 2016/17

h) Use of Reserves

Authorities are to be encouraged to use their reserves to manage change.

i) Troubled Families Programme

Government will continue to invest in the Troubled Families Programme.

j) Rate Relief

The doubling of Small Business Rate Relief will continue for a further 12 months from April 2016 and grant funding will therefore be allocated. The 2015/16 grant for Oldham was £1.425m. No reference was made to the continuation of Retail Relief or Long Term Empty Property Relief.

k) Housing Benefit

- The Government will extend funding to the end of 2017/18 to reward Local Authorities for reducing fraud and error in Housing Benefit.
- Housing Benefit for new social tenants is to be capped at the same level as private sector tenants.

l) Local Government Pensions

The Government will publish guidance for pooling Local Government Pension Scheme Fund assets into 6 British Wealth Funds, containing at least £25bn of Scheme assets each.

m) Local Growth Fund

The Government will deliver on its commitment to a £12bn Local Growth Fund between 2015/16 and 2020/21.

n) Apprentice Levy

From April 2017 the Government will introduce an Apprenticeship Levy which equates to 0.5% of an employer's total pay bill where the bill is in excess of £3m. Each employer will receive an allowance of £15,000 to offset against their levy payment.

o) Welfare Reform

The Chancellor confirmed that the £12bn of welfare savings will be delivered in full by the end of the Parliament the Government will not be within its own self-imposed cap on welfare spending in the first few years however it will move within target later on in the Parliament.

p) Public Health

The Government will make savings in Local Authority Public Health spending and will also consult on options to fully fund Local Authorities' Public Health spending from their retained business rates receipts, as part of the move towards 100% business rate retention. The Public Health grant for Oldham for 2015/16 is over £17m

q) Care for Older and Disabled People

The continuation of the improvement in care for older and disabled people and support for their carers has also been announced. The Spending Review includes over £500m by 2019/20 nationally for the Disabled Facilities Grant, which will fund around 85,000 home adaptations that year.

r) Housing

- The Chancellor has pledged almost £7bn to make house building a priority, with more than 400,000 "affordable homes" to be built in England.
- Additional Discretionary Housing Payment funding will be made available to Local Authorities to protect the most vulnerable including those in supported accommodation.
- The Government will amend planning policy to ensure the release of unused and previously undeveloped commercial, retail and industrial land for 'Starter Homes'. They will also support regeneration of previously developed,

brownfield sites in the green belt by allowing them to be developed in the same way as brownfield sites elsewhere, providing it delivers 'Starter Homes'.

s) Public Sector Workforce Reform

Whilst Council staff will not be directly affected by public sector workforce reform, Government policy statements set out an expectation.

- The Government will consult on further cross-public sector action on exit payment terms, to reduce the costs of redundancy payouts and ensure greater consistency between workforces.
- There will be a review of sickness absence in the public sector workforces before the Government consults on how to reduce its impact on public service delivery, considering legislation where necessary.
- There will be continued restraint on public sector pay with increases limited to 1% over the next 4 years.
- The Government will issue guidance to encourage Local Authorities to rein in excessive salaries
- The Government is concerned about the growth on salary sacrifice arrangements and will consider if any action is needed in future.

t) Devolution to Greater Manchester

The Government is making further progress on devolving powers to Greater Manchester, demonstrating that the first devolution deal is just the start of a closer dialogue between cities and government. However, there was little specific information or comment on GM devolution.

3 Conclusion

- 3.1 The Spending Review and Autumn Statement document issued by HM Treasury runs to 145 pages and contains a range of information on all aspect of Government expenditure and income. It sets out Government policies and gives direction as to Government thinking over the life of the Parliament. The lack of detail means that it is impossible to set out the actual financial impact of any of the issues discussed above, prior to the receipt of the Provisional Local Government Finance Settlement or Government consultation documents.