Budget 2013
20 March 2013

Today the Chancellor published the Budget which sets out the position of the national finances and announces a number of measures that the Government will be taking forward with the aims of protecting the public finances, encouraging growth and promoting fairness.

LGA Key Messages

- The prospect of new cuts to funding for local services in 2014/15 and beyond is extremely worrying. Reducing the money available for local services would be a false economy which diminishes those services, leads to higher costs in other parts of the public sector and limits the role councils can play in promoting growth.

- Councils are already dealing with a 33 per cent cut in funding from central government. This has led to reductions in local services. Any new cuts next year and beyond will have a significant negative impact, particularly as the rising demand for and cost of services such as adult social care and changes to National Insurance are already guaranteed to soak up an increasing share of local government funds.

- The Government needs to reconsider its approach ahead of the 2015/16 spending round. The only way of maintaining public services in the face of the proposed long-term cuts is by undertaking a radical transformation of the way they are provided and paid for. This has to be based on the idea of allowing local areas to design services around the needs of people and communities. Extending the Community Budgets programme to other local areas is a major step.

- The Government confirmed its intention to take forward Lord Heseltine's recommendation on the creation of a Single Local Growth Fund. This is a positive step and something the LGA has called for. Lord Heseltine identified up to £70 billion in funding streams currently held nationally that could be put to better use if they were devolved. We strongly support this level of ambition.

- The Government has confirmed its plans to introduce a new funding model for adult social care based on the recommendations of the Dilnot Commission. Central government needs to work closely with local authorities and the NHS on its timetable for implementation and ensure that any costs associated with the capped-cost model are fully funded.

- The housing proposals include measures aimed at increasing the supply of new housing through equity loans and mortgage

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Briefing

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guarantees. However, the Chancellor has missed a golden opportunity to boost growth in failing to use this Budget to remove the unnecessary cap on councils’ investment in new housing.

This briefing covers:

- Public finances and the Spending Review
- Whole-Place Community Budgets
- Local growth
- Adult Social Care
- Housing
- Child care
- Pay

Public finances and the Spending Review

The Chancellor confirmed changes to the spending plans with reductions in departmental expenditure limits of £1.1 billion in 2013-14 and £1.2 billion in 2014-15. The equivalent of a 1 per cent reduction for most government departments. In the short-term, these funds will be used to support housing. Local government and police will be exempt from a further cut in 2013-14. The impact of further reductions in 2014-15 on local government is not yet clear. Protection for schools, health and international development will continue.

The small business rate relief will be considered at Autumn Statement 2013.

Today's Budget confirms the timing of the Spending Review which will set out departmental spending plans for 2015-16. It announces that Government will:

- Make savings from current spending of £11.5 billion in the spending review for 2015-16.
- Move funds from revenue to capital of £3 billion a year from 2015-16.
- Exercise public sector pay restraint of 1 per cent (the local government budget will be adjusted accordingly).
- The themes of the spending review will be growth, efficiency and public service reform, including localism and fairness.
- The Government will publish analysis of the distributional impact of the spending round.
- The Department for Education will carry out a schools efficiency review. This is due to be published alongside the Spending Review on June 26th 2013.
- It has been confirmed that total spending in 2015-16, 2016-17 and 2017-18 will continue to fall in real terms at the same rate as during the Spending Review 2010 (SR 2010) period. The overall spending envelopes for Total Managed Expenditure for the three years are set at £745 billion in 2015-16, £755 billion in 2016-17 and £765 billion in 2017-18.
- Introduce a firm limit on a significant proportion of Annually Managed Expenditure (AME) including areas of welfare reform.

<u>LGA View:</u>

It is welcome that local government is exempt from a further reduction in 2013-14. However, the position on 2014-15 is not clear yet and subject to confirmation by the Secretary of State for Communities and Local Government. An additional cut in 2014-15 (on top of the 2 per cent reduction made in the Autumn Statement) is unsustainable without impacting on services. A further round of cuts will hurt local government's ability to promote growth and deliver services.

This year's spending review needs to accelerate progress on a joint place-based approach to public sector transformation through community budgets, create an ambitious single pot for local growth as proposed by Lord Heseltine, at least maintain NHS investment in social care, enable councils to build more affordable homes and ensure schools work with councils to support early intervention. The LGA has submitted proposals to the Treasury in advance of the Budget setting out our recommendations for the Spending Review.

Further details on the Spending Review can be found in the Red Book, *Budget Report,* paragraphs 1.51-1.59.

Whole-Place Community Budgets
Following the successful development of whole-place business plans for community budgets in four pilot areas (Essex, Greater Manchester, Tri-borough and West Cheshire); the Budget confirms that the Government will support other places to take similar approaches to local public service transformation.

The Government will establish a new multi-agency network, which the LGA will be part of, to drive the transformation of local public services. The network will spread innovation from the Whole-Place Community Budget pilots and What Works Centres to support other places at key stages to provide advice and support on co-designing local public service transformation. The Government has also committed to extend the approach across the country as part of the 2015-16 spending round.

Full details can be found in the Red Book, chapter two, *Budget Policy decisions,* paragraphs, 1.58 and 2.31.

LGA View
If the local public sector is going to be smaller, it is going to have to be radically transformed to focus on better collective working and on investment in reducing demand and preventing failure. To achieve that, public services need rewiring based on people and places, and the whole-place community budget pilots have demonstrated the savings and improvements in outcomes that can result.

The Government's confirmation in the Budget that it will support other places to take a whole-place approach is a major development. We hope it will lead to a real widening and acceleration of the whole-place approach. Councils will inevitably be at the centre of that. Every place that wants to take this approach must now feel free to take this forward and, even if it cannot be directly supported by the new Network, must benefit from the full political and managerial backing of central government.

We look forward to discussing with the Government how the spending round can entrench the approach across the country; we believe the way to do that may be to develop a new way of budgeting for the totality of public service across a place.

Local growth
The Government confirmed the intention to take forward Lord Heseltine's recommendation on the creation of a Single Local Growth Fund, devolved to the local level through new Local Growth Deals, with the Fund expected to be operational by April 2015.

LGA View
We are pleased that the Government has responded to our call for Local Growth Deals to be made available to all areas through a negotiated

process. We believe that this approach will help ensure that all local partnerships with ambition and innovative ideas are able to drive economic growth.

However, the viability and success of Local Growth Deals will be contingent on the strength of the spending review's Single Local Growth Fund. Lord Heseltine has identified up to £70 billion in funding streams currently held nationally that could be put to better use if they were devolved. We would be very disappointed, and would question the viability of this proposal, if the single pot fell short of Lord Heseltine's ambition.

Local Growth Deals should also recognise the value of placed-based approaches to bringing forward more investment and supporting export activity. The LGA is committed to working with Government to support better co-ordination and engagement between UK Trade and Investment (UKTI), local authorities, business and Local Enterprise Partnerships (LEPs) on these issues.

Employment allowance

Businesses and charities will be given an entitlement to a £2,000 Employment Allowance per year towards their employer National Insurance contributions bill from April 2014.

<u>LGA View</u>
This incentive to support businesses, particularly Small and Medium Enterprises (SMEs), to take on new employees is a positive step. However, it will not address the more fundamental problems with the skills system that have created a mismatch between the work readiness and skills of young people and needs of local employers.

We have already proposed to Government a set of reforms to cut the number of young people out of work by 20 per cent in three years and save £1.25 billion a year to the taxpayer. This would be achieved by councils and their local partners targeting learning and employment schemes linked to what local businesses actually need.

Industrial strategy

The Government will provide £1.6 billion of funding to support strategies in eleven key sectors: automotive, aerospace, life sciences, agri-tech, professional business services, information economy, construction, education, nuclear, oil and gas, and offshore wind. Each strategy will set out actions for both industry and the Government, such as bridging skills gaps or strengthening supply chains.

<u>LGA View</u>
We are keen to work with the Government to ensure that these strategies take into account local economic intelligence and circumstances, in order to capitalise on the good work that is already being done by local authorities and their partners in local areas to position the UK as a global leader in these sectors.

You can read further detail in the *Budget Report*, paragraphs 1.86 and 1.139.

Adult social care
Under the Budget theme of ‘fairness’, the Government has confirmed its plans to introduce a new funding model for adult social care based on the recommendations of the Dilnot Commission. The Chancellor confirmed two of the key features of the proposed new system: a cap of £72,000 on the costs an individual has to pay to meet their eligible care and support needs; and an extension to the asset threshold in the financial means test for residential care from £23,250 to £118,000. The date for the new system going live has been brought forward a year to 2016.

This issue is covered in the Red Book, *Budget Report*, page 56, from paragraph 1.194.

LGA view
We recognise that the Government has taken a significant step in committing to reform adult social care funding. However, bringing implementation forward a year to 2016 makes for an even more challenging timetable. Government needs to work closely with local government and the NHS to develop a timetable for implementation and ensure that any costs associated with the capped-cost model are fully funded.

Funding reform is just one part of the solution to reforming care and support and needs to be taken forward alongside a commitment to:

- Putting the system on a sustainable financial basis.
- Improving the individual’s experience of care and support by simplifying the system, giving the individual greater choice and control, and driving up quality through a diverse and responsive provider market.
- Using all local resources to optimum effect by ensuring care provision is appropriately aligned with health, housing and benefits”.

Housing
The housing proposals include Help to Buy, a package of measures aimed at increasing the supply of new housing by providing an equity loan worth up to 20 per cent of the value of a new build home; and providing a mortgage guarantee of up to 20 per cent to those with small deposits. Government has widened eligibility by removing income and first time buyer constraints.

Government will look at ways to simplify the Right to Buy application process, reduce the qualifying period before tenants become eligible for Right to Buy from five years to three years; and from 25 March raise the maximum discount cash cap in London to £100,000.

The Build to Rent fund has been expanded to £1 billion to support the development of more homes in England; and the existing affordable homes guarantee programme has doubled, providing up to an additional £225 million to support a further 15,000 affordable homes starting in England by 2015.

LGA response:
The LGA has argued that it is lack of finance to build and to buy new

homes, rather than the planning system, that is the main obstacle to housing development. The extension of equity loan and mortgage guarantee schemes is a positive step to helping more people to access new homes and stimulate development.

Increases in loans to build more homes to rent and the guarantee for more affordable homes will also help provide finance to build new homes, however the scale of the shortage in housing means we need to unlock every opportunity to invest in affordable housing. It is disappointing therefore that the Government has missed the opportunity to remove the housing borrowing cap which would have allowed councils to build up to 60,000 new homes in the next five years.

On the changes to Right to Buy, centrally controlling the discounts and restricting councils in how they can reinvest money from right to buy homes is likely to leave some areas unable to afford to replace the homes that are sold off. It is unwise of Government to expand this before it has even assessed the impact of the original policy.

The best way to give tenants the opportunity to own their own home without reducing availability of social housing would be to allow councils to set the right-to-buy discount locally and give them the full freedom to reinvest all of the receipts into new affordable housing.

This is covered in the Red Book, *Budget Report,* paragraph 1.98-1.117.

Child care
From 2015 households where both parents work will benefit from a new tax free child care scheme to cover 20 per cent (£1,200) of the costs of childcare up to £6,000 per child up to the age of five. Government plans to extend this to all children up to 12 by 2020, through an online voucher scheme.

Full details can be found in the Red Book, chapter one, *Budget Report,* paragraphs 1.179-1.183.

LGA View:
Rising childcare costs are often cited as the number one reason why parents cannot return to work. With childcare costs rising at more than double the rate of inflation any support to help make these costs more affordable so that parents can go back to work are a step in the right direction.

We welcome the proposal that, unlike the previous scheme, this will not rely on employers to opt in. This support should also be available to the self-employed and those on the minimum wage which will help more families.

However, we have concerns that until 2015 families will continue to struggle with spiralling childcare costs. We are also concerned that households where one parent cannot work due to caring responsibilities, studying to increase their employment prospects, or where a parent has suddenly been made redundant or is looking for work, they will not be able to receive this much needed financial support. We would therefore like to see the vouchers being made available to non-Ofsted registered providers such as grandparents and informal arrangements between local parents.

Pay
The Chancellor announced further public sector pay restraint for 2015/16 limited up to 1 per cent and the local government budget will be adjusted accordingly.

LGA view
A number of councils have already moved away from pay structures involving time-served increments and many others are looking creatively at ways to better link pay to contribution. Pay progression is an important way of recognising the acquisition and use of skills, though it must operate within a framework of transparency, affordability and flexibility for councils to make their own decisions over what works best. Over 50 per of local government staff earn less than £18,000 per annum so the approach to pay will need to balance fairness to taxpayers with fairness to our workforce. The threat of a blanket additional cut for the sector linked to pay progression will seriously undermine the ability of the sector and councils within it to implement creative approaches to pay. You can read further detail in the *Budget Report*, paragraph 1.198.

Further Information:
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