briefing

5 December 2013

Autumn Statement 2013

Introduction

On 5 December 2013, Chancellor George Osborne delivered his annual Autumn Statement. It built on his previous announcements made in the Budget 2013 and Spending Round 2013 providing an update on the economy and future government plans for public sector spending and taxation. Full details and further information on the Autumn Statement can be found on the Treasury's website.[1]

Top issues for London Councils …

1. **Local government is exempt from further Resource DEL budget cuts in 2013-14, 2014-15 and 2015-16**
2. **Business rates to be capped at 2% in 2014-15 (overall local authority allocations will not be affected by this)**
3. **Small business rates relief to be extend for another year**
4. **A new business rates discount of £1,000 for small retail businesses from April 2014**
5. **95% of the backlog of valuation appeals to be cleared by July 2015, with reform of business rates on the agenda for the 2017 revaluation**
6. **2015-16 New Homes Bonus LEP top-slice will only apply in London – where the LEP will receive £70 million**
7. **Government to consult on measures to further incentivise New Homes Bonus**
8. **Limited increase in HRA borrowing of £300 million to be agreed with LEPs**
9. **£110 million of Regional Growth Fund available for the Local Growth Fund**
10. **The government will also make £50 million of funding available to LEPs through the Large Sites scheme**
11. **Government to launch a review into the role local authorities play in supporting overall housing supply**
12. **Government will aim to give "local public services" the same long-term indicative budgets as departments from the next Spending Review.**

Overview

Today's Autumn Statement provided an update on the government's fiscal mandate and supplementary target:

1. That the government balance the cyclically-adjusted current budget by the end of the rolling 5-year period (which is now 2018-19); and
2. That net debt will reduce as a share of the economy by 2015-16.

The independent Office for Budget Responsibility (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 one with debt only starting to fall as a proportion of GDP in 2016-17.

Economic Growth: Today's Autumn Statement includes the latest forecasts from the independent Office for Budget Responsibility, which has increased growth forecasts for 2013 and 2014 substantially since the 2013 Budget to 1.4% in 2013 (up from 0.6%), 2.4% in 2014 (up from 1.8%), 2.2% in 2015, 2.6% in 2016, 2.7% in 2017 and 2018.

Public Sector Net Borrowing (PSNB): Borrowing to fund the deficit this year is set to come in at £111bn. It is then expected to fall to £96bn in 2014/15, £79bn in 2015-16, £51bn in 2016/17, £23bn in 2017/18. The OBR is forecasting a small surplus by 2018/19. Public sector net debt is forecast to peak at 80% of GDP in 2015/16, but is set to be falling by 2016-17 (79.9%), earlier than forecast in the March 2013 Budget.

[1] https://www.gov.uk/government/topical-events/autumn-statement-2013

LONDON COUNCILS

Autumn Statement Overview

The full Autumn Statement can be found on the Treasury's website[2]. Key extracts from the Chancellor's speech are set out below with points of particular interest for London local government in bold. There follows further detail from the main Autumn Statement document from page 5.

ECONOMIC FORECASTS

I can report that Britain is currently growing faster than any other major advanced economy.

The first risk the OBR identify to our economic recovery is a recurrence of the damaging instability in the Eurozone. While our exports are growing, they are not growing as fast as we would like. That is because we are too dependent on markets in Europe and North America.

Today I am doubling to £50 billion the export finance capacity available to support British businesses, expanding the help available to firms in these emerging markets and ensuring that our excellent new Trade Minister, Lord Livingston, will have all the firepower he needs.

EMPLOYMENT

Today in Britain, employment is at an all-time high. And the OBR have revised their forecast for the future up… they now expect the total number of jobs to rise by 400,000 this year.

Meanwhile, the number of people claiming unemployment benefit has fallen by over 200,000 in the last six months – the largest such fall for sixteen years. Unemployment is also lower than in 2010, and is forecast to fall further from 7.6 per cent this year to 7 per cent in 2015, before falling even further to 5.6 per cent by 2018.

The OBR report today forecasts this will continue: with 3.1 million more jobs being created by businesses by 2019 that, in their words, "more than offsets" the million or so reduction in the public sector head count.

FISCAL FORECASTS

I can tell the House this underlying measure of the deficit has been revised down substantially since March. From the 11 per cent back in 2010, the underlying deficit now falls to 6.8 per. And by 2018-19 on this measure, the OBR do not expect a deficit at all. Instead, they expect Britain to run a small surplus.

Borrowing is down significantly more than forecast. This year we will borrow £111 billion - £9 billion less than was feared in March. That falls next year to £96 billion, then down to £79 billion in 2015-16, £51 billion the year after, and £23 billion the year after that. So we're set to borrow £73 billion less over the period than was forecast in March.

In 2018-19, on this cash measure too, the OBR forecast that the government will not have to borrow anything at all.

The OBR today expect debt this year to come in at 75.5 per cent of GDP - £18 billion lower than forecast in March. By 2017-18, debt is over £80 billion pounds lower than forecast in March.

At the Budget, the OBR forecast debt to be falling in 2017-18. It is now forecast to fall in 2016-17 – that's one year earlier.

The forecast for the continuing fall in the structural deficit has not improved. It goes on falling but no faster than we previously expected.

FISCAL RULES/JUDGEMENT

This Autumn Statement is fiscally neutral across the period. I can announce that we will take three new steps to entrench Britain's commitment to sound public finances.

First, we will bring forward next year an updated Charter for Budget Responsibility… which will be presented to Parliament a year from now and voted upon.

From next year, we will introduce a new cap on total welfare spending (excluding pensions and jobseekers' benefits).

At the beginning of each Parliament, the Chancellor of the day will set the welfare cap for the coming years and ask the House of Commons for its support. If the cap is

[2] https://www.gov.uk/government/topical-events/autumn-statement-2013

breached, they will have to explain why and hold a vote in this House.

DEPARTMENTAL CUTS

This year (*departments are*) expected to underspend by £7 billion, a testament to good financial management.

We can therefore be confident in reducing the contingency reserve by £1 billion this year and reducing departmental budgets by a similar amount in the next two years.

This will save a further £3 billion in total. The protections for the NHS and schools will apply.

The security and intelligence agencies and HMRC will be exempt. The Barnett formula means that over the next two years, the budgets for Scotland, Northern Ireland and Wales will see a net increase.

We will not apply these additional savings to local government, because we expect them to freeze council tax next year.

The further departmental cuts will not apply to Local Government DEL

But we don't have to increase the DfID budget.

We will reduce the military special reserve by a further £900 million, while still funding all operational costs.

I want to make a further £100 million of LIBOR fines available to our brilliant military charities.

PENSIONS

I can confirm that next April the state pension will rise by a further £2.95 a week. This increase, and the other increases under this Government, mean pensioners will be over £800 every year better off.

Based on latest life expectancy figures, applying that principle would mean an increase in the state pension age to 68 in the mid-2030s and to 69 in the late 2040s. The exact dates will be set by the future statutory reviews.

Future taxpayers will be saved around £500 billion pounds.

TAX AVOIDANCE

Today we set out in detail the largest package of measures to tackle tax avoidance, tax evasion, fraud and error so far this Parliament. Together it will raise over £9 billion over the next five years.

BANKS AND CAPITAL GAINS TAX

From April 2015, we will introduce capital gains tax on future gains made by non-residents who sell residential property here in the UK.

I can also announce, from January 1st next year, the rate of the bank levy will rise to 0.156 per cent and its base will be broadened in ways we have consulted on.

The levy will raise £2.7 billion in 2014-15 and £2.9 billion each year from 2015-16.

INFRASTRUCTURE

Yesterday, my Right Honourable Friend the Chief Secretary and Lord Deighton published the update to the **National Infrastructure Plan (see Appendix B).**

And today we go further. A commitment to invest in quantum technology. A new tax allowance to encourage investment in shale gas that halves tax rates on early profits.

And in the week in which Professor Peter Higgs travels to Stockholm to collect his Nobel Prize for Physics, we commit to build a new centre in his name at Edinburgh University.

HOUSING

And the OBR is absolutely right today to draw attention to the weakness of housing supply in this country.

We are announcing a billion pounds of loans to unblock large housing developments on sites in Manchester and Leeds and across the country.

And we are going to increase the Housing Revenue Account borrowing limit by £300 million.

Councils will sell off the most expensive social housing, so they can house many more families for the same money.

Right to Buy applications have doubled under this government and we'll expand it more.
And the very same spirit of aspiration that underpins Right to Buy is what drives this government with **Help to Buy.**

EDUCATION

This week's PISA scores show how much ground this country has to make up.

This Autumn Statement has found the financial resources to fund the **expansion of free school meals to all school children in reception, year 1 and year 2**.

At present, Jobcentre Plus does almost nothing to help 16 and 17 year olds who aren't in work or education. We will change that and now fund the jobcentres to support these very young adults to find an apprenticeship or a traineeship.

Starting in some areas at first, anyone aged 18 to 21 signing on without these basic skills will be required to undertake training from day one or lose their benefits.

I can tell the House there will now be an additional 20,000 higher apprenticeships over the next two years.

And I can also announce a big expansion of Start Up Loans, through which a new generation of entrepreneurs is being created.

50,000 more people will be helped to fulfil their aspiration to start their own business.

So today I can announce that next year we will provide 30,000 more student places – and the year after we will abolish the cap on student numbers altogether.

BUSINESS TAX

From April, we will be one of the first countries in the world to introduce a new tax relief for investment in social enterprises and new social impact bonds.

We have extended small business rate relief scheme year after year. It was due to expire next April. We will now extend it for another whole year.

All businesses are expecting rates to rise by 3.2 per cent next year. Instead, I will cap the inflation increase in business rates for all premises at 2 per cent from next April.

> This will not affect the overall funding allocations to local government

We will also clear almost all of the backlog *(the aim is 95%)* of valuation appeals by July 2015, with reform of business rates on the agenda for the 2017 revaluation.

I can announce today that for the next two years every retail premises in England with a rateable value of up to £50,000 will get a discount on their business rates. This discount will be worth £1,000 off their bills.

> Across England and Wales, 90% of hereditaments have a rateable value of under £50k. They comprise 27% of the total RV for England and Wales.
>
> In London less than a quarter of RV is likely to be related to properties under £50k.

FUEL

Next year's fuel duty rise will be cancelled.
Instead of petrol taxes going up by 2 pence a litre, they will stay frozen.

TRAIN FARES

Fares next January were due to go up by 1 per cent above inflation. We are going to keep average fares flat in real terms. *(This is in line with the GLA's fare increases in London).*

EMPLOYER NICs

We are going to abolish the jobs tax *(employer national insurance contributions)* on young people under the age of 21.

Employer national insurance contributions will be removed altogether on a million and a half jobs for young people.

The change requires legislation. It will come into force in April 2015, and it won't apply beyond the upper earnings limit.

Further detail from the full Autumn Statement document

LOCAL SERVICE REFORM

The government will allow local authorities some flexibility to spend their receipts from new asset sales on the one-off costs of service reforms, following a recent consultation. Total spending of £200 million will be permitted across 2015-16 and 2016-17 and local authorities will be able to bid for a share of this flexibility.

The Autumn Statement confirms the Government's intention to make sure pooled funding is an on-going part of the health and social care system beyond 2015-16 – in direct response to concerns about the £3.8 billion Integrated Transformation Fund being for only one year.

The Government will work with departments to give local public services the same long-term indicative budgets as departments from the next Spending Review.

CHILDREN'S SERVICES

Innovation programme
The government will launch a programme to increase the level of innovation in children's services to help local authorities improve outcomes and increase value for money, and will announce details ahead of Budget 2014.

Benchmarking tool
DfE and DCLG will work with local government to enable local authorities to benchmark and compare their costs and outcomes in children's services.

Free school meals eligibility
Pupil Premium rates and eligibility will not be affected by the plans to introduce universal free school meals. The government will also provide capital funding to increase capacity in school kitchens and eating areas

HOUSING & LOCAL GROWTH

Large Sites
The government will create a £1 billion, 6 year investment programme to fund infrastructure to unlock new large housing sites, supporting the delivery of around 250,000 homes.

Local Growth Fund
The government will maintain a £2 billion Local Growth Fund. The government will increase local authority Housing Revenue Account (HRA) borrowing limits by £150 million in 2015-16 and £150 million in 2016-17, allocated on a competitive basis and agreed by LEPs.

The government will also make £110 million of Regional Growth Fund available for the Local Growth Fund. The government will also make £50 million of funding available to LEPs through the Large Sites scheme.

The government will launch a review into the role local authorities play in supporting overall housing supply.

Council Tax
The government will implement a national Council Tax discount of 50% for property annexes from April 2014.

PLANNING & DEVELOPMENT

Section 106 contributions
The government will consult on a new 10 unit threshold for section 106 affordable housing contributions to reduce costs for smaller builders.

New Homes Bonus
The government will consult on measures to improve further the incentive of the New Homes Bonus, in particular withholding payments where local authorities have objected to development, and planning approvals are granted on appeal.

> **New Homes Bonus**
> £70 million of the New Homes Bonus will be pooled within the London Local Enterprise Partnership, which is chaired by the Mayor of London. The New Homes Bonus will not be pooled to LEPs outside of London.

Development Benefits
The government will work with industry, local authorities and other interested parties to develop a pilot for passing a share of the benefits of development directly to individual households.

BUSINESS RATES

Business rates indexation
The government will cap the RPI increase in business rates at 2% for 1 year from 1 April 2014.

Business rates discount
The government will introduce a business rates discount of £1,000 for retail and food and drink premises with a rateable value below £50,000 for 2 years up to the state aid limits from 1 April 2014.

Business rates reoccupation relief
The government will introduce a 50% business rates relief for 18 months for businesses that move into retail premises that have been empty for a year or more. Businesses which move into empty premises between 1 April 2014 and 31 March 2016 will be eligible for the relief.

Small Business Rate Relief on second properties
The government will relax the SBRR rules to allow businesses in receipt of SBRR taking on an additional property to retain SBRR on the first property for 1 year, with effect from 1 April 2014.

Business rates appeals
The government will consult on reforms to the business rates appeals process and will commit to clear 95% of the September 2013 backlog of appeals before July 2015.

Business rates administration
The government will publish a discussion paper in spring 2014 setting out the advantages and disadvantages of different options for longer-term reforms to business rates administration which maintain the aggregate tax yield.

Business rates payment
The government will allow businesses to pay business rates over 12 months rather than 10 months, with effect from 1 April 2014.

Appendix A – Public spending reductions to 2018/19

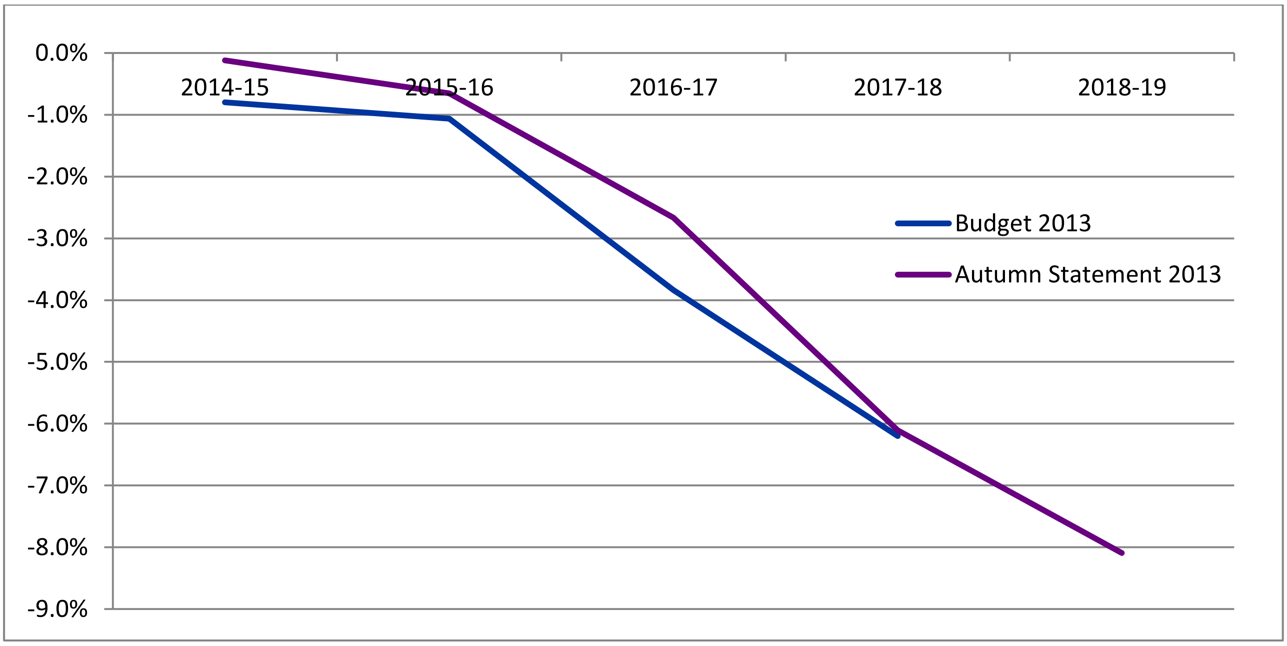
Today's Autumn Statement shows overall Resource DEL (incl. depreciation) decreasing by -0.5% in 2015/16 (revised down from -0.9% in the 2013 Budget) before reducing by -2.0% in 2016/17, -3.5% in 2017/18 and a further -2.1% in 2018/19. Compared to Budget 2013 the cuts to overall Resource DEL have improved in 2014-15 but are steeper than previously projected in 2017-18 (see Figures 1 and 2 below).

Table 2.3: Total Managed Expenditure[1]

	£ billion					
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
CURRENT EXPENDITURE						
Resource AME	332.2	341.7	356.5	373.8	393.7	411.2
Resource DEL, excluding depreciation	317.8	316.7	313.0			
Ring-fenced depreciation	19.6	20.3	22.2			
Implied Resource DEL, including depreciation[2]				*328.4*	*316.8*	*310.1*
Public sector current expenditure	**669.7**	**678.8**	**691.8**	**702.2**	**710.5**	**721.3**
CAPITAL EXPENDITURE						
Capital AME	6.1	6.3	5.5	5.8	7.4	8.3
Capital DEL	42.1	45.5	46.9			
Implied Capital DEL[2]				*48.3*	*47.6*	*49.1*
Public sector gross investment	**48.2**	**51.8**	**52.4**	**54.1**	**55.0**	**57.5**
TOTAL MANAGED EXPENDITURE[3]	**717.8**	**730.5**	**744.3**	**756.3**	**765.5**	**778.7**
Total Managed Expenditure (%GDP)	*43.7%*	*42.7%*	*41.9%*	*40.7%*	*39.5%*	*38.4%*

Source: Autumn Statement 2013 (Table 2.3 - p.81)

Figure 1 - Cumulative change in projected Government RDEL (incl. depreciation) – Budget 2013 compared to Autumn Statement 2013



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

Annex B - National Infrastructure Plan – Key points for London

Major achievements so far…

Transport for London has completed major **upgrades to the London Underground** including:

- completion of the Jubilee line signalling and Victoria line upgrade
- Farringdon ticket hall,
- new investment in hydrogen hybrid buses and installation of 1,300 electrical vehicle charging points

The government has also supported significant private sector investment, providing the policy framework and creating the right delivery environment to enable:

- completion of the **London Gateway port and logistics park upgrade** providing 2,700 metres of quay, six deep-water berths, 24 giant quay cranes and an annual capacity of 3.5 million TEU1
- 80 different electricity generation schemes including **phase one of the London Array**, the world's largest offshore wind farm
- there have been **upgrades at Heathrow and Gatwick**, which are both currently undertaking significant investment programmes, worth £5.5 billion and £900 million respectively

Future plans…

Crossrail will increase London's rail capacity by 10 per cent to support the delivery of over 57,000 new homes and 3.25 million 43 square metres of commercial space.

By 2018 **Thameslink** will increase train capacity on one of Europe's busiest stretches of railway (north to south through central London), providing scope for future growth.

London Power Tunnels – a £1 billion National Grid project to rewire the capital via 32km of deep underground tunnels, in order to meet increasing electricity demand and help London access renewable energy

Thames Tideway Tunnel will protect the River Thames from increasing levels of untreated sewerage entering the river (an average 20 million tonnes of untreated sewage a year will be flushed into the River Thames if the Tunnel is not built).

The Government is also:

- guaranteeing to support up to £1billion of borrowing by the Greater London Authority for the **Northern Line Extension** to Battersea Power Station.
- providing a £30 million contribution to support the construction of a new **Garden Bridge across the River Thames in London.**
- supporting the **London Legacy Development Corporation** and Mayor of London in developing their plans for the Queen Elizabeth Olympic Park; including plans for a new higher education and cultural quarter on the Park.

Airports Commission recommendations are being taken forward to improve surface access to key airports, including:

- committing **£50 million** towards a full redevelopment of the **railway station at Gatwick**;
- setting up a new study into **southern rail access to Heathrow**;
- accelerating a Network Rail study into the **Brighton Mainline;**
- extending the scope of the East Anglian Mainline study to include **access to Stansted**;
- including the **Gatwick to London route** on a planned trial of smart ticketing; and
- including **access to Gatwick** in the Highways Agency study on local motorways.

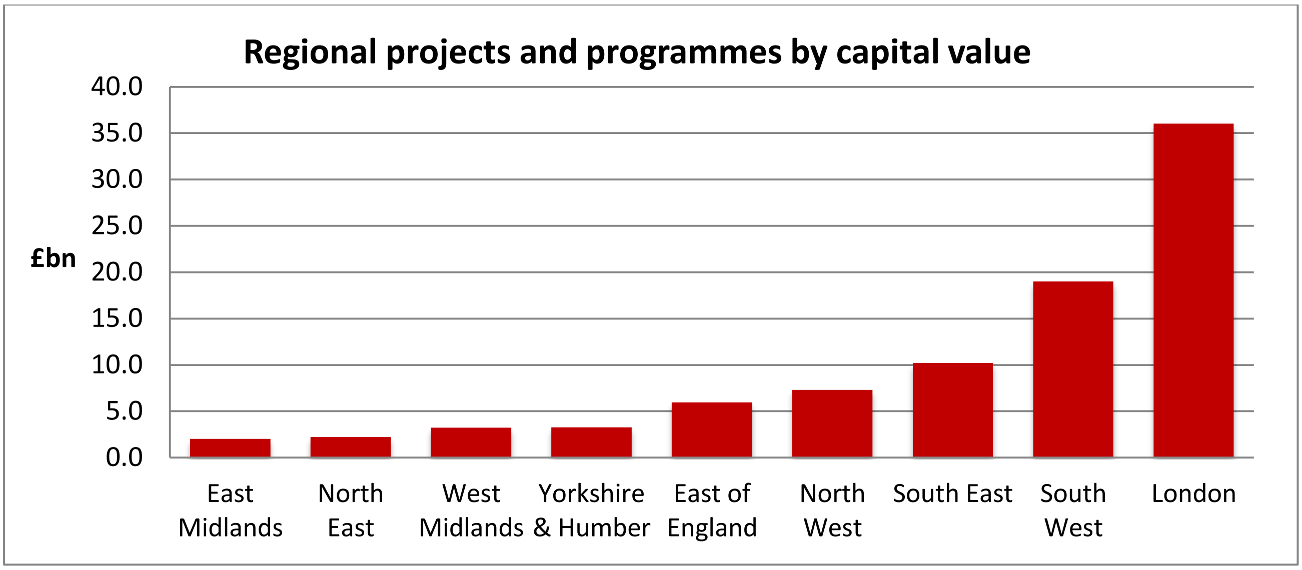
The infrastructure pipeline

"The National Infrastructure Plan 2013 sets out the most robust, forward-looking infrastructure pipeline to date. In response to industry input, it includes more detail than ever before of the status of planned and potential infrastructure investments in the UK".

- Projects and programmes in the pipeline in **London amount to around £36 billion**.
- Most of the investment is accounted for by **Transport for London (TfL)** projects
- **Crossrail (£9.5 billion** remaining of a total £14.5 billion investment); and
- the **Thames Tideway Tunnel (£4.2 billion)**.

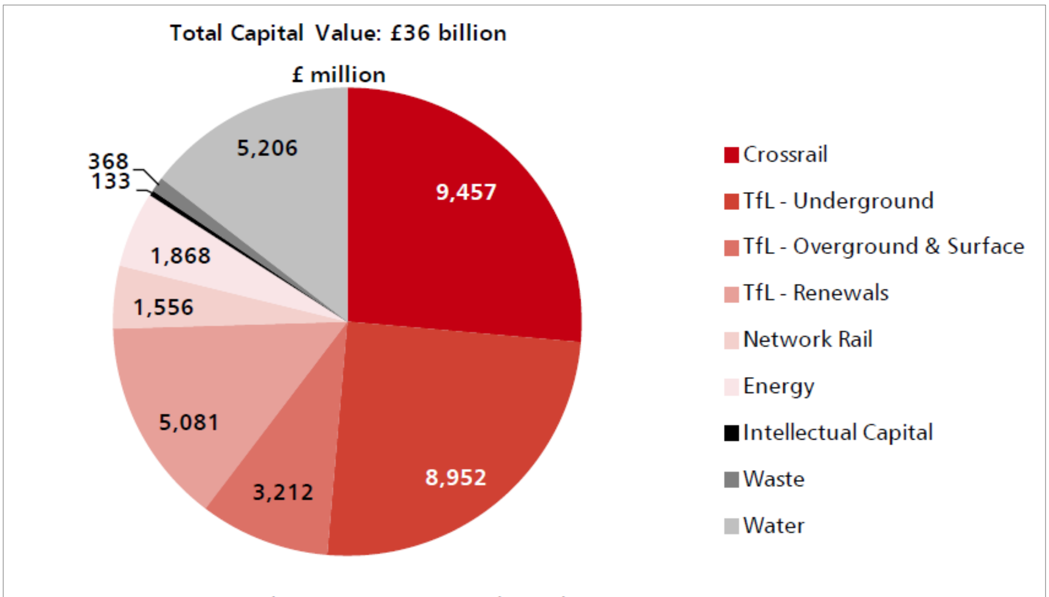
A large proportion of investment in London is focused on TfL maintenance and renewal (over £5 billion). This is reflected in the level of overall capital investment captured in the pipeline, which alongside large capital investments to deliver new infrastructure such as Crossrail, shows greater investment in London than other regions in the UK.

Regional projects & programmes by capital value



Source: HM Treasury Major Infrastructure Tracking unit

London projects & programmes by capital value



Source: HM Treasury Major Infrastructure Tracking unit

Investment for local authorities

- **The Growing Places Fund**, announced as £500 million (£40 million of which was allocated to Devolved Administrations) in September 2011 and boosted by a further £270 million at Budget 2012, aims to provide up-front capital to help LAs and developers to take projects forward where relatively small amounts of funding for infrastructure can help to unlock further development.

- **The Regional Growth Fund (RGF)** is a £3.2 billion fund, helping companies throughout England to create jobs between now and the mid-2020s. RGF supports projects and programmes that are using private sector investment to create economic growth and sustainable employment. Over £200m has been distributed nationally so far.

- **Growth Deals -** Local Growth Fund (LGF), which will be available for LEPs to support their local economies and local infrastructure, will be a minimum of £2 billion pa from 2015-16 to 2020-21 and includes over £6 billion over 6 years capital spending previously earmarked for transport infrastructure and £600 million over 2 years for skills capital spending. LEPs will compete for the LGF on the basis of the strength of their strategic economic plans. Negotiations will be concluded in 'growth deals' with all 39 LEPs by July 2014.

- The government will allocate nearly £800 million of borrowing at the **Public Works Loan Board (PWLB)** project rate as part of growth deals. This will be available to LEPs working in partnership with local authorities in 2014-15 and 2015-16 and will be allocated on a competitive basis alongside the Single Local Growth Fund.

- The government is investing over £200 million (comprising **Local Infrastructure Fund, EZ Grant Fund and Pinch Point Fund** resources) in supporting Zones to get the infrastructure in place to accelerate delivery on sites, and LEPs are able to re-invest the business rates growth on their Enterprise Zones over at least 25 years to support local growth.

- LAs in England and Wales can choose to charge a **community infrastructure levy (CIL)** on new developments in their area. CIL has been designed to provide a fairer and more transparent contribution to infrastructure funding from development than the existing system.