

Briefing Paper

Spending Review 2013

June 2013

Introduction and Overview

In the Spending Review of 26th June 2013, the Chancellor George Osborne MP unveiled a regime of new welfare measures, including a seven-day wait before unemployed people can claim benefits, as he identified an extra £11.5billion in spending cuts for the first year after the 2015 general election.

The chancellor said the changes would save £350million in the year 2015/16, helping to ensure that Britain *'lives within its means'* as the economy recovers from its worst downturn in three quarters of a century. George Osborne told MPs in his statement that:

"While recovery from such a deep recession can never be straightforward, Britain is moving out of intensive care, and from rescue to recovery."

The Chancellor announced in his budget in March that he would cut current spending by £11.5billion, or 8.5%, for 2015/16 after admitting that he would not meet his target of ensuring debt falls as a proportion of GDP until 2017/18. The continuing austerity will lead to the loss of automatic pay rises for civil servants, the effective abolition, by introducing a temperature test, of winter fuel payments for British pensioners living abroad, and cuts across Whitehall that will see the Communities and Local Government department's current spending budget cut by 10%. The chancellor told MPs that:

"The damage from our banking crisis is worse than anyone feared. We have to deal with the world as it is, not as we wish it to be. So this country has to continue to make savings."

The Chancellor tried to show that the coalition is committed to promoting growth when he said that Danny Alexander, his Liberal Democrat deputy, would unveil £100billion in infrastructure projects on 27th June 2013.

George Osborne was forced to postpone further welfare cuts last year after the Liberal Democrats rejected further measures. But the chancellor has managed to squeeze a further £350million in cuts to benefits after toughening the rules for jobseekers.

There will be a new seven-day wait before people can claim benefits. *'Those first few days should be spent looking for work, not looking to sign on'*, Osborne said.

Under the changes, half of all jobseekers will have to attend their local jobcentre every week rather than once a fortnight. Benefit claimants who cannot speak English will lose their benefits if they refuse to attend a language course. The chancellor said:

"If you're not prepared to learn English, your benefits will be cut. Taken together, this new contract with people on benefits will save over £350million a year, and all that money will enable us to afford extra support to help people get into work."

George Osborne called the Labour Party 'the welfare party'. He sought to portray them as both profligate, for opposing most of the welfare cuts introduced in recent years, and mean, as he raised questions about Labour's commitment to the basic state pension.

As he proposed in the budget, the Chancellor announced that a cap would be introduced from April 2015 on Annually Managed Expenditure (the parts of spending that are not cash-limited). This will mean that housing benefit, tax credits, disability benefits and pensioner benefits will be included in the cap. But Osborne made clear that the state pension would be exempt, drawing a distinction with Labour that recently announced that it would be included in its cap. He said:

"I have had representations that we should include the basic state pension in the welfare cap. That would mean that a future government could offset a rise in working-age benefits by cutting the pensions of older people."

"That penalises those who have worked hard all their lives. Cutting pensions to pay for working-age benefits is a choice this government is certainly not prepared to make. It is unfair. We won't do it. And we reject those representations."

For Labour, Ed Balls MP insisted that Labour remained committed to the so-called triple lock, according to which the state pension would rise in line with average United Kingdom earnings, the rise in the Consumer Prices Index or a standard rise of 2.5%, whichever of those three is the highest.

But there was some common ground with Labour, which recently said it would withdraw winter fuel allowance for the rich: Osborne said the allowance would effectively be withdrawn from Britons living in warm climates abroad. The chancellor, who said it is impossible under European Union law to cut the allowance for those living in the European economic area, said:

"From the autumn of 2015, we will link the winter fuel payment to a temperature test. People in hot countries will no longer get it. It is, after all, a payment for winter fuel."

The Chancellor confirmed that the schools, health and overseas aid budget would be protected. He said £3billion would be spent by 2015/16 to ensure that the National Health Service and local authorities worked together to improve the provision of social care. George Osborne, who predicted the changes would save £1billion, said:

"Let's stop the tragedy of people being dropped in Accident & Emergency on a Friday night to spend the weekend in hospital because we can't look after them properly in social care. By 2015/16, over £3billion will be spent on services that are commissioned jointly and seamlessly by the local National Health Service and local councils working together. It's a huge and historic commitment of resources to social care, tied to real reform on the ground, to help end the scandal of older people trapped in hospitals because they cannot get a social-care bed."

The education budget increases from £52.8billion in 2014/15 to £53.2billion in 2015/16, allowing for 180 new free schools to be created in that year. The schools funding system in England will also be reformed to ensure it was distributed 'more equally'.

Key Points

Overall Spending

- Government spending to total £745billion;
- A Further saving of £11.5billion is needed according to the Spending Review

Pay and Jobs

- 1% cap on public sector pay rises
- Automatic progression pay to be ended in civil service, schools, hospitals, prisons and the police but not the armed forces

Business, Skills and Universities

- Resource budget cut by 6%
- Student maintenance grants frozen
- More money for apprenticeships and United Kingdom exports
- Capital spending up by 9%
- Science budget to be frozen at £4.6billion both more money for capital projects
- £2billion growth fund for local enterprise partnerships

Education

- Resource budget to rise to £53billion
- Budgets for schools in England protected
- New National Funding Formula for schools to ensure fairer distribution of funding
- Money for 180 new free schools

Welfare

- Osborne outlines a welfare cap and withdrawal of winter fuel payments to ex-patriots in hot countries
- New cap on elements of welfare spending from April 2015
- Cap to be set in cash terms every four years
- Housing benefit, tax credits, disability living allowance to be included
- State pension to be excluded
- Pensioners living in certain European Union countries to lose winter fuel allowance under new "temperature test"
- Work and pensions resource budget cut by 9.5%
- Seven-day wait before job seekers can claim benefits
- Claimants will have to attend language schools or benefits will be cut

Local Government and Communities

- George Osborne: "We will fund councils to freeze council tax for the next two years"
- 10% cut in resource budget
- £3billion capital spending on new houses
- £200million extra for troubled families initiative
- Council tax bills in England frozen for 2014/15 and 2015/16

Culture, Media and Sport

- 7% cut in resource budget
- Elite sport to be protected
- 5% cut to budgets for museums and arts organisations

Defence

- George Osborne: Britain has "the finest armed forces in the world - and we intend to keep it that way"
- Resource budget frozen at £24billion
- 1% real-terms increase in military equipment budget
- Civilian posts to be cut, but no reduction in armed forces personnel
- Procurement and private finance initiative (PFI) contracts renegotiated
- Permanent funding for military covenant that supports United Kingdom troops and their families

Policing and Justice

- Budget cut of "less than 6%" for police
- Counter-terrorism budget protected
- Home Office resource budget cut by 6%
- Justice resource budget cut by 10%
- Prison costs to be reduced by £180million and court costs by £200million

Counter-Terrorism

- 3.4% increase in combined budget for intelligence agencies

Transport

- 9% cut in resource budget
- Running costs of Transport for London and Network Rail to be cut
- Increase in capital spending to £9.5billion

Health

- National Health Service budget in England to rise by 0.01% to £110billion
- Rise in capital spending to £4.7billion
- Joint £3billion commissioning plan between National Health Service and councils for social care

Environment, Food and Rural Affairs

- 10% budget cut in departmental spending
- More money for flood defences

Energy

- 8% cut in resource budget
- Guarantees for new nuclear plants
- Tax incentives for shale gas drilling

Foreign Office and International Aid

- 8% cut in Foreign Office resource budget, but more money for new embassies
- International development budget protected, rising by £809million to £11.1billion.

Infrastructure

- Total £50billion investment in new projects
- Details to be announced by Treasury Secretary Danny Alexander on 27th June 2013

Scotland, Northern Ireland and Wales

- 2% cut in grants to devolved administrations but extra capital investment powers
- 10% cut to Scotland, Wales and Northern Ireland Offices

- £31million of new funding for the Police Service of Northern Ireland

Cabinet Office

- 10% cut in resource budgets but extra support for National Citizenship Service

Selected Sectors and the Spending Review 2013

The Spending Review and Housing

The Chancellor has promised to spend £3billion on affordable housing, and set up a £2billion a year local growth fund. George Osborne said the government is committed to an 'over £3 billion capital investment in affordable housing', but gave no more details.

He also announced the government is setting up a local growth fund, as recommended by Conservative peer Lord Heseltine. This will be distributed through local enterprise partnerships, and could be worth £10billion over five years. Mr Osborne said further details of the fund would be announced on 27th June 2013.

The government is continuing to cut departmental budgets as it seeks to reduce government spending, and the Communities and Local Government department will lose 10% of its remaining resource budget. George Osborne said the department has already cut spending by 60%, mainly by reducing Social Housing Grant, and described Communities Secretary Eric Pickles as a model for 'lean government'. However, not everyone would agree that delivering less with a smaller budget necessarily represents 'lean management' or 'value for money'.

George Osborne also said the government will spend £50billion on infrastructure in 2015, with the details to be announced by Chief Secretary to the Treasury Danny Alexander on 27th June 2013. The Chancellor also reiterated the government's commitment to extend its troubled families programme to an extra 400,000 families using £200million of funding. This was announced earlier in the week.

From 2015 social rents will increase by the Consumer Prices Index plus 1%. There was no mention of any relaxation of the 'borrowing cap' for local authority housing.

The Spending Review and Welfare

The government will set an overall cap on the amount that can be spent on key welfare payments, including housing benefit. George Osborne has announced that as part of the 2015/16 spending review a cap will be placed on the total amount the government spends on benefits. He said some 'cyclical' benefits would be excluded, along with the state pension, but housing benefit will be included.

The government is already introducing benefit caps for individuals, but today's announcement applies the principle on a national scale. The cap will be introduced from April 2015, and will be set in the Budget each year based on inflation forecasts. It will be monitored by the Office for Budget Responsibility, and the government will be forced to explain its actions to parliament if it breaches the cap. The Chancellor said:

"Today we are introducing a limit on the nation's credit card."

The Department for Work and Pensions will have its budget cut by 9.5%, but Mr Osborne said the reforms are about more than saving money:

"It is about reducing dependence and changing people's lives for the better."

However, it is difficult to see how welfare expenditure can be 'capped' if the statutory entitlements of claimants are still to be respected at a time when unemployment is high and the population is ageing.

The Spending Review and Local Government

Local authorities face a further two years of the council tax freeze and a 10% budget cut in the Spending Review for 2015/16, Chancellor George Osborne has said. But he added that other changes would reduce the overall local government cut to 2%. He claimed local government spending would only decline by 2% despite the cut to the Communities & Local Government budget once other measures in the spending review are taken into account.

Despite this, the Local Government Association predicted that cuts could result in some council services being dropped entirely. There will be grant funding for authorities that freeze council tax in the next two years, although the chancellor did not say how much this would be worth. He said:

"The council tax freeze is due to come to an end next April...I don't want that to happen. We will fund councils to freeze council tax for the next two years."

Councils that choose to join the growing minority that do not freeze tax would forgo the grant and instead set an increase of up to 2%, above which authorisation from a local referendum would be required. No council has yet held such a vote. The Chancellor said:

"Local government has already taken difficult decisions to reduce staff numbers, share services and make savings... We were told by the scaremongers that savings in local government would decimate local services. Instead, public satisfaction with local council services has gone up."

He attributed this to the government's localism reforms and said:

"In return for these freedoms, we have to ask local government for the kind of sacrifices central government is making... The local government resource budget will be reduced by 10% in 2015/16, but when all the changes affecting local government I will set out are taken into account – including local income and other central government funding – local government spending reduces by around 2%."

There will be £2billion a year over five years for Local Enterprise Partnership bids to the Single Local Growth Fund. Such a pot was recommended by Lord Heseltine in his report on regional growth although Heseltine said it should be worth £49billion. Exact details are due on 27th June 2013.

Osborne also signalled an extension of the pan-public sector Community Budgets concept following four successful pilots. He said these had:

"Shown the potential to join up local authorities and other local public services for improved health and social care integration, children's services and criminal justice systems, and improved working with troubled families that have complex needs."

There would also be £3.8billion, pooled between the National Health Service and local authorities, to support integrated health and social care work in 2015/16, and £100million for a collaboration and efficiency fund for children's services.

A further £335million will be spent to help councils prepare for social care funding reforms, including the introduction of a cap on users' contributions to care costs from April 2016.

As reported at the start of the week, the Troubled Families programme will be expanded to work with 400,000 families – up from 120,000 at present – with a further £200million available in 2015/16.

There will also be a £45million capital fund for fire and rescue services and £30million to promote greater collaboration between the three 'blue light' services.

Local Government Association chair Sir Merrick Cockell said essential services would be 'stretched to breaking point in many areas' by the fresh round of cuts. He said:

"While positive steps have been taken to target National Health Service funding at social care, the fact remains that some councils will simply not have enough money to meet all their statutory responsibilities."

"Today's 10% cash cut comes on top of the 33% real terms cut already made to council budgets and confirms local government as the hardest hit part of the public sector. No area of spending can be totally immune and some services will be wound down entirely."

The Chancellor also announced block grants for the devolved administrations, which then decide how they will allocate these resources across their responsibilities. He said these would reduce by 2% through the Barnett Formula with Scotland getting a £25.7billion budget, together with new capital borrowing powers of almost £300million. Wales' budget would be £13.6billion and Northern Ireland's £9.6billion.

Reaction and Comments

Mark Littlewood, Director General at the Institute of Economic Affairs said that:

"This was a pretty feeble review of government spending given the huge black hole in the public finances. The Chancellor is attempting to trim back a little here and a little there. There seems to be no overall strategy to balance the budget – but rather just a vague hope that we can get there through by salami slicing."

"The Chancellor seems to think the best way to help enterprise is for the government to spend vast sums of money on infrastructure projects. He praises the private sector for performing remarkably well in very difficult circumstances, but has failed to set out a compelling plan for making it easier to start up and grow a business in Britain."

"Until he sets up a comprehensive growth strategy, the economy will continue to remain relatively sluggish and finally balancing the state's books will take even longer than presently imagined."

Charles Levy, senior researcher at The Work Foundation said that:

“The spending round has protected the science and innovation budget, with a welcome boost for the Technology Strategy Board. The self-styled 'growth department' (Business, Innovation and Skills) appears to have been spared the worst of the cuts and will see just a 1.3% cut in its departmental programme and administration budgets. This compares very favourably with other non-ring-fenced areas. It will allow the department to maintain current investment in science in cash terms and to increase capital spending on research. The additional £185million for the Technology Strategy Board in 2015/16 will allow for a dramatic expansion in their capacity to support innovative firms. We also welcome the continuation of the Research Partnership Investment Fund, which appears to be a good way to support collaborations between universities and businesses. Support for this will continue until 2016/17 to the tune of £160million per year.

“There were also some impressive numbers on capital investment, although we have been left waiting for much of the detail here. The review was also disappointingly timid in following Lord Heseltine's recommendations to devolve resources to the local level. A Single Local Growth Fund will be established, but will be modest in size. A fund of only £2billion could see the 39 local enterprise partnerships focus a large part of their resources on a relatively small prize.

“Beyond this, there were few surprises from the Chancellor today, and the theme was 'more of the same'. For 2015/16, total managed expenditure will continue to fall at the current rate and pay restraint in the civil service will be maintained.”

Steve Freer, Chief Executive of the Chartered Institute of Public Finance and Accountancy said:

“In many ways the Comprehensive Spending Review paints a partial picture because 'average cuts' can only ever give limited insights. We will see the full picture over the next two or three months as Whitehall Departments and public bodies set their detailed budgets. Like the Chancellor, the leaders of those organisations will need to decide which of their activities to protect and where to take the pain. Real cuts to real people will be much clearer at that stage.

“Given the scale of the cuts implied, the project is overlaid by huge risks. Public managers and leaders will need to ensure that their services join up effectively. They will need to bring all of their skills to bear to make changes as quickly and as smoothly as possible and to communicate them clearly. Short term actions will need to be dovetailed with carefully constructed long term plans to assure sustainable, affordable core services downstream.”

Institution of Civil Engineers Director General Nick Baveystock said that:

“The increase in capital expenditure and funding certainty for key programmes appears to be positive news and could provide a platform for the industry to deliver on national needs more effectively.

“It is, however, not all good news for infrastructure. Departmental cuts will inevitably place further pressure on local authority budgets, with road maintenance likely to suffer the brunt.

“Local authorities must increase efficiency and make the transition to cost-efficient, planned maintenance going forward. But first and foremost, we need a focused, joint central and local government programme to finally clear the backlog.”

David Sparks, the Local Government Association vice-chairman, said the announcement meant some councils would have seen their funding cut by 40% in five years and were now facing 'financial breakdown'.

It was 'inevitable' that in the future they would have to cut non-statutory services, such as road maintenance and cultural activities, he told the BBC News Channel.

"It is not right that local government should take what will be for many people a 40% cut. That is just over the top and it jeopardises the whole point of what we do in relation to our services and our communities. People will wake up in two or three years' time and in many cases their local council will not be there as they know it."

He criticised Local Government Secretary Eric Pickles' decision to extend the freeze on council tax bills for a further two years by offering £833million in subsidies to those councils that do not raise Council Tax. He said:

"Because Eric Pickles has not let councils raise council tax over the last couple of years it has distorted the financial base of local government, and that is why we have to have all of these cuts."

Chartered Institute of housing Chief Executive Grainia Long said:

"We set government a test to recognise housing as a critically important form of infrastructure – whether this has been answered remains unclear and we wait for the detail in tomorrow's announcement."

"We are concerned about the rent settlement of Consumer Prices Index plus one per cent for social housing because it could reduce landlords' income and therefore their ability to invest in existing and new homes. Again the detail is critical."

"We are encouraged by the £3.8billion pooled budget for integration of health and social care and the £2 billion Local Growth Fund – in both cases it will be important that housing plays a key role. Of course this is all conditional on the government achieving the savings it has identified in departmental resource budgets."

"We are seriously concerned about the welfare cap and specifically the inclusion of housing benefit within it. We believe that housing benefit is affected by cyclical changes to the economy – placing a cap on this could limit help with housing costs at times when households need it most."

National Housing Federation Chief Executive David Orr said:

"The Chancellor has made some broadly positive announcements for housing and health and social care today. But we need the full details of the capital settlement for developing new homes to really understand what impact today's announcements will have on our ailing housing market."

"The news that rents will be set to Consumer Prices Index +1% for 10 years is a positive step. This could help housing associations to start planning the construction of more homes and allow them to focus on tackling Britain's desperate housing crisis. But the full implications for the housing sector depend on tomorrow's announcement on the detail of the capital spending for housing."

"It is understandable that the Government wants to cut the amount spent on benefits. But capping housing benefit within an overall cap is the wrong solution. The shortage of affordable housing must be addressed first. Without tackling the root of the problem, households will only be squeezed further."

"Without the detail from tomorrow's announcement on infrastructure there is no indication on how this money will be distributed and over what period. Until then, it is unclear how this will affect housing associations and their ability to build more homes."

"We welcome the Government's commitment of over £3billion for a pooled health and social care budget for integration. While there is huge pressure and demand on our health and care system, pooled funding removes some key barriers to more integrated services that better meet needs and reduce demand on the National Health Service."

"Housing associations are essential partners in delivering integrated health and care and help people stay healthy and independently at home, or leave hospitals as soon as possible to live in the community. Our members should be integral to local plans for making integration real."

Conclusions

There are some steps in the right direction such as the commitment to taking £3billion out of the Health budget for joint commissioning of health and social care. But we also saw some retrograde steps, such as the freezing of council tax for another two years – something that research from the Local Government Information Unit shows is opposed by eight out of ten councils.

Additional resources for infrastructure and housing are made available with details to be announced on 27th June 2013. However, these increases will not increase investment to the levels seen before the current government's Comprehensive Spending Review of 2010 and will not address the need for investment in affordable housing.

Long-term changes to our society, economy and environment all require us to think radically about what local services look like. But to do this to their full potential, councils and housing associations need equally radical autonomy on how they spend (and indeed raise) money. This Spending Review did not deliver that.

Adrian Waite
June 2013

Value for Money and Performance Management in Local Government and Housing

'AWICS' is holding a seminar on 'Value for Money and Performance Management in local Government and Housing' in London on 17th September 2013. This seminar will look in detail at how Housing Associations and Local Authorities can achieve improved Value for Money and effective Performance Management in the context of the June 2013 Spending Review. The presenter will be Adrian Waite, Managing Director of 'AWICS' Limited, Chair of Impact Housing Association and former Strategic Director at Copeland Borough Council. The presentation will be illustrated with practical examples drawn from Impact Housing Association and other housing associations and local authorities.

The seminar considers:

- The June 2013 Spending Review, the Political, Economic, Social and Technical Context and the Threats and Opportunities that this creates
- Approaches to achieving improved Value for Money and effective Performance Management
- Value for Money obligations of Local Authorities and Housing Associations
- Service Transformation and Re-Engineering
- Systems thinking and the LEAN approach
- Balanced Scorecards and Benchmarking
- Value for Money and the Customer
- Asset and Project Management
- The role of Boards and Councillors
- Case Study: Impact Housing Association and 'Transforming Impact'
- Participatory Session and Opportunities for Networking
- Implementing the Performance Management and Value for Money Strategy
- Motivating and Empowering People
- Embedding Value for Money and Performance
- Delivering a 'Step Change'

The seminar includes a participatory session and opportunities for networking and is accompanied by a very useful book entitled: 'Value for Money and Performance Management in Local Government and Housing'.

Further details can be found at http://www.awics.co.uk/performance_management_seminar.asp

About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

For more information about us and our services please visit our website at www.awics.co.uk or contact Adrian Waite at Adrian.waite@awics.co.uk

Services that we offer to local housing authorities include:

- Management Consultancy – <http://www.awics.co.uk/ManagementConsultancy.asp>
- Interim Management – <http://www.awics.co.uk/interimmanagement.asp>
- Regional Seminars - <http://www.awics.co.uk/regionalSeminars.asp>
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