North East
Local Enterprise Partnership

Comprehensive Spending Review 2015 – key points

27 November 2015

Context and key messages

- First Spending Review under current Government.
- Sets out spending plans for the next five years of parliament.
- Draws together a range of continuing funding discussions and includes some pre-announcements. More detail to follow.
- A long term plan for economic and national security.
- Aim for “High wage and skills, and low welfare society.”
- Large cuts to central department and local government resource spending. Changes in local government funding and roles

Overall budget envelope

- Total spending to rise from £756bn this year to **£821bn by 2019-20**
- State spending - as a share of total output - to fall to 36.5% in 2020, down from 45% in 2010
- Overall day-to-day departmental spending to be cut by £20bn, equivalent to 0.8% of total expenditure each year by 2020
- Changes to OBR forecasts has estimated an extra £27bn in tax receipts over the parliament. (*These are forecasts and actuals could be higher or lower.)*
- Policing, health, education, international aid and defence budgets protected
- Largest resource budget reductions:
  - Transport - 37%
  - Energy and Climate Change- 22%
  - Business, Innovation and Skills - 17%
  - Environment, Food and Rural Affairs - 15%

North East LEP summary

- Enterprise Zone extension across 10 new sites agreed linked to smart specialisation areas from 2017
- Jeremie fund for the North East confirmed at £100 million
- New local growth fund allocation enables existing programme to be funded and potential new round. Potential revenue component as per devolution agreement

The Economy –
Trends and forecasts

The Economy and national budget – Key messages

Economic and national security

- Aim to cut the deficit and reduce the debt over parliament
- 2% of GDP on defense and 0.7% on international aid

Growth

- Since 2010, on average, the UK has been the joint fastest growing economy (with the US) in the G7 group.
- North growing faster than the South of England.

Productivity

- In 2014, UK productivity (output per hour) remained 20 percentage points below the G7 average.
- Recent UK data has shown this grew nationally by 0.9% in Q2 15 and 0.6% Q3 15

Global economy

- The UK is one of the most open economies in the world and is affected by trends in global trade performance. Global growth and trade projections have been revised down due to Eurozone issues.

The Economy - Trends and forecasts

Growth

• 2.4% forecast for 2015
• Growth in subsequent years forecast to be 2.4%, 2.5%, 2.4% and 2.3%

Inflation

• CPI inflation is forecast to be below the 2.0% inflation target in 2015, returning gradually to 2.0% in 2019.

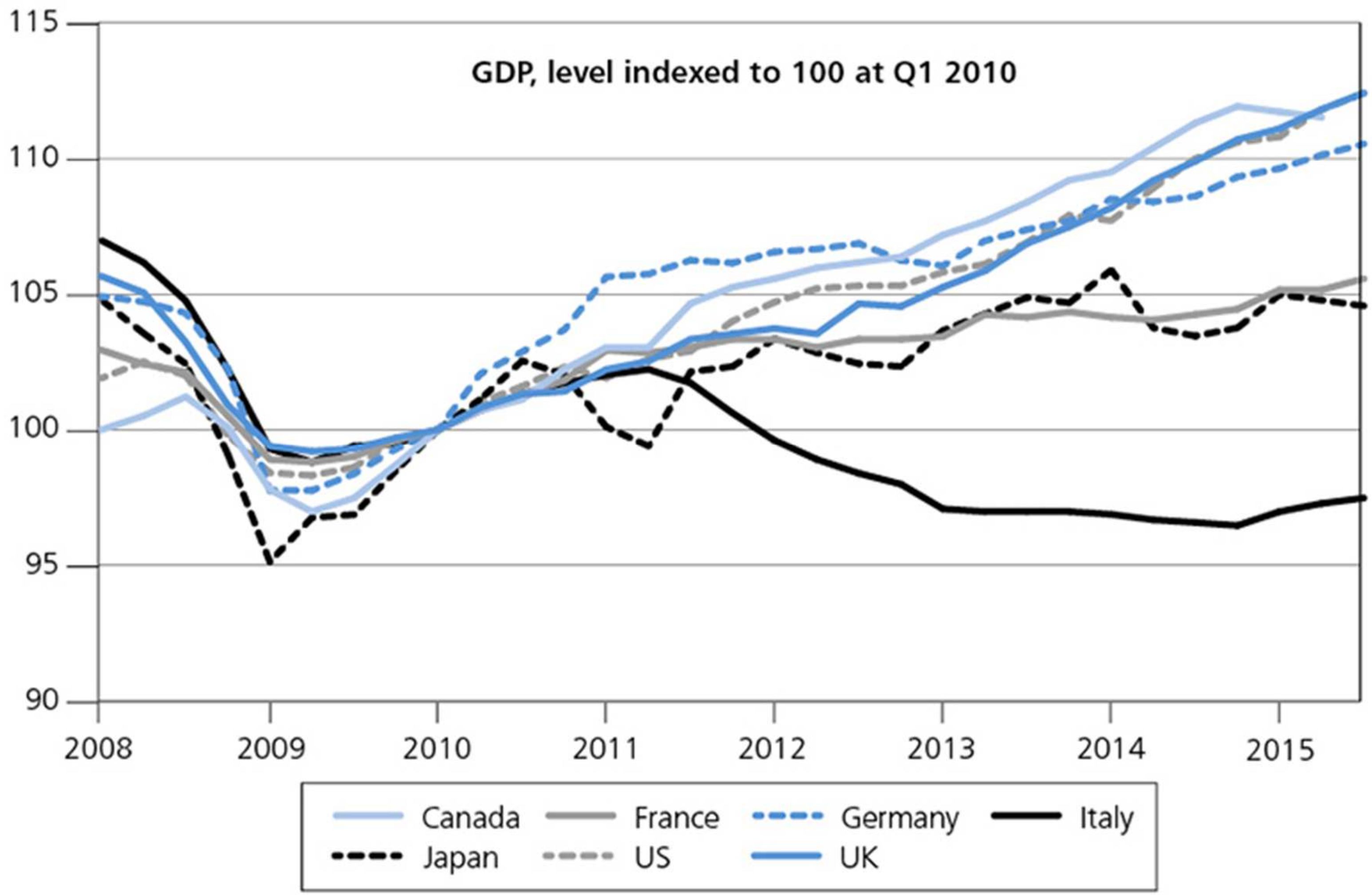
Borrowing

• Forecast to total £73.5bn this year (fall of 3.9% of GDP)
• Falling to £49.9bn, £24.8bn and £4.6bn in subsequent years before hitting **surplus** in 2019-20

Debt

• Lower in 2015-16 than 2014-15 and projected to fall every year after that.
• As a share of GDP and the surplus is forecast to reach £10 billion by 2019-20
• Public sector net debt is forecast to fall each year reaching 71.3% of GDP in 2020/21 from 82.5% in 15/16.

Chart 1.1: International comparison of GDP



Source: Organisation for Economic Co-operation and Development, US Bureau of Economic Analysis.

Creating innovation:

Creating competitive advantage through innovation

Inovation - Key points

“To ensure the UK remains a world leader in science and research by investing £6.9 billion in capital and by protecting today’s £4.7 billion resource funding in real terms”

- Science budgets protected in real terms
- Innovate UK support levels up and more investment in catapults. Individual business support to go from grants to loans
- Nurse review of research councils to be implemented in full
  - creation of Research UK to strengthen national research strategy
  - overview across research councils, innovate UK and other funders
  - develop and use a ‘map’ of research excellence
- Some new significant targeted research/innovation funds of interest elsewhere in the CSR:
  - on nuclear, shale gas, low carbon vehicles,
  - big focus on health innovation with digital and service reform linked to integration with social care

Improving skills:

Improving the North East skills base, working with partners to close the skills gap

Key points

“Focus on improving standards in education, by reforming how funding is allocated to make it fairer and improving the quality of education providers.”

Childcare

- Childcare up to 13hrs a week for 3-4 year olds form those working 16+ hrs

Schools

- Real terms protection for schools funding
- Aim to turn all schools into academies
- Aim to have less LA control over schools by 2020
- Consult on new national funding formula

Apprenticeships

- Apprenticeship levy announced at 0.5% of an employer’s pay bill from April 2017
- Deliver 3 million apprenticeship starts by 2020
- Business led body to set standards

HE

- Remove cap on recruitment of students by HEIs

Funding

- Protect adult skills core FE budget in cash terms
- £360 million efficiency savings from other adult skills budgets by 2019/20
- Tuition fee grants phased out and loans provided.
- Increase availability of loans to FE students, PT students

Delivering business support:

Providing the framework for businesses to access the support, guidance and finance they need to grow

Key points

“To deliver refocused export and investment promotion activity to support more exports and other business opportunities for British firms”

- On-going commitment to industrial strategy including continuing support to aerospace and automotive
- £22 million for Northern Powerhouse Trade missions
- New Northern investment task force
- Jeremie - Northern Powerhouse Investment Fund of over £400 million to invest in smaller businesses, subject to European funding arrangements.
- Separate Jeremie fund in the North East valued at £100 million
- 26 new Enterprise Zones or extensions of current sites – 9 in the North, including 2 current sites and 7 new ones

Delivering better infrastructure:

Key points

“Spending on the economic infrastructure that connects our nation”

- Transport investment up by 50% to £61 billion over the Parliament:
- Starting construction on High Speed 2
- Electrifying the Transpennine route
- Integrated ticketing across the North

- £13.4 billion on the Roads Investment Strategy and over £5 billion on roads maintenance includes the A1 north of Ellingham and A1 Morpeth to Ellingham

- Regional Air Connectivity Fund to support new air routes promoting domestic and international connectivity including new route from Newcastle to Norwich

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Funding

Key points

Local Government

“to give all local councils the tools to drive the growth of business in their area – and rewards that come. Local government spending, in cash terms, to be same in 2020 as 2015”

- Abolition of the uniform business rate.
- Phasing out of Local Authority Central Grant by 2020
- Hypothecated taxation facility, to raise up to 2% per year on Council Tax to fund adult social care
- Local government to keep all revenue from business rate **growth** by the end of the Parliament
- Councils to receive extra £10m to help homeless people
- Overall cut of about 55% in Local Government funding over the period with distribution effects

Economic Growth

- Minimum £12 billion additional in Local Growth Fund between 2015 and 2021.
- Devolution agreements include creation of Single Investment Fund

Wider societal changes – housing, health, welfare

Key points

Welfare

- State pension to rise by £3.35 a week to £119.30 next year
- Tax credits - no change as the UC transition takes place.
- Cuts to Housing Benefits
- Benefit recipients will be required to take part in return to work processes as per current JSA process inc. those receiving disability benefits

Health and Social care

- £22 billion efficiency savings in NHS. Frontloading of £8 billion uplift.
- Local councils empowered to fund adult social care through a new 2% Council Tax precept
- Local-led plan to create an integrated health and social care system by 2020, backed by an extra £1.5 billion in the Better Care Fund through local authorities.
- Local public health budgets reduced
- Investment of over £5 billion in health research and development
- £20m investment in social impact bonds

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Key points

Housing

- Stamp duty levy of additional 3% on buy to let homes
- 400,000 new homes built, 200,000 of which at 20% discount for those under 40 years old.
- Further changes to planning system to release more land of different types

Culture

- Protect funding in cash terms for the arts, national museums and galleries until 2019-20
- Series of specific investments in large projects

What did others say?

Institute of Fiscal Studies

“The first thing to say is its not the end of austerity. This SR is still one of the tightest in post war history. Total managed expenditure is due to fall from 40.9% of national income in 2014-15 to 36.5% in 2019-20. A swathe of departments will see real terms cuts. The 3% cumulative increase in health spending over the next five years is not far off the average annual increase in spending in the last 50 years.”

“Beyond the spending numbers and the welfare changes, though, we also saw yesterday glimpses of George Osborne the reforming Chancellor. He really is cutting spending on non pension benefits to its lowest level relative to national income for about 30 years. The changes to local government financing and devolution are genuinely radical and could transform both the role of local government and the UK’s fiscal architecture. The same is true of additional devolution to Wales and Northern Ireland. The commitment to consult on reforming school funding is long overdue.”

“The chancellor has talked of a “devolution revolution”. Looking across local government and the constituent countries of the UK there is some reason to accept that a reevaluation is underway.”

CBI

“This was a good spending review for longer-term investment in the economy but there’s a sting in the tail in the size and scope of the Apprenticeship Levy.

“Businesses will be pleased to see the Chancellor staying the course on deficit reduction, his commitment to an industrial strategy, and the emphasis on nurturing a vibrant business community.

“Standouts include maintaining spending on infrastructure; ramping up house building; support for energy-intensive sectors and for advanced manufacturing.

“Business recognises there are tough choices to be made in balancing the books, but many are reaching a tipping point, where the cumulative burden of the living wage, apprenticeship levy and business rates risk hurting competitiveness.

On devolution:

“Businesses will be pleased to see further details on the regional growth agenda, including new enterprise zones and the Local Growth Fund.

“It’s important for Government and local areas to engage with business and move as quickly as possible from planning to delivery.”

NECC

"Today's Spending Review was the opportunity for the Chancellor to put meat on the bones around the Northern Powerhouse and to confirm how the North East can play a significant part in it. However, what we heard today has mostly been said before and there was not enough to confirm real economic change.

"What we had hoped to hear was a significant and lasting change in measures affecting the pattern of government investment and to direct private investment to the North East. A series of initiatives badged under the Northern Powerhouse brand, while welcome, are not enough to achieve this.

"We are pleased that a significant number of smaller businesses may not be required to pay an apprenticeship levy and support is available to those who need it, although we look forward to hearing more details on this in the future."

Local Government Association

“Today's announcement on council tax will go some way to allowing a number of councils to raise the money needed to offset some of the cost of social care. The £1.5 billion increase in the Better Care Fund announced today is good news, but it's vital that this is new money and must be spent on adult social care.

"It is wrong that the services our local communities rely on will face deeper cuts than the rest of the public sector yet again and for local taxpayers to be left to pick up the bill for new government policies without any additional funding.

This Spending Review was never about just spending less it was about spending smarter. Local government has led the way at finding innovative ways to save money but after five years of doing so the majority of savings have already been made.

Allowing local government to retain 100 per cent of their business rates income will help councils try to mitigate some of the pressure they face following further funding cuts. While it is positive that the Treasury has worked with us to localise business rates, this is just the start of the journey”

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