

# HAMPSHIRE COUNTY COUNCIL

## Decision Report

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| <b>Decision Maker:</b> | Cabinet                                |
| <b>Date:</b>           | 19 December 2011                       |
| <b>Title:</b>          | The Chancellor's Autumn Statement 2011 |
| <b>Reference:</b>      | 3529                                   |
| <b>Report From:</b>    | County Treasurer                       |

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### 1. Executive Summary

- 1.1. The purpose of this paper is to update Cabinet on the key issues arising from the Chancellors Autumn Statement and to assess the likely impact on the County Council.

### 2. Contextual information

- 2.1. The Chancellor delivered his Autumn Statement on 29<sup>th</sup> November against a backdrop of weakening economic growth, high inflation, continued problems in the Eurozone and on the eve of a public sector strike over pension changes.
- 2.2. Attached at Appendix 1 is a briefing paper setting out the key issues arising from the Statement which have been grouped under specific headings. The next section considers some of these items in more detail and considers the potential impact on the County Council.

### 3. Key Issues

- 3.1. **An additional £600m for funding School Places from 2012/13** – The County Council received an additional £7.8m from the additional £500m allocation that was provided this year and continues to have particular hotspots with high demographic pressures that will need addressing. However, it is anticipated that the bulk of the new money could be directed towards London, although the DfE have said that they have yet to settle on an allocation basis.
- 3.2. **An expected increase in public sector job losses from 400,000 to 710,000** – This revised forecast is unlikely to impact directly on the County Council since our plans for reducing the workforce are well established and are being undertaken in a planned and controlled way. In economic terms,

a greater number of job losses will impact in other ways within the County, but is expected to have a greater impact in the north of the Country where reliance on public sector jobs is much higher.

- 3.3. **No changes to the expenditure totals in the Spending Review, but £5 billion will be transferred to capital expenditure** – The County Council has made prudent assumptions for grant reductions in the last two years of the current Spending Review, but the proposed switch of some funding to capital could adversely impact on the settlement we receive for those two years. In addition, Ministers are refusing to rule out at this stage further reductions in Local Government funding as a result of the proposal for further public sector wage caps (see paragraph 3.10). No announcement on grants for 2013/14 onwards is expected until November 2012.
- 3.4. **Government Total Managed Expenditure to reduce in real terms by 0.9% in 2015/16 and 2016/17** – This is the first indication of what Government expenditure will look like after the current CSR period, however, there were limited details on how this was made up and other proposed changes such as the Local Government Resource Review will mean that it is impossible to draw any conclusions on the impact for Local Government grants in the future.
- 3.5. **Investment in Infrastructure** – The national Infrastructure Plan has been published which sets out the specific areas that the Government wish to invest in over the medium term and contains details of around 500 schemes that will be targeted. Items highlighted for the South East are :-
  - M3 in Surrey – Managed motorway scheme
  - Replacement of Northern Road Bridge in Portsmouth
  - New M275 Tipner Interchange in Portsmouth which is one of the schemes where Tax Increment Financing was originally being considered
- 3.6. **Pension Funds will be encouraged to invest £20 billion in infrastructure** – A Memorandum of Understanding has been signed with the Government by the National Association of Pension Funds and the Pension Protection Fund to develop a new platform to help pension funds invest in UK infrastructure. The Government is targeting an additional £20 billion of investment from this source.
- 3.7. No further information has been published so far on how the proposal will work in practice. Pension funds trustees will need to take into account their fiduciary duty to obtain the best return for their Members from investments and this proposal needs to be assessed for risk and return against other possible investments.
- 3.8. Advice has been sought on the Government's proposal from the Hampshire Pension Fund's advisors on alternative investments, Aberdeen Asset Managers, and this will be reported to the Pension Fund Panel at its meeting on 16 December 2011.

- 3.9. **An extra £50m to be distributed to all Authorities through the Integrated Transport Block** – This additional funding is welcomed and based on past allocations, the County Council could expect to receive just over a £1m.
- 3.10. **Pay increases will be capped at an average of 1% per year for two years from 2013/14** – Although it is recognised that Local Government is responsible for setting its own pay, there is still the expectation that they will fall in line with national policy and it has been made clear that savings from these lower than planned increases will be used by the Treasury except for Health and Schools budget, which will retain them for their own use. The County Council has assumed increases in pay of 1% and 1.5% in 2013/14 and 2014/15 respectively and we are therefore already broadly in line with the Government's assumptions. However, there is concern that this change could have a knock on impact to grant settlement figures for these years depending on the approach that the Treasury takes.

#### **4. Conclusions**

- 4.1. The Chancellor's Autumn Statement contains a number of items which are important to the County Council but it is difficult to judge at this stage what the overall impact will be. By far the biggest issue for the County Council is what reduction in grant we will receive in the last two years of the current Spending Review and this information will not be available until November next year, despite calls from Local Government to receive this information earlier for financial planning purposes.
- 4.2. Additional updates will be provided to Councillors as more information becomes available on items such as infrastructure schemes and proposals for pension funds to invest in infrastructure in the future.

#### **5. Recommendations**

Cabinet is recommended to :

- 5.1. Note the key issues arising from the Chancellor's Autumn Statement and the impact on the County Council

### ***Chancellor of the Exchequer's Autumn Statement 2011***

The Chancellor, George Osborne, delivered the 2011 Autumn Statement on 29 November. This briefing sets out the announcements of interest to Hampshire County Council.

#### **National Economic Outlook**

- The Office for Budget Responsibility has revised down its GDP growth forecasts to 0.9% in 2011, 0.7% in 2012 and 2.1% in 2013.
- The structural deficit will now be eliminated in 2015/16, one year later than planned.
- Government borrowing will be higher than previously forecast but interest costs will be less than earlier forecast.
- The Government's explanation of the worsened economic situation is that it is due to the economic problems in Europe, high inflation and the financial crisis having been greater than previously thought.
- The Government will continue following its current economic "plan A".

#### **Children's**

- An additional £600 million of funding for school places from 2012/13 for local authorities with the greatest demographic pressures.
- £600 million to fund 100 new free schools, including schools specialising in maths.
- A further £380 million a year by 2014/15 to extend the offer of 15 hours free education and care a week for disadvantaged two year olds to cover an extra 130,000 children.

#### **Employment**

- Government subsidies for jobs for young people as part of the new Youth Contract will apply to the private sector only.
- Office for Budget Responsibility has increased its forecast of public sector job losses from 400,000 to 710,000.
- The Government will examine how redundancy processes can be quickened and simplified.
- There will be a consultation on changes to TUPE regulations in 2012.

### **Government Expenditure**

- No changes to the expenditure totals in the Spending Review, but £5 billion will be transferred from current to capital expenditure.
- Limited details of Government Total Managed Expenditure for 2015/16 and 2016/17 were announced. There will be a 0.9% real terms decrease each year.

### **Infrastructure and Transport**

- A National Infrastructure Plan has been published. It focuses on road, rail, power and broadband projects.
- The Government will spend an additional £5 billion on infrastructure over the next 3 years and has committed a further £5 billion over the next spending review period.
- Pension funds will be encouraged to invest £20 billion in infrastructure.
- An extra £170 million for local authority major transport projects to enable all the projects in the Spending Review development pool to proceed, subject to passing the DfT assurance process.
- Road Pinch Point fund – Additional funding of £220 million for smaller projects which will ease local bottlenecks and improve safety and road layout.
- An extra £50 million to be distributed to all local transport authorities through the Integrated Transport Block.
- The Government will consider allowing city mayors and partner local authorities to borrow against the income they receive through the Community Infrastructure Levy as part of tax increment financing (TIF), where they can make a significant contribution to national infrastructure priorities. Further details on TIF will be in the Local Government Resource Review in December.

### **Pensions**

- State pension age to rise to 67 from 2026, ten years earlier than previously planned.
- Pension funds to be encouraged to invest £20 billion in infrastructure. A memorandum of understanding to support this has been signed with the National Association of Pension Funds, Pension Protection Fund, and a group representing pension plans and infrastructure fund managers.
- The Government are keen for small and medium sized businesses to raise finance from non bank sources, which could include pension funds.
- The Government will ensure that the amount of tax relief given to employers making asset-backed pension contributions reflects the amount of payments made, and does not give rise to unintended excess relief (this appears to be aimed at banks, who are using this to reduce their bank levy tax).

## **Public Sector Pay**

- After the two year central government pay freeze ends, pay increases will be capped at an average of 1% per year for two years.
- Savings from these lower than planned increases will be used by the Treasury, except for the health and schools budgets, which will retain them to use.
- Public sector pay review bodies are to examine whether there should be regionally based public sector pay and will report their findings by July 2012.

## **Tax**

- The planned 3.02 pence per litre rise in fuel duty in January 2012 has been deferred until August 2012. The 1.92p increase planned for August 2012 has been cancelled.
- The Government will extend the current small business rate relief holiday for a further six months to April 2013. Businesses will also have the opportunity to defer 60 per cent of the increase in their 2012-13 business rate bills as a result of the revaluation, to be repaid equally across the following two years.

## **Other Items**

- The Regional Growth Fund will increase by £1 billion and it will be extended to 2014/15.
- Regulated rail fares will increase by RPI+1% in January 2012 rather than RPI+3%.

## **Links**

Autumn Statement: [http://www.hm-treasury.gov.uk/as2011\\_index.htm](http://www.hm-treasury.gov.uk/as2011_index.htm)

National Infrastructure Plan: [http://www.hm-treasury.gov.uk/national\\_infrastructure\\_plan2011.htm](http://www.hm-treasury.gov.uk/national_infrastructure_plan2011.htm)

HM Treasury press release: [http://www.hm-treasury.gov.uk/press\\_134\\_11.htm](http://www.hm-treasury.gov.uk/press_134_11.htm)

**CORPORATE OR LEGAL INFORMATION:**

**Links to the Corporate Strategy**

|   |     |
|---|-----|
| <b>Hampshire safer and more secure for all:</b>       | Yes |
| Corporate Business plan link number (if appropriate): |     |
| <b>Maximising well-being:</b>                         | Yes |
| Corporate Business plan link number (if appropriate): |     |
| <b>Enhancing our quality of place:</b>                | Yes |
| Corporate Business plan link number (if appropriate): |     |
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| <b>Section 100 D - Local Government Act 1972 - background documents</b>  |                 |
| <p><b>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</b></p> |                 |
| <u>Document</u>  | <u>Location</u> |
| None   |                 |

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

- 1.1. Equality objectives are not directly affected by the proposals in this report

### **2. Impact on Crime and Disorder:**

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime

### **3. Climate Change:**

- a) **How does what is being proposed impact on our carbon footprint / energy consumption?**

No specific proposals

- b) **How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?**

No specific proposals affecting adaptation to climate change