

Government and economic news

Contents at glance

[Regulation news](#)

[Working together across the public sector](#)

[Accounting, auditing and governance](#)

[Find out more](#)

Spending review 2013

The Chancellor of the Exchequer announced the government spending plans for 2015-16 and cuts to individual departmental budgets to Parliament on 26 June 2013. This aligned with the announcement in the March 2013 budget that savings of £11.5bn were required.

The main points of the Spending Round are summarised below:

Overall

- ▶ The overall spending for the three years is confirmed as £745bn in 2015-16, £755bn in 2016-17 and £765bn in 2017-18.
- ▶ Savings from current spending of £11.5bn are required in the spending round for 2015-16, of which savings of £2.1bn are from core local government funding.
- ▶ Local authority core funding is reduced by 10 percent in 2015-16 in real terms.
- ▶ Transfer of £2bn from the NHS to local authorities for social care.

Council tax

- ▶ Further support to freeze council tax for 2014-15 and 2015-16, equivalent to one percent council tax increase for councils which freeze their council tax on the same lines as in 2013-14. Referendum limits of two percent in both 2014-15 and 2015-16 will be set.

Adult social care and health

- ▶ A £3.8bn pooled budget for health and social care services, shared between the NHS and local authorities, to deliver better outcomes and greater efficiencies through more integrated services. This includes £2bn a year through the NHS to join up local health and social care services.



Building a better
working world



Public service transformation

- ▶ £100mn investment into a council efficiency and transformation fund.
- ▶ A police innovation fund and provision of resources for the transformation of Fire and Rescue Services.
- ▶ Children's services and schools funding
- ▶ Schools funding and the pupil premium will be protected in real terms but the Education Services Grant, which pays for central services to schools, will be cut by 20 percent. This will be subject to a consultation in the autumn.

Troubled families

- ▶ A further £200mn will be invested into the Troubled Families programme to extend help to 400,000 families in 2015-16. In line with the existing programme, this will be subject to match funding from local authorities.

Local growth

- ▶ £2bn allocation to the creation of a Single Local Growth Fund, to be devolved to the Local Enterprise Partnerships (LEPs). The Fund is expected to be operational in April 2015 and sustained each year of the next Parliament. £700mn of this is to be funded from amounts previously allocated to local areas for transport or the New Homes Bonus

Fire and police

- ▶ Creation of an innovation fund of up to £50mn for police forces to work jointly with each other and with local authorities.
- ▶ A 7.5 percent reduction overall in Fire and Rescue authorities funding for 2015-16.
- ▶ Two specific fire and rescue authority funds were announced totaling £75mn, to be made through the local government settlement in order to encourage joint working.

The Local Government Association updated its Funding Outlook Report to incorporate the additional 10 percent real-terms cut to council funding for 2015-16. It estimates that the funding gap facing local government is widening by £2.1bn a year and will reach £14.4bn by 2020.

Infrastructure spending beyond 2015

Following the spending review announcement in June 2013, the Chief Secretary to the Treasury set out the next phase of the National Infrastructure Plan, and outlined the government's infrastructure investment priorities beyond 2015.

Key details highlighted:

- ▶ An increase in capital spending plans by £3bn a year, from 2015, equating to additional £18bn of investment over the next parliament
- ▶ Over £70bn of investment in transport
- ▶ Over £20bn in schools
- ▶ £10bn in science, housing and flood defences



Specific commitments include:

- ▶ Funding for HS2, a new nationwide rail network.
- ▶ Tripling the money spent on roads by 2020 to 2021 compared to 2013. This includes £6bn to help local authorities repair the local road network.
- ▶ Expanding Superfast Broadband provision so 95 percent of UK premises will have access to Superfast Broadband by 2017.

Action is being taken to provide the support needed to enable up to £100bn of private sector energy investment, including through the further roll-out and extension of the UK guarantees scheme.

A full update of the National Infrastructure Plan will be published at the time of the Autumn Statement 2013.

Local government pension scheme review

Local government minister Brandon Lewis has announced plans for a review of the Local Government Pension Scheme's investment regulations. The possibility of merging schemes is also to be examined.

The review will examine the rules, which set caps on the amount funds can invest in certain assets. In March, the minister confirmed that the limit covering infrastructure projects would be doubled to 30% of total assets.

The move comes as a new local government pension regulatory plan is being developed to take account of the reforms that the government has made to public sector schemes. This will come into effect in April 2014.

Economic outlook

The ITEM Club, one of the UK's foremost independent economic forecasting groups, sponsored by EY, announced in July 2013 that the UK recovery 'has finally got legs', with consumer spending and the housing market propping up GDP this year until the long awaited revival in exports and business investment kicks in next year.

According to the EY ITEM Club Summer Forecast, UK GDP will reach 1.1 percent this year, before accelerating to 2.2 percent in 2014 and 2.6 percent in 2015.

With consumer confidence returning and the Government's initiatives to stimulate the housing market bearing fruit, consumers are switching their attention back from saving to spending. From next year the consumer-led recovery will morph into much more balanced growth, as business investment and exports begin to rise more strongly.

The ITEM club had recently issued two special reports considering the impact of changes in the economic environment.



In May 2013, it published a report on inflation, identifying the following:

- ▶ **Outlook for inflation:** inflationary pressures will peak over the summer, and we will be unlikely to see inflation dip below 2.5 percent over the next four years.
- ▶ **Impacts on consumer spending:** ongoing relatively high inflation will continue to impact consumer spending, especially with unemployment unlikely to fall quickly. Average earnings growth will experience a pick-up from 2014, but is likely to take several years to return to more 'normal' rates of four percent or more.
- ▶ **Implications for monetary policy:** continuing high inflation could limit the Monetary Policy Committee's room for manoeuvre on interest rates, whilst also making it difficult to implement the Chancellor's proposal for more forward guidance.

In June 2013, the ITEM club published its report on consumer spending, identifying the following:

- ▶ **Consumer spending forecast in detail:** in 2012 consumer spending was still four percent below its 2008 peak. However, it is beginning to show signs of recovery and the momentum behind rising spending will build gradually over the next few years. This should see real consumer spending growth accelerating to just below five percent in 2014.
- ▶ **The pace of the recovery:** by 2015 it is expected that the level of spending will have returned to its pre-financial crisis peak, and then continue to grow faster than recent growth rates, although significantly slower than on previous trends.
- ▶ **Income and labour market factors:** although the strong rebound in real incomes seen in 2012 will not be sustained, and inflation is not expected to slow down from current rates, the generous increase in the income tax personal allowance will boost take-home pay over the next two years. These factors should mean that real incomes grow sufficiently to sustain the recovery in consumer spending.



Regulation news

Local audit and accountability bill

The Local Audit and Accountability Bill will put in place a new local audit and accountability framework for local public bodies in England. The Audit Commission currently appoints auditors to a range of local public bodies in England and sets out expected standards for auditors and oversees their work. It also compares data across the public sector to identify where services could be open to abuse and help organisations fight fraud. Under the bill, the scope of the audit will remain very similar to the current audit, and auditors will continue to be required to comply with a code of practice and have regard to guidance. In the new framework, these will be developed by the Comptroller and Auditor General of the National Audit Office.

The Bill continues with the auditor's role in bringing any appropriate concerns to the attention of the public through public interest reports which the body will be required to publish, along with their response. The Bill protects the rights of taxpayers to inspect the accounts of local bodies and raise any questions and objections with the independent auditor.

The Bill sets out a new framework which requires local bodies to appoint their own auditors. Local public bodies will have to appoint their own auditor at least once every five years. They will need to consult and take into account the advice of an independent

auditor panel. They will be required to publish information about the appointment of an auditor within 28 days of making the appointment.

Final amendments were made to the Bill during the third reading on 24 July. The Bill now goes to the House of Commons for its consideration.

OFSTED: consults on a single inspection framework for local authority children's social care services

In June 2013 OFSTED launched a consultation proposing a single framework for inspecting local authority child protection and services for looked after children, including those leaving or who have left care.

This replaces previous plans to implement separate inspections for child protection and services for children looked after. It proposes an evaluation of help, protection and care for children including the arrangements for local authority fostering and adoption services



Local government claims and returns 2011-12 certification report

In June 2013, the Audit Commission published its report on certification of local government 2011-12 claims and returns.

The 1,230 claims and returns reviewed, totaling £50.7bn, saw a fall in the value of amendments and number of qualification letters, due largely to fewer claims and returns requiring certification but the proportion of claims and returns that required amending or to be qualified rose.

Key messages from the report were:

- ▶ Amendments totaled £36.9mn, comprising increases in value of £13.6mn and decreases of £23.3mn.
- ▶ 355 qualification letters were issued on 29 percent of all claims and returns.
- ▶ 78 percent of housing and council tax subsidy claims received qualification letters.
- ▶ Many authorities could improve working papers and the supervision and review of claims and returns, to help reduce the number of errors and issues requiring attention.

Value for Money Profiles: council tax collection

In June 2013, the Audit Commission issued a briefing on council tax collection using data drawn from its Value for Money (VFM) profiles, to demonstrate their practical application and benefits.

The VFM Profiles are an online tool made available to anyone who has an interest in local public services including service users and residents. It enables comparison between councils by bringing together data about the costs, performance and activity of local councils and fire authorities, specifically to see:

- ▶ How an organisation is spending its resources, and how well services perform
- ▶ How the costs and performance of an organisation compare to others
- ▶ The latest planned budgets for councils
- ▶ Outlier reporting

This council tax briefing provides a national perspective on data for two specific indicators in relation to council tax. Key data identified:

- ▶ Council tax makes up more than £22bn of English council's income
- ▶ Councils spend £300mn (net) collecting council tax
- ▶ £605mn, of 2011-12 council tax due, remained uncollected by March 2012
- ▶ The total council tax arrears at 31 March 2012 was £2.355bn



Working together across the public sector

Funding transfer from NHS England to social care: 2013-14

In June 2013 NHS England announced that it will transfer £859mn to local authorities to allow them to support adult social care in 2013-14. The transfer of funding will be administered by NHS England's own area teams and not clinical commissioning groups (CCGs).

The funding must be used to support adult social care services in each local authority, which also has a health benefit. Health and wellbeing boards will be the forum for discussions between the NHS England area teams, CCGs and local authorities on how the funding should be spent and the outcomes expected from this investment.

Whole place community budgets

Following the Community Budget pilots, which tested 'whole-place' pooled spending on particular local services, the Secretary of State for Communities and Local Government announced that the Government is to support 18 selected councils across nine areas to develop pooled spending.

To aid the process, a 'multi-agency network' made up of experts from the public and private sectors will be set up to develop plans for a rolling programme, using lessons learnt from the four pilots. Councils are encouraged to submit expressions of interest to join the network.

In our April 2013 briefing, we provided details of the independent analysis from EY, which showed that more than £4bn of public money could be saved every year by radically shaking up the way public services are provided and paid for in England; cutting unnecessary waste, duplication and red tape. A year-long pilot of community budgets modelled to a national level by EY, shows that devolving more decisions to local areas would provide better services and save between £9.4bn and £20.6bn over five years across local and central government.

Neighbourhood-level Community Budgets: 'Our Place'

Following the success of the 12 Neighbourhood Community Budget Pilots, the Secretary of State for Communities and Local Government announced financial support of £4.3mn intended to enable at least 100 neighbourhoods to design and deliver local services that focus on local priorities and reduce costs.

The pilots ranged from inner cities and suburbs, to housing estates and small towns. They brought together local government, service providers, the voluntary sector, and business to help young people get work, support 'just coping' families, reduce anti-social behaviour and find new ways to give people with long term health conditions a better quality of life.

The expansion of the Our Place programme will also set up a network of champions drawn widely from the pilots and from all sectors, to provide support and advice.



Accounting, auditing and governance

National Fraud Initiative moving to Cabinet Office

The National Fraud Initiative (NFI) will be retained and transferred to the Cabinet Office when the Audit Commission closes in 2015. The National Fraud Initiative matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information that indicate that a fraud, an error or an overpayment may have taken place; signalling the need for review and potential investigation. The Audit Commission has reported that the outcomes from the most recent exercise in England include:

- ▶ The prevention and detection of £103mn pension overpayments
- ▶ £79mn council tax single person discounts incorrectly awarded
- ▶ £42mn housing benefit overpayments
- ▶ 164 employees identified as having no right to work in the UK
- ▶ 321 false applications removed from housing waiting lists
- ▶ 1,031 prosecutions, 921 of them for housing benefit fraud
- ▶ 32,633 blue badges and 52,635 concessionary travel passes cancelled

HRA Indebtedness

- ▶ The DCLG in May 2013 issued the **Limits on Indebtedness Determination 2012: Amending Determination 2013**. This requires a reduction in the HRA CFR where HRA non-RTB receipts after April 1 2013 are used to fund general fund capital expenditure, unless this is regeneration or affordable housing expenditure. Reduction in the HRA CFR would transfer the relevant part of HRA debt to the general fund, giving the latter increased interest and repayment costs.
- ▶ Under the same amending determination HRA 'Interest on notional cash balance' definition is now defined as:
- ▶ 'Interest on notional cash balance means the interest credited to the Housing Revenue Account on notional credit balances attributed to the Housing Revenue Account, the Housing Repairs Account, unapplied housing capital receipts and the Major Repairs Reserve.'



OFSTED: consults on a single inspection framework for local authority children's social care services

The consultation closed on 12 July 2013.

For more information, see:

<http://www.ofsted.gov.uk/resources/inspection-of-services-for-children-need-of-help-and-protection-children-looked-after-and-care-leave>

Local government claims and returns 2011-12 certification report

The full report can be found at:

[Local government claims and returns: The Audit Commission's report on certification work 2011/12 \(PDF document\)](#)

Value for Money Profiles: Council Tax Collection

The full report is available here: [Council tax collection – Using data from the Value for Money Profiles, June 2013 \(PDF document\)](#)

Link to VFM profile tool: [Value for Money Profiles](#).

Funding transfer from NHS England to social care: 2013-14

An annex to the announcement letter provides details of funding by local authority and NHS England area team:

<http://www.england.nhs.uk/wp-content/uploads/2013/07/annex-a-la-funding-split-at.pdf>

Whole place community budgets

Further details and a full list of authorities selected are available here:

<http://www.publicfinance.co.uk/news/2013/07/18-councils-selected-for-next-stage-community-budgets/>

Read more about the pilots at:

http://www.local.gov.uk/c/document_library/get_file?uuid=3e06dd05-6204-4ae8-9b41-81f516cb9a5b&groupId=10171



Neighbourhood-level Community Budgets: 'Our Place'

The DCLG press release on the announcement of the Our Place programme expansion:

<https://www.gov.uk/government/news/43-million-boost-to-put-communities-in-control>

The Our Place! summary report published by the DCLG highlighting the work of the 12 pilots is available here: <http://mycommunityrights.org.uk/wp-content/uploads/2013/06/Our-Place-and-what-the-pilot-areas-achieved.pdf>

National Fraud Initiative has future moving to Cabinet Office

To find out more, go to:

<http://www.audit-commission.gov.uk/2013/07/audit-commissions-national-fraud-initiative-has-future-fighting-fraud-under-cabinet-office/>

HRA Indebtedness

The final five determinations for implementing self-financing for council housing can be found at:

<https://www.gov.uk/government/publications/the-housing-revenue-account-self-financing-determinations--2>

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2013 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

1374475.indd (UK) 08/13. Artwork by Creative Services Group Design.



In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/uk