

## Spending review 2002 Monday 15<sup>th</sup> July 2002

### Summary

*This briefing provides a summary of the key announcements made overview of the key announcements made in today's Spending Review covering:*

- ❑ *local government finance*
- ❑ *education*
- ❑ *personal social services*
- ❑ *transport*
- ❑ *housing and housing benefit*

*More detailed announcements are expected over the coming days, and the LGA will provide further briefing once these are published.*

*A copy of this briefing is on the LGA website at [www.lga.gov.uk](http://www.lga.gov.uk). Further details on the content of the Spending Review announcement can be found on the Treasury website at [www.hm-treasury.gov.uk/spending\\_review](http://www.hm-treasury.gov.uk/spending_review).*

*For further information please contact Keith Beaumont on 020 7664 3336, e-mail [keith.beaumont@lga.gov.uk](mailto:keith.beaumont@lga.gov.uk).*

### Local government finance

*The 2002 Spending Review provides an average increase of 4.2% for local government services in real terms over the three years to 2005-06.*

*Total SSAs will rise in cash terms by 7.3% in 2003-04; 5.3% in 2004-05 and 6.7% in 2005-06. This is supported by net Aggregate External Finance (AEF) increases of 7.7% in 2003-04, 4.9% in 2004-05 and 6.9% in 2005-06. This implies an increase in locally financed spending of around 6.1-6.2% for the three years of the spending review. Full details are set out in the Annex.*

**Capital investment** - *the Spending Review announces new spending plans to provide for a "10.7% annual average increase in local authority investment through capital support and PFI from 2002-03 to 2005-06". No details of departmental spending programmes were published. PFI figures for the years covered by the SR are as follows:*

- ❑ *2003-04 (Baseline) - £1800m*
- ❑ *2003-04 Plans - £1940m*
- ❑ *2004-05 Plans - £2330m*
- ❑ *2005-06 Plans - £2700m*

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## Office of the Deputy Prime Minister's local government programme

**Neighbourhood Renewal Fund** - there will be an increase in the Neighbourhood Renewal Fund over the SR period as follows:

- ❑ 2003-04 - £400m (already planned)
- ❑ 2004-05 - £450m
- ❑ 2005-06 - £525m

**Capacity building and intervention** - a new fund of £135m has been announced to support capacity building and intervention in local authorities. This will be phased as follows:

- ❑ 2003-04 - £40m
- ❑ 2004-05 - £45m
- ❑ 2005-06 - £50m

**Local PSAs** - Performance reward grants of £635m over the SR period were announced for authorities who achieve stretching targets agreed with central government through local PSAs. In addition £141m will be provided for pump priming grants for a second round of local PSAs to start in 2004.

**Electronic service delivery** - additional resources for the Local Government On-line programme were announced with funding as follows:

- ❑ 2003-04 - £215m
- ❑ 2004-05 - £189m
- ❑ 2005-06 - £107m

**Ring fencing** - the Spending Review White Paper says that the Government is 'determined to minimise the overall level of ring-fencing to promote local flexibility. It will test ring fenced grants against the criteria set down in the Local Government White Paper and will end existing ring-fenced grants where they are longer necessary. This process will take place in autumn 2002, so, as in previous spending reviews, no figures are provided for the overall level of ring-fenced grants. However the white paper says that around £2bn of existing ring-fenced grants will be transferred into SSAs by 2005-06, consisting of over £1bn of DfES grants and £0.8bn DH grants.

## Education

- ❑ Annual spending on education and skills is due to rise by £12.8 billion between 2002-3 and 2005-6 – spending is set to rise in real terms by 6% per year in the three years to 2005-6. By 2005-6 UK education spending is forecast to rise to 5.6% of GDP (from 4.6% in 2000-2001);
- ❑ The review announced a significant increase in School Standards Grant – paid directly to headteachers. Extra funding of £325 million revenue capital from 2003-4 will rise to £375 million a year from 2004-5. This means that a typical primary school will receive at least £50,000 per year (an increase of £10,000), with a typical secondary school due to receive at least £165,000 (an increase of £50,000);
- ❑ £175 million a year from 2003-4 on a leadership incentive grant in at least 1,400 secondary schools in Excellence in Cities, Education Action Zone, excellence clusters and other areas facing similar challenges
- ❑ The review portrays an average annual real terms rise in education standard spending of 3.4% from 2002-3 to 2005-6 (from £22.5 billion in 2002-3 to £26.8 billion in 2005-6);

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- ❑ A "significant further boost" to modernise school buildings and ICT facilities – capital investment will rise to £7 billion per year by 2005-6 (of which £1.2 billion will come through the Private Finance Initiative);
  - ❑ Education Maintenance Allowances of up to £1,500 per year will be rolled out nationally from September 2004;
  - ❑ A "step change" in post 16 funding from 2002-3 with three year budgets and 100% end year flexibility to local LSCs. A review will take place to look at how regional development agencies can play a wider role in developing and implementing regional skills strategies, for arrangements to come in by April 2004;
  - ❑ An extension of the Sure Start programme and funding "to create at least 250,000 childcare places" with a free nursery place for all three olds whose parents want one by September 2004.

## **Personal Social Services**

- ❑ The Spending Review confirms the overall increase in funding announced in the Budget in April 2002 for social care. While the LGA welcomes the additional funding we believe that this will not be enough to address the severe pressures on social care budgets.
- ❑ Local authorities budgeted to spend £925 million (10.5%) above SSA on social services in 2001/02 and £1,198 million (13.0%) above SSA in 2002/03. This continues the trend of a growing gap between central government provision and local authority spending in recent years.
- ❑ There will be major pressures in both the current financial year (2002/03) and in the next financial year. Only £160 million of the additional £360 million for 2003/04, announced in the Budget in April 2002, will be used to support PSS SSAs.
- ❑ Two thirds of the spending above SSA is accounted for by children's services. This is mainly the result of the rise in the number of looked after children. This number increased from 49,300 to 58,100 in the period 1994 to 2000, equivalent to a rise of 13% in the rate of children being looked after.
- ❑ The governments intention to introduce a 'bed blocking' penalty framework will only increase pressures on social care budgets and does not take account of the whole system working needed to effectively reduce the instances of delayed discharge.

## **Transport**

- ❑ The spending review announced an annual average growth in the Department for Transport's budget of 12% each year from 2002-03 to 2005-06, rising from £7.7 in 2002-03 to £11.6 Billions in 2005-06. The Government says that expenditure will be £4 Billions higher in 2005-06 than in 2002-03.
- ❑ The headline total includes the bringing forward into the Spending Review of £370 million from unallocated capital within the Ten Year Transport Plan, to accelerate delivery.
- ❑ It also includes £1 Billion that is being added to the Ten Year Transport Plan to support the delivery of the improvements to the London Underground to be provided through Public Private Partnership.
- ❑ The total also includes a proportion of public investment that is delivered through capital grants to the private sector, mainly in the rail industry. These are now shown as resource in the Department for Transport's budget. This has been due to the move to private sector standards of financial reporting.
- ❑ There will be a review of the statutory processes governing the planning and implementation of transport projects.

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- ❑ *There is no specific mention of an increase being given to local authorities beyond that already announced under the Ten Year Plan.*

## **Housing and housing benefit**

- ❑ *The spending review announced an increase in funding overall for housing from £4.8bn 2002/3 to £5.9bn 2005/6.*

*This amount will be used primarily for:*

- ❑ *more affordable housing to rent or own in London and the South East (including additional provision for key workers)*
- ❑ *additional resources to implement market renewal strategies in areas blighted by low demand and abandonment*
- ❑ *increased investment through arms length management companies to improve the condition of the social housing stock*

*The Spending Review also proposes:*

- ❑ *creating single housing inspectorate for all types of social landlord (council and housing associations)*
- ❑ *establishing strong regional housing bodies to integrate housing investment decisions with those on economic development, planning & transport*
- ❑ *extending existing housing PSA (to bring all social housing into decent condition by 2010) to include "increasing the proportion of private housing in decent condition occupied by vulnerable groups"*

### **Housing benefit**

*The spending review:*

- ❑ *sets new target to reduce fraud and error in housing benefit by 25% by 2006*
- ❑ *proposes further reforms to housing benefit administration supported by substantial new investment*

# Annex

SR2002 (July 2002) Key Numbers (£ million)

Standard Spending Assessments	2002-2003	2003-2004	2004-2005	2005-2006
Education	22,503	23,928	25,285	26,826
Personal Social Services	9,231	10,023	10,715	11,856
Police	3,577	3,995	4,195	4,395
Fire	1,521	1,583	1,653	1,703
Highway Maintenance	1,955	2,005	2,055	2,105
Environmental, Protective and Cultural Services	8,961	9,435	9,703	10,024
Capital Financing	2,224	2,648	2,838	3,323
<b>Total of Standard Spending Assessments</b>	<b>49,972</b>	<b>53,616</b>	<b>56,443</b>	<b>60,233</b>
<b>Net Aggregate External Finance</b>	<b>36,774</b>	<b>39,596</b>	<b>41,552</b>	<b>44,432</b>
<b>Locally Financed</b>	<b>13,198</b>	<b>14,020</b>	<b>14,891</b>	<b>15,801</b>

SR2002(July 2002) Key Numbers

£ million

Year on Year Change

Standard Spending Assessments	2002-2003	2003-2004	2004-2005	2005-2006
Education	22,503	6.3%	5.7%	6.1%
Personal Social Services	9,231	8.6%	6.9%	10.6%
Police	3,577	11.7%	5.0%	4.8%
Fire	1,521	4.1%	4.4%	3.0%
Highway Maintenance	1,955	2.6%	2.5%	2.4%
Environmental, Protective and Cultural Services	8,961	5.3%	2.8%	3.3%
Capital Financing	2,224	19.1%	7.2%	17.1%
<b>Total of Standard Spending Assessments</b>	<b>49,972</b>	<b>7.3%</b>	<b>5.3%</b>	<b>6.7%</b>
<b>Net Aggregate External Finance</b>	<b>36,774</b>	<b>7.7%</b>	<b>4.9%</b>	<b>6.9%</b>
<b>Locally Financed</b>	<b>13,198</b>	<b>6.2%</b>	<b>6.2%</b>	<b>6.1%</b>

(all figures are adjusted for transfers since Spending Review 2000. The figures for Police for 2002/03 are net of a transfer of £262m to specific grant ;this is included in SSA figures for 03/04)

Standard Spending Assessments	2002-2003	2003-2004	2004-2005	2005-2006	Total
Education	22,503	1,425	1,357	1,543	4,325
Personal Social Services	9,231	792	692	1,141	2,625
Police	3,577	418	200	200	818
Fire	1,521	62	70	50	182

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<i>Highway Maintenance</i>	1,955	50	50	50	150
<i>Environmental, Protective and Cultural Services</i>	8,961	474	268	321	1,063
<i>Capital Financing</i>	2,224	424	190	485	1,099
<b>Total of Standard Spending Assessments</b>	<b>49,972</b>	<b>3,644</b>	<b>2,827</b>	<b>3,790</b>	<b>10,261</b>