

Report of Director of Resources

Report to Executive Board

Date: 4th September 2013

Subject: Spending Review 2013 - Update

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. Members received a report on the Spending Review 2013 at their meeting on 17th July 2013 which provided an overview of the headline announcements.
2. On the 25th July the Department for Communities and Local Government (DCLG) issued a technical consultation document on six detailed technical issues. However this document also set out how the government proposes to achieve the changes announced in last month's spending review and provided Settlement Funding Assessments (SFA – previously referred to as Start Up Funding Assessment (SUFA) for each authority.
3. For 2014/15 confirmation was received of the additional 1% reduction to the indicative settlement for 2014/15 as announced in the Government's budget 2013. For 2015/16 the Technical consultation indicated that the cut to Local Government funding will be £1bn greater than initially thought.
4. The impact of the additional £1bn for Leeds means a further cut of £19.8m in 2015/16 bringing the total reduction to £45.5m.
5. In view of the scale of the cuts now required in 2015/16, it is proposed to defer the Medium Term Financial Plan until October's Executive Board.

Recommendations

6. Members are requested to note the contents of this report.

1 Purpose of this report

- 1.1 The purpose of this report is to give Members an update on the financial implications of the June 2013 Spending Review as detailed in the DCLG's Technical Consultation received on the 25th July 2013.

2 Background information

- 2.1 The June 2013 Spending Review set out the Government's spending plans for central government departments, the NHS and local Government for 2014/15 and 2015/16.
- 2.2 The headline cash reduction across government was £11.5 billion. This equated to an average percentage real-terms reduction in Departmental Expenditure Limits of 2.7%, but with wide variations. The average real terms reduction across the unprotected departments was 5.6% compared to 10.0% for local government, Justice and the Treasury. The reduction in Local authority core funding from DCLG was quoted as £2.1 billion which in cash terms equates to a reduction of 8.2%.

3 Main issues

DCLG Technical Consultation

- 3.1 On the 25th July the Department for Communities and Local Government (DCLG) issued a technical consultation document on six detailed technical issues. However this document unexpectedly also set out how the government proposes to achieve the changes announced in last month's spending review and provided Settlement Funding Assessments (SFA – previously referred to as SUFA) for each authority.
- 3.2 For 2014/15 confirmation was received of the additional 1% reduction to the indicative settlement as announced in the Government's budget 2013. For 2015/16 the Technical consultation indicated that the cut to Local Government funding will be £1bn greater than initially thought, meaning that underlying the headline 10% real terms cut is a 15% cut to SFA. This additional £1bn reduction is apparently explained as follows:-
- £800 million which was either designated as new burdens money or money which the Spending Review announced in addition to baseline funding. This is analysed as follows:
 - £100 million collaboration and efficiency fund
 - £30 million fire transformation fund
 - £335 million for social care new burdens associated with Dilnot reforms
 - £188 million for Independent Living Fund
 - Additional funds yet to be allocated including a contribution to the Troubled Families programme (to be determined at a later date along with funding for the Valuation Office Agency and other bodies including the LGA)

The new burdens funding for Dilnot by definition comes with additional costs for authorities and it is anticipated that most of the allocations from the other funds will also

involve at least some additional spending. In terms of Troubled Families, the Spending Review stated “following the success of the programme the Government will provide a further £200m in 2015/16 to expand this work...” It is now evident that the new funding which was said to have been drawn from across Government is being met at least in part from Local Government’s own settlement.

- An additional £180 million has been withheld for New Homes Bonus and Business Rates retention safety nets.

Government intends to hold back £50 million in 2015/16 to fund safety net payments, with any surplus again being returned in proportion to 2013/14 SUFA. It is understood that the increase in safety net holdbacks is due to concern over the impact of successful rates appeals on just a few authorities.

In addition, the Government intends to take out £1.1bn from RSG for New Homes Bonus holdback which represents a broad estimate of the 2015/16 requirement. This is an increase of £300m from 2014/15. However, the consultation document confirmed that as in 2013/14 and 2014/15 the Government has continued to set aside £250m in 2015/16 which would imply a total fund of £1.35bn. This is higher than the £1.1bn National Audit office forecast quoted in the separate New Homes Bonus consultation document which implies that £210m more than required has been removed from mainstream funding.

- 3.3 The overall reduction in SFA in 2015/16 is now understood to be £3,095 million (13.1%) in cash terms as shown in the table below, or 15% in real terms. As the local share of business rates is fixed until 2020, this reduction will come entirely from RSG.

	2014/15 £bn	2015/16 £bn	Cut £bn	Cut £bn
Consultation Paper (SFA before holdbacks)	24.6	21.7	-2.9	-11.9%
Less Holdbacks	-0.97	-1.15	-0.18	-18.6%
SFA after Holdbacks	23.6	20.5	-3.095	-13.1%

- 3.4 Those grants rolled into SUFA in 2013/14 will not be adjusted for holdback, and in cash terms will be the same as in 2014/15, with the exception of Early Intervention funding which will reduce by 8.5%. The Government is proposing to keep the overall level of localised council tax support funding unchanged in cash terms from 2014/15.

Impact for Leeds

- 3.5 The impact of the additional £1bn for Leeds means a further cut of £19.8m in 2015/16 bringing the total reduction to £45.5m as shown in the table below:

	2013/14 SUFA	2014/15 Revised SFA	2015/16 Proposed SFA
Settlement SFA	346.449	310.544	265.048
Actual Reduction £m		-35.905	-45.496
Actual Reduction %		-10.4%	-14.7%
MTFP Assumptions		310.426	284.686
Assumed Reduction £		-36.0	-25.7
Assumed Reduction %		-10.4%	-8.2%
Reduction <i>in addition</i> to MTFP		-0.118	19.796

New Homes Bonus

- 3.6 The mechanisms for the pooling of £400m of NHB in the Single Local Growth Fund in 2015/16, announced in “*Investing in Britain’s Future*”, is the subject of a separate consultation also issued on 25th July 2013 which is due to run for eight weeks until 19th September 2013.
- 3.7 The consultation sets out two methodologies of how the £400 million could be transferred. Either every authority gives the same proportion of their 2015/16 NHB allocation (approximately 35%), or alternatively all single-tier authorities give the same proportion while all upper-tier authorities pass over 100% of their allocation with the remainder coming from the lower-tier authority (approximately 19%).
- 3.8 Whichever methodology is used Leeds City Council’s contribution to the Leeds City Region (LEP) would be approximately £4.7 million in 2015/16, and it is projected that the LEP would receive income of between £17.9 and £18.2 million.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 This is a factual report and is not subject to public consultation.

4.2 Equality and Diversity / Cohesion and Integration

The information contained in this report will inform the Medium Term Financial Plan and the budget proposals for 2014/15 being developed during the autumn, but the report itself has no specific implications for equality, diversity, cohesion or integration.

4.3 Council policies and City Priorities

- 4.3.1 As outlined above, this report will inform the development of the Medium Term Financial Plan and the budget proposals for 2014/15. The budget process seeks to ensure that financial resources are used to support the Council’s policies and priorities.

4.4 Resources and value for money

- 4.4.1 This is a financial report and the financial and resource implications are detailed in the main body of the report.

4.5 Legal Implications, Access to Information and Call In

4.5.1 This report outlines the main features of the DCLG Technical Consultation document and is for information only.

4.6 Risk Management

4.6.1 The financial risks arising from the Spending Review will be assessed over the coming weeks and will be set out in the Medium Term Financial Plan to be considered by Executive Board in October.

5 Conclusions

5.1 Following the publication of this new information by government it is now clear that the impact of the Spending Review in 2015/16 is significantly greater than originally believed. Concerns have been expressed by local authorities across the country that the June statement did not make it clear that many new initiatives are to be funded through a further top-slice of local government mainstream funding.

5.2 Over the next two years, in total government funding for Leeds will fall by around £82m, which on top of the cuts already received will mean an overall cut of approximately £175m since 2010/11.

5.3 The Medium Term Financial Plan proposals for dealing with the cuts will be brought back to Executive Board in October and clearly this level of saving cannot be achieved without impacting on the services provided by the Council.

6 Recommendations

6.1 Members are requested to note the contents of this report.

7 Background documents¹

None.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.