



APPENDIX 1

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Report of the DIRECTOR OF RESOURCES

Executive Board

Date: 3RD November 2010

Subject: GOVERNMENT SPENDING REVIEW 2010

Electoral Wards Affected:

☐

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity ☐

Community Cohesion ☐

Narrowing the Gap ☐

Eligible for Call In

x

Not Eligible for Call In

(Details contained in the report)

EXECUTIVE SUMMARY

The Chancellor of the Exchequer published the coalition government's Spending Review on the 20th October 2010 setting out their public expenditure plans for the next four years (2011/12 to 2014/15). The government state that they have established a new fiscal framework to remove the structural deficit by the end of the current Parliament. The headline for local government is for funding to reduce by 26% in real terms over 4 years. This compares to average savings for government departmental budgets of 19%. Reductions for local authorities are significantly front-loaded, with real term losses in 2011/12 of more than 10%.

The proposals do include a significant reduction in the number of ring-fenced grants with around £4 billion a year to be rolled into (general) Formula Grant. Funding will also be provided for Council taxes to be frozen for 2011/12. The grant settlements for local authorities will not be known until late November, but a simple extrapolation of the national figures suggests a grant reduction for the council of over £150m by 2014/15, of which around £52m could impact in 2011/12.

Capital support for local authorities is reduced by 45% over the review period, but the government have stated that the proposals for Tax Increment Financing (TIF) will go ahead.

Funding for schools is to be increased in real terms by 0.1% per year including a new pupil premium, and £4.5 billion is provided for affordable housing. It is also proposed that council tax benefit is localised from 2013/14, but for it to cost 10% less.

As expected the Spending Review presents a significant financial challenge to the council, and this report does make proposals for the setting of the council's budget for 2011/12 including commencing a process of consultation.

1. **PURPOSE OF THIS REPORT**

- 1.1 The purpose of the report is to provide information about the Government's announcement on 20th October 2010 of the results of its Spending Review. As expected this has significant implications for public spending in general and for local authorities in particular although figures announced are mainly national ones. Individual authorities' grant figures are expected to be announced at the end of November. The report also sets out proposals for developing the council's budget, including the commencing a process of consultation.

2. **KEY HEADLINES**

- 2.1 Headline announcements include:
- Average savings in government departmental budgets of 19% over the next 4 years
 - On average central government funding to councils, schools, police and fire to decrease by 26% in real terms over four years
 - Overall funding for local government to fall by an average 7.1% per year over the next 4 years but with a larger decrease in the first year

3. **LOCAL GOVERNMENT FUNDING**

- 3.1 In his speech the Chancellor of the Exchequer said that overall funding for local government is to fall by an average of 7.1% in real terms in each of the next 4 years although there are significant variations between years as the table below shows:

National Funding	Base	Variation			
	2010/11 £bn	2011/12 £bn	2012/13 £bn	2013/14 £bn	2014/15 £bn
Local Government Funding	28.5	26.1	24.4	24.2	22.9
Real Terms reduction (%)		10.6%	8.3%	2.8%	7.2%

The reduction applies to the whole of Formula Grant not just the Revenue Support Grant (RSG) element.

- 3.2 Most ring-fencing of grants is to be removed from 2011/12. £4 billion of specific grants per year will be rolled into Formula Grant. That includes funding for Supporting People of about £1.6bn per year (£6.5bn over the next four years), about £200m of concessionary fares specific grants and extra funding announced of £1bn by 2014/15 for social care. Remaining "Core Revenue Grants" include:

- Early Intervention Grant
- Public Health Grant (from 2013-14)
- Learning Disabilities
- New Homes Bonus
- Council Tax Freeze Grant
- Housing Benefit and Council Tax Benefit Administration Grant
- PFI Grant
- Dedicated Schools Grant
- Preventing Homelessness

Transferring specific grants into formula grant could have a distributional effect. Leeds, for example, receives lower than average through formula grant.

- 3.3 In addition to the extra funding announced of £1bn by 2014/15 for social care referred to above, another £1bn for social care is to be provided from the Health budget.

- 3.4 Capital funding from Government to councils will fall by around 45% over four years. The Government estimate that self-financed funding will fall by 17% and capital expenditure by 30%.
- 3.5 The cost of borrowing to local authorities will increase as PWLB rates are to be increased to 1% above UK government gilts. This will mean an increase on PWLB rates of approximately 0.85%.
- 3.6 Council budgets on average are estimated to decrease by 14% in real terms over four years allowing for the Office for Budget Responsibility's projections for increases in council tax and for growth in the tax base.
- 3.7 The new Regional Growth Fund will provide £1.4bn of support over three years, £0.5bn in 2011/12, £0.5bn in 2012/13 and £0.4bn in 2013/14. This will aim to support growth and create jobs in the private sector in places currently dependent on the public sector. It will be subject to a bidding process.
- 3.8 Government will guarantee a £200 million capitalisation fund in 2011-12 to support authorities that wish to deliver efficiency savings early through internal restructuring.
- 3.9 Fire service funding will reduce by 4% per year in exchange for service reforms. Over the four years formula grant funding for fire authorities will reduce by 25%, weighted to the second half of the period.
- 3.10 Police spending will fall by 4% a year for 4 years and central government police funding will reduce by 20 per cent by 2014-15.

4. COUNCIL TAX FREEZE

- 4.1 The Government will provide funding for a one year council tax freeze for 2011/12, to be funded to cover a 2.5% increase, Authorities could choose to set a council tax higher than 2.5% but, if they did, they would not receive any support from this scheme. This funding of £650m will be for each of the next four years to cover the resultant loss to the tax base. There is no guarantee that the funding will continue beyond 2014/15.
- 4.2 The scheme will apply to major precepting authorities (e.g. Police and Fire Authorities) as well as to billing authorities, but not to parishes
- 4.3 The Secretary of State has indicated that capping powers would be used to curb any "excessive" increases.
- 4.4 CLG have provided indicative grant figures which include £6.7m for Leeds.

5. POSSIBLE GRANT IMPLICATIONS FOR LEEDS

- 5.1 The figures per the Spending Review (SR) indicate a real terms reduction of 26% over the four years of the SR. In addition, the Government's proposed reductions rather than being spread evenly are to be frontloaded. This gives a forecast grant change for the council as detailed below:

Leeds Position	Base	Variation				
	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
Government Grant	634.4	-	-	-	-	-
Real terms change		59.0	47.0	14.0	37.0	157.0
Funding for Council Tax		6.7				6.7
Reduction from previous year	3	582.1	535.1	521.1	484.1	
		52.3	47.0	14.0	37.0	

- 5.2 The Government's inflation assumptions over the period are 2.4% in 2011/12, 1.9% in 2012/13 and 2.0% in the final two years.
- 5.3 The above should be treated with caution, it being a straight extrapolation of headline figures within the spending review, and does not take account of any distributional impacts such as the ending of all Working Neighbourhoods Fund which will not impact on Leeds' funding as we do not receive any, nor the transfer of specific grants to formula grant.

6. COUNCIL TAX BENEFITS

- 6.1 Government will reduce spending on council tax benefit by 10% and localise it from 2013/14 to provide greater flexibilities to authorities to manage pressures from same date. DWP are expected to issue more information over the next few weeks.

7. TAX INCREMENT FINANCING (TIF)

- 7.1 TIF funding will go ahead and further details will be issued in a sub-national review later in the year. Members will be aware that Leeds, along with the other Core Cities have been promoting TIF through a policy proposal known as Accelerated Development Zones for the last few years, and in particular in relation to the Aire Valley.

8. HOUSING

- 8.1 Major reforms are to be put in place to better meet housing need, to increase housing supply and support sustainable growth. £4.5 billion is to be invested to provide up to 150,000 new affordable homes over the Spending Review period. A further £100 million will be provided to bring empty homes back into use.
- 8.2 The Preventing Homelessness Grant will continue and will provide £357m over the next four years.
- 8.3 The reforms to social housing will make no changes to security of tenure for existing tenants, but rents for new tenants are expected to increase from ~ 50% to ~ 80% of market rent levels. Further details on these reforms are to be set out shortly.
- 8.4 A New Homes Bonus scheme will be introduced. This will match fund the council tax on every new home for each of the following six years. A consultation paper on the scheme design will be launched in November and the scheme will commence in the financial year 2011/12. Nationally £900m funding will be provided over four years. An initial estimate for Leeds suggests this might amount to about £1.5m in the first year, depending on the number of new dwellings built and how the scheme is structured.

9. SCHOOLS

- 9.1 Funding for schools is to be protected. There will be a real-terms increase in schools funding of 0.1% a year for each of the next 4 years which equates to a cash increase of £3.6 billion over the Review period. There is also a commitment that cash per pupil will not fall.
- 9.2 A pupil premium is to be introduced worth £2.5bn over the review period. The premium is designed to support the educational development of disadvantaged pupils and provide incentives for good schools to take on pupils from poorer backgrounds

- 9.3 There will be a 60% real-terms reduction in capital funding over the Review period. £15.8bn will be provided to meet demographic pressure and maintain the school estate.
- 9.4 Sure Start funding (worth £1.55 billion nationally) is to be protected in cash terms but refocused on early intervention for families who need the most support. It will remain as a ring-fenced “Early Intervention” grant.
- 9.5 As previously announced, provision is to be made to extend the 15 hours of free nursery care a week for 3 and 4 year olds to disadvantaged 2 year olds.
- 9.6 The arrangements for schools funding and the pupil premium have been subject to a recent consultation exercise and funding allocations for 2011/12 are not expected to be provided until November or early December, including final details of which grants are to be included in the DSG, which grants will continue and the size and distribution of the pupil premium. Leeds received nearly £22 million in Sure Start, Early Years and Childcare grant in 2010/11. Assuming the grant is protected in cash terms Leeds can expect to receive a similar sum in 2011/12. Leeds received £6.1m in 2010/11 for increasing flexibility for 3-4 year olds. The funding for extending this for disadvantaged 2 year olds is not yet known.

10. OTHER ISSUES

- 10.1 The Government will look at setting proportions of appropriate services across the public sector that should be delivered by independent providers, such as the voluntary and community sectors and social and private enterprises. This approach will be explored in adult social care, early years, community health services, pathology services, youth services, court and tribunal services, and early interventions for the neediest families. A White Paper will be issued early in the New Year.
- 10.2 The government has announced the first sixteen areas which will set up pooled budgets across different government departments, and stated its intention that this model of accountability will be rolled out across the country by the end of the Spending Review period. In addition, Central Government departments will be actively working with a further 20 areas to help push forward local flexibility and to address barriers. Cabinet Office will work with nine authorities, including Leeds, to involve communities in designing and commissioning services that better meet local needs. Places that want to trial different ways of delivering services including community-designed and delivered services are encouraged to do so.
- 10.3 The Government will establish a Transition Fund of £100 million to provide short term support for voluntary sector organisations providing public services.

11. DEVELOPMENT OF THE BUDGET AND CONSULTATION

- 11.1 In accordance with the Council’s Budget and Policy framework, full council are responsible for setting the budget, including setting the council tax. In compliance with the framework, the executive is required to publish its initial proposals for the budget, having first canvassed the views of local stakeholders as appropriate and in a manner suitable to the matter under consideration at least two months before the budget needs to be adopted. It is also a requirement that the initial budget proposals are referred to the appropriate Scrutiny Boards for further advice and consideration.
- 11.2 Whilst it is clear that the outcome of the Spending Review will present a significant financial challenge to all public authorities, it will not be until the end of November that the council receives details of its provisional grant settlement from government, which

it is anticipated will cover two financial years. Considering these factors, it is proposed that initial budget proposals in the form of a draft medium term financial strategy is presented to this board at its meeting on the 8th December 2010, which would then be submitted to scrutiny for consideration. It is also proposed to commence a consultation process and a draft consultation document is attached. The results of consultation will be reported to both this board and scrutiny in January 2011.

11.3 At the board's meeting on the 13th October 2010, the establishment of a member working group comprising members of the five political parties to consider budget proposals was agreed. This advisory group will meet during November and December to consider and develop budget options. The outcome of these discussions will be reported to the board prior to the finalisation of the Council's 2011/12 budget.

11.4 In summary the following timetable is proposed:

- Agreement of approach to stakeholder consultation – Executive Board 3rd November 2010
- Advisory Group to meet - November/December 2010
- Formula Grant Announcement – 30th November 2010 (TBC)
- Agreement of initial budget proposals – 8th December 2010
- Submission of initial budget proposals to Scrutiny – 9th December 2010
- Scrutiny and Executive Board to receive results from stakeholder consultation – January 2011
- Executive Board to receive report from Advisory Group and views from Scrutiny, and propose budget to Council – 11th February 2011
- Full Council to receive budget proposals from Executive Board, including results of consultation and views of scrutiny – 23rd February 2011

12. RECOMMENDATIONS

12.1 To note the details of the Spending Review

12.2 To approve the approach to stakeholder engagement and related budget timetable as outlined in the report and the Appendix.

BACKGROUND PAPERS

Spending Review 2010, HM Treasury, October 2010 (Cm 7942)

Letter from CLG, Rt Hon Eric Pickles MP, 20th October 2010

Letter from DoH, D.Behan, Director for Social Care, Local Government and Care Partnerships, 20th October 2010

Letter from CLG, Grant Shapps, Minister for Housing and Local Government, 20th October 2010

Executive Board 13th October 2010 - Financial Strategy and Budget Setting Process

A Consultation Document for the People of Leeds (Draft V- E.B. 1)

“Delivering Responsive and Efficient Services”

Challenging Times:

Everyone will be aware that local public services have to change as a response to reductions in public expenditure. For Leeds City Council, we estimate that we will need to reduce our budget by approximately £150m over the next four years – that sounds a large amount of money, equal to approximately 18% of our net expenditure. Whilst we have four years to address this issue, it is critically important to take action now as we know that we’ll need to find at least £50m next financial year alone, starting 1 April 2011. Our biggest area of spend is on staffing. It is inevitable therefore that we will see a fairly large reduction in overall staffing. It’s difficult to be precise on the actual number, but our current estimates would suggest that we’re likely to have 2,500 to 3,000 fewer staff in four years’ time. We currently employ approximately 17,000 people (excluding schools based staff), so that’s approximately one in every six jobs. It’s important that all residents, partners and Leeds City Council staff understand the challenge we face, understand the approach we are taking and help us to identify the specific actions that need to be taken forward. Please do take some time to read this consultation document carefully and feedback your thoughts and suggestions. If we tackle this together, in a responsible way, we can deliver responsive and efficient public services for the people of Leeds.

Our Response:

We firmly believe that cities like Leeds need strong civic leadership that cares about the city and its people. We also believe that we need a committed and ambitious public sector workforce. We do not agree with the concept that council’s should solely be commissioners of services – so we’re not proposing an easy-Council approach which is being adopted in some other councils across the country. We believe that we need an appropriate mix of service delivery provision. So, for example, where we can clearly demonstrate that efficiency and effectiveness can be provided by in-house service delivery, this is what we will do. Where we recognise that others can help us to deliver change at a faster rate or deliver better results, either through partnership arrangements or through direct delivery, then this will be considered. We are fully committed to the independent and voluntary sectors and recognise that there is much more that they could do to help us deliver better and more efficient services. In delivering efficiencies, we recognise the importance of protecting those services provided to the most vulnerable in the city. We also recognise that we are a large city and sometimes don’t think sufficiently local in determining priorities and in planning services. We are proposing to review the number of buildings we use across the city to provide services. Too many of them are in poor condition, too many are in the wrong location and some facilities are underused. This will mean that some facilities have to close whilst we make better use of other facilities. We very much appreciate that in such circumstances some service users might be inconvenienced, but we will work closely with service users to find alternative ways of accessing services. We also need to look carefully at funding provided to external organisations to ensure that they are delivering the outcomes required, as well as delivering efficiencies in the context of the reductions we are facing. We will prioritise new investment in initiatives where there is a clear case of saving money in the medium-term or in areas where we are supporting vulnerable people. And remember, the need to make efficiencies is not a new idea. Indeed, over the last 5 years, we have already delivered £100m of efficiencies. We’ve also developed a new set of values which are currently out for consultation. These are: Celebrating Diversity, Engaging Citizens Locally, Being Open and Honest, Working as a Team for Leeds and Spending Money Wisely. These new values are driving our improvement activity. For example, we are simplifying our partnership arrangements to make them more effective and are about to publish all spend over £500. Whilst this document talks about a general approach to making efficiencies, we will also consult on specific issues, where it is appropriate to do so, to engage citizens and service users in more specific changes when they are developed.

Question 1 : Do you support this overall approach and do you think there is anything missing that we should consider?

Limiting the Impact on Front-Line Services:

We are reviewing our office accommodation and working arrangements to reduce the number of buildings that we occupy as well as using technology better to support the delivery of more efficient ways of working. Through better contract management, negotiation and packaging we believe we can make significant savings on the £500m we spend on buying goods and services every year. We recognise that it is important to have a lean managerial structure and in this regard work is being progressed with the aim of securing a reduction in the number of senior managers we employ. We recognise that the council is large and complex and that it is not always easy to know where to go to get the services people need. We will make it even easier to contact and do business with the council, deliver on our promises, and communicate more clearly with you. We will also maximise the use of electronic means of service delivery (for example through the website) and encourage people to use these cheaper channels where they are comfortable in doing so. We will centralise and review further support services where it makes sense to do so to create economies of scale and deliver efficiencies in order to reduce the impact on front-line services.

Question 2 : What are your views on our proposals to limit the impact on front-line services and do you have any particular issues, ideas or concerns that you would like us to consider in progressing this work?

Safeguarding and Supporting Children and Young People:

Our vision is for Leeds to become a truly child friendly city. We wish for our children and young people to be safe from harm, to do well at school and be ready for work, to choose healthy lifestyles, to have fun growing up and to be active citizens who feel they have voice and influence. We recognise it can sometimes be difficult for children and families to get the services that they need, when and where they are needed. We are therefore reviewing how we deliver services to children and their families in the city. We will make services easier to access by providing them in the heart of communities, building strong services around strong schools, working better with partners in the health service to provide more things together. An example would be the integration of children's centres within schools to make this a strong model right across the city. We will also prioritise what services we provide and how we provide them, focusing on the children with greatest needs and that face greatest disadvantage, such as children with complex health care needs and disabilities and looked after children. We will do this by reviewing services that aren't effective, don't provide good value for money and that are duplicated elsewhere. We will also look for more opportunities for services to be provided by our partners, such as the voluntary sector, where this would deliver better outcomes for children and better value for money.

Question 3: Do you agree that children and their families need to have easier access to high-quality joined-up services based in local schools and communities and that support should be prioritised for those most in need? Do you have any other thoughts on how we best support and make efficiencies in the way we support children and young people?

Supporting Older and Disabled People:

In adult social care, we are developing more personalised services. Our commitment is to make sure future services fit the needs and wishes of the individual as closely as possible. We will do this by ensuring services are flexible and by enabling people to choose from a wide variety of options, which are capable of being changed as people's personal needs change. Our aim is to enable people to stay in their own homes for as long as possible. In the future, we propose that our own council-run services will be smaller, more specialised and will target people with the greatest and most complex needs. We will continue to have a focus on safeguarding and quality and will provide a new service for people who need help to regain their independence after an accident or illness, to help them stay out of hospital or residential care. In future, some adult social care services are likely to be delivered by

partner organisations such as the NHS and others in the public, private and voluntary sectors, with whom we will continue to work closely.

Question 4 : Do you agree that the council should work with partners to reduce the need for long-term social care, by helping people remain independent and supporting people with the most complex needs. Should we increase charges for adult social care services, for those people who can afford to pay? And, do you have any other thoughts on how we best support and make efficiencies in the way we support older and disabled people?

Clean and Safe Neighbourhoods:

We provide many key services which are crucial to the quality of life people experience in the city. We want to ensure that neighbourhoods are clean and safe. We recognise the importance of basic services such as refuse collection but also the significance of dealing with waste in a sustainable way. Anti-social behaviour is a blight on many people's lives and we are determined to tackle it. The costs of dealing with waste are rising, particularly as landfill taxes increase. You can help by recycling as much as you can, which will reduce the disposal bill and make our recycling services more cost effective. We will also need to look at how we best encourage recycling with the funding limits we will have. We will try to preserve spending on keeping the streets clean. Residents, however, are paying largely for the council to pick up the litter thrown down by the minority. We want to try a new approach to dealing with the problem at source, working at a local level to tackle hotspots and with our police colleagues on issues such as fly tipping, graffiti and anti-social behaviour, combining our resources to have the maximum impact in local areas. The council plays a key role in ensuring people's housing needs are met. We know that there are not enough affordable homes and the council receives thousands of requests for help by people threatened with homelessness. We will continue to place an emphasis on trying to develop new homes and resolving people's housing problems.

Question 5: Do you support our proposed priorities for clean and safe neighbourhoods and do you agree with a need to tackle local hot-spots and for people to take greater responsibility for their own actions? And, do you have any other thoughts on how we best support and make efficiencies in these service areas?

Sustainable Economy and Jobs:

We want Leeds to be a vibrant and sustainable city that has a thriving economy, a rich cultural life and an attractive environment. To achieve this we need to be sure that new developments are appropriate and relevant for the area they are planned for, maintaining an appropriate balance between development to create jobs and investment and the need to look after the environment. We also need to have a greater focus on the low carbon economy as well as a focus on improving broadband access across the city. We need to ensure people can get to where they want to go, preferably using sustainable transport and we need to ensure that the city offers a rich variety of things to do and places to go. A key priority is helping people to find work in this current economic climate. We want to work closely with education providers and employers and to make sure that local people are able to take up opportunities as they arise. We will work to make sure that any investment the council makes includes a commitment to jobs and training. We will also encourage major businesses to remain in or relocate to the city to create and retain jobs. To meet our future challenges we are reviewing all of our services, seeking partners to help us deliver better services where appropriate, removing duplication where needed and questioning services which are underused. For example, there is a separate consultation currently underway on the provision of library services across the city. We will also need to consider charging for some of the events and services we currently provide free of charge.

Question 6: Do you agree that Leeds needs to be vibrant and sustainable and that a key priority for us is to encourage investment and help people into work? And, do you have any other thoughts on how we best support and make efficiencies in these service areas?

Please let us have your views by visiting our website and completing the survey online at www.leeds.gov.uk/..... Or completing the attached questionnaire. The deadline for receipt of your comments is Friday 17th December 2010. If you have any questions please ring our

Contact Centre on (0113) 222 4444. Leeds City Council, Communications Team, Civic Hall, Leeds, LS1 1UR