

**Report of Director of Resources**

**Report to Executive Board**

**Date: 17<sup>th</sup> July 2013**

**Subject: Spending Review 2013**

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. The Chancellor of the Exchequer announced the results of the 2013 Spending Review on 26<sup>th</sup> June 2013. The Spending Review sets out the Government’s spending plans for central government departments, the NHS and local government for 2014/15 and 2015/16.
2. The Government is to reduce overall spending by £11.5 billion in 2015/16. The other headlines are as follows:
  - Funding for schools, the NHS and Overseas Development will continue to be protected;
  - The reduction in funding for local government for 2015/16 is 10.0% in real-terms;
  - Cuts for other unprotected departmental budgets average 5.6%;
  - The Government states that *spending* across local government will reduce by 2.3%;
  - Councils that choose to freeze their council taxes will receive a grant equivalent to a 1% increase for both 2014-15 and 2015-16;
  - Councils that choose to increase their council taxes will be subject to a 2.0% referendum ceiling in both years;
  - £3.8 billion of health and social care budgets will be commissioned jointly;
  - Spending for major infrastructure projects is to be increased by £3 billion a year from 2015-16.
3. Officers are now analysing the background papers that accompanied the Spending Review to assess the full implications for Leeds. This analysis will inform the Medium Term Financial Plan which is due to be considered by Executive Board in September.

## Recommendations

4. 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 overview of the Spending Review that was announced on 26<sup>th</sup> June 2013 and the *Investing in Britain's Future* paper that was issued the following day.

### 2 Background information

- 2.1 The previous Spending Review was announced in October 2010 and set out spending plans for 2011-12 to 2014-15. That Review including subsequent amendments, has resulted in reductions in local government funding of around 33% in real terms over that four year period.
- 2.2 Analysis by SIGOMA<sup>1</sup> demonstrates the distributional impact of the cuts. In the last three years a net £235 million has been added to the budgets of London and the South East, whereas the other English regions have shared a net cut in resources of £4,500 million. Leeds has already experienced reductions in government funding of over £90 million over the three years ending March 2014.

### 3 Main issues

#### Funding

- 3.1 The Spending Review 2013 restates funding for Government departments (including for the NHS and local government) for 2014-15 and sets out definitive funding totals for 2015-16.
- 3.2 As anticipated, funding for overseas aid, schools and the NHS has been largely protected, although about £2 billion has been transferred from NHS to local government for 2015-16.
- 3.3 The headline cash reduction across government is £11.5 billion. This equates to an average percentage real-terms reduction in Departmental Expenditure Limits of 2.7%, but there are wide variations. The average real terms reduction across the unprotected departments is 5.6% compared to 10.0% for local government, Justice and the Treasury. The reduction in Local authority core funding from DCLG is £2.1 billion which in cash terms is a reduction of 8.2%.
- 3.4 The provisional 2014-15 start-up funding allocation (SUFA) for Leeds was announced in the Local Government Finance Settlement last January. Using that as a starting point, it is possible to make a preliminary estimate of what Leeds might receive in funding for 2015-16 if the cash reduction is applied proportionately across all councils (see below):

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<sup>1</sup> The Special Interest Group of Metropolitan Authorities – a lobbying group within the Local Government Association

	2013/14 £m	2014/15 £m	2015/16 £m
Specific Grants	39.324	35.632	32.710
Start-Up Funding	346.449	313.926	288.184
<b>Total</b>	<b>385.773</b>	<b>349.558</b>	<b>320.894</b>
<b>Cash reduction</b>		-36.215	-28.664
<b>% Reduction</b>		-9.4%	-8.2%

This shows that the reduction in funding for Leeds in 2015-16 would be in the region of £28.7 million when compared to 2014-15, but it is important to treat this as no more than an indicative estimate at this stage. In practice, the reductions will not be applied proportionately and the final figures will not be available until the 2015-16 Finance Settlement in November 2014.

- 3.5 The 2015-16 local government spending totals include £3.8 billion for health and social care budgets to be commissioned jointly. The majority of this is a new £2 billion transfer from the NHS. This is in addition to the £1 billion for 2014-15 onwards previously announced. Although the new transfer lessens the reduction in funding between 2014-15 and 2015-16, it is not new money and will be needed to pay for services previously provided by the NHS.
- 3.6 The headline £3.8 billion also includes:
- £200 million in 2014-15 to support investment in new systems and new ways of working to help integration between the services;
  - As yet unspecified amounts for carers and people leaving hospital who need support to regain their independence; and
  - £350 million of capital funding for projects to improve integration locally.
- 3.7 The departmental totals include £200 million to extend the successful Troubled Families programme. The new funding is designed to help local authorities, health education and criminal justice services work with another 400,000 vulnerable families, but it will be conditional upon match funding from local authorities as with the existing programme.
- 3.8 A further £100 million will be provided to help local authorities with the initial costs of joint working arrangements including establishing joint IT systems.
- 3.9 The Government is also to provide £335 million in 2015-16 so that councils can prepare for reforms to social care funding, including the introduction of the cap on care costs from April 2016. Councils will also be fully funded for the costs arising from the closure of the independent living fund.

### **Pay**

- 3.10 As announced in the 2013 Budget, the 1% cap on public sector pay awards is to be extended to 2015-16. The Chancellor wants to take further action to ensure that public sector workers “do not receive an automatic pay increase purely as a result of time in post.” Automatic progression in the Civil Service will be ended by 2015-16 and automatic progression for teachers will be abolished, although no target date is given.

## **Council Tax**

- 3.11 £833 million is to be provided for the on-going effect of previous council tax freezes - funding that would have otherwise fallen out of the grant system.
- 3.12 Additional funding will be provided for those authorities who choose to freeze their council taxes for a further two years. Freeze grants will be equivalent to annual increases of 1% for both 2014-15 and 2015-16. A referendum ceiling of 2.0% will apply in each year to those authorities that choose to increase their council taxes rather than accept the freeze grants.

## **Education**

- 3.13 As anticipated, the schools budget is to be protected in real terms. The Pupil Premium is also to be protected and the Department of Education is to consult on a new national funding formula for schools to be introduced in 2015-16. The DoE is also to consult in the autumn on how to allocate a £200 million reduction in the Education Services Grant (ESG) which is paid to education authorities like Leeds to support services provided centrally to schools. If applied uniformly the reduction would equate to a loss of grant for Leeds of about £2.5 million. This is in addition to the reduction in the grant to the Council which results from schools converting to academies.
- 3.14 The policy to increase the number of academy schools is to continue. In addition the Government is to provide funding for up to 180 new Free Schools, 20 new Studio Schools<sup>2</sup> and 20 new University Technical colleges a year from 2015-16.

## **Funding for Infrastructure**

- 3.15 Following on from the Review, the Chief Secretary to the Treasury, Danny Alexander, published a new report *Investing in Britain's Future*, which sets out more detailed capital spending plans for the extra £3 billion a year announced in the 2013 Budget. This will help fund a pipeline of projects worth over £100 billion over the next Parliament. The headlines include:
- A trebling of annual investment in major road schemes by 2010-21 and a total of £6 billion to help local authorities to repair the local road network;
  - A renewed commitment to the High Speed 2 rail project, with a £42.6 billion spending envelope;
  - Funding for an 'Electric Spine' which will create a new electrified passenger and freight corridor linking the core centres of population and business in Yorkshire and the Midlands with ports in the south of England;
  - Greater stability for science and technology investment including £250 million (to be locally match funded) to extend superfast broadband;
  - £21 billion over the next Parliament for schools including enough funding to provide 275,000 new primary and 245,000 new secondary school places;
  - A commitment to a long-term funding settlement for flood defences, rising to £370 million in 2015-16 and then protected in real terms until 2020. This is designed to provide protection to at least 300,000 homes;

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<sup>2</sup> That provide work placements and enterprise as a central part of the curriculum.

- Confirmation of up to £30 million to support the Greater Manchester Earn Back deal. A second wave of City Deals is expected to be concluded by March 2014.

3.16 The Government will undertake feasibility studies on a number of projects including Trans-Pennine road routes and connectivity to Leeds-Bradford Airport.

3.17 £2 billion a year from 2015-16 onwards has been provided within departmental expenditure limits for the Single Local Growth Fund recommended by Lord Heseltine in his “No Stone Unturned” report. This is far less than the £70 billion called for by Lord Heseltine. Funding will be allocated to LEPs on a competitive basis. The £2 billion for 2015-16 includes £150 million top-sliced from local authorities’ New Homes Bonus allocations which are currently paid as unringfenced grant. An initial assessment suggests Leeds’ could lose around £1 million a year.

### **Housing**

3.18 From 2015-16 to 2017-18 over £5.1 billion is to be made available to support housing in England. This will include £3.3 billion of new funding for affordable housing to support the delivery of 165,000 affordable homes across England:

- The Affordable Homes Programme will invest £957 million each year from 2015-16 to 2017-18.
- A new Affordable Rent- to-Buy scheme will be launched, with £250 million in 2015-16 and £150 million in 2016-17.
- The Homes and Communities Agency will be allowed to charge for its regulatory services, driving a stronger emphasis on regulating value for money.

## **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. A screening assessment has been carried out and is appended to this report.

### **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 Spending Review 2013 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 September.

## **5 Conclusions**

5.1 The Spending Review and the Investing in Britain's Future paper set out the Government's spending plans for 2015-16 and some of their aspirations for the next Parliament. The Review will mean that by 2015/16 government funding for Leeds City Council will have reduced by £159 million in cash terms since 2010/11; this is equivalent to around £200 million in real terms and represents a reduction of over 50% in mainstream funding over that period.

## **6 Recommendations**

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

## **7 Background documents<sup>3</sup>**

None.

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<sup>3</sup> 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.