



Report of the DIRECTOR OF RESOURCES

Executive Board

Date: 3RD November 2010

Subject: GOVERNMENT SPENDING REVIEW 2010

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
		582.1	535.1	521.1	484.1	
Reduction from previous year		- 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. OTHER ISSUES

- 9.1 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.
- 9.2 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.
- 9.3 The Government will establish a Transition Fund of £100 million to provide short term support for voluntary sector organisations providing public services.

