



**Report of the DIRECTOR OF RESOURCES**

**Executive Board**

**Date: 3<sup>RD</sup> 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

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 20<sup>th</sup> 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 20<sup>th</sup> 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					Total £m
	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m		
Government Grant	634.4	-	-	-	-	-	157.0 6.7
Real terms change Funding for Council Tax		59.0 6.7	47.0	14.0	37.0		
Reduction from previous year		582.1 52.3	535.1 47.0	521.1 14.0	484.1 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 8<sup>th</sup> 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 13<sup>th</sup> 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 3<sup>rd</sup> November 2010
  - Advisory Group to meet - November/December 2010
  - Formula Grant Announcement – 30<sup>th</sup> November 2010 (TBC)
  - Agreement of initial budget proposals – 8<sup>th</sup> December 2010
  - Submission of initial budget proposals to Scrutiny – 9<sup>th</sup> 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 – 11<sup>th</sup> February 2011
  - Full Council to receive budget proposals from Executive Board, including results of consultation and views of scrutiny – 23<sup>rd</sup> 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, 20<sup>th</sup> October 2010*

*Letter from DoH, D.Behan, Director for Social Care, Local Government and Care Partnerships, 20<sup>th</sup> October 2010*

*Letter from CLG, Grant Shapps, Minister for Housing and Local Government, 20<sup>th</sup> October 2010*

*Executive Board 13<sup>th</sup> October 2010 - Financial Strategy and Budget Setting Process*