East Northamptonshire Council

Policy and Resources Committee - 8 November 2010

Outcome of Spending Review 2010

Summary

This report updates the budget gap, reported to Council at its meeting on 19 July 2010, to reflect changes in our assumptions following the announcement of the Spending Review 2010.

Attachment(s)

Appendix A - LGA Briefing Note

1 Introduction and Background

1.1 At its meeting on 19 July the Council reviewed its Medium Term Financial Strategy (MTFS) following the “in year” grant reductions announced by the Government in June 2010 (minute 110(a) refers). At the same meeting the Council agreed to postpone the Manor Park Project until the financial situation improved (minute 110(b) refers). As a result the Council approved a new MTFS that continued to show a significant revenue budget gap over the next few years due to the economic climate and the anticipated reductions in central government spending.

1.2 At the July meeting the estimated budget gap, without Manor Park, was reported as:

	2010/11 £000s	2011/12 £000s	2012/13 £000s	2013/14 £000s	2014/15 £000s
Revenue Budget Gap at July 2010	1,434	2,144	2,322	2,522	2,750

1.3 On the 20 October 2010 the Chancellor of the Exchequer set out details of the Spending Review 2010. Details of the Review are attached at Appendix A. Unfortunately the level of detail provided within the Spending Review and subsequent announcements still do not provide the Council with a clear picture of the amount of Formula Grant (i.e. Revenue Support Grant and Business Rates) it will receive in 2011/12 or indeed any subsequent years or any firm details on: the New Homes Bonus; the future of business rates income; changes to council tax benefit; and the transferring concessionary fares to the County. Authorities are likely to know in early December the amount of Formula Grant that they will receive and other potential new income streams, such as the New Homes Bonus, are likely to be announced over the coming months.

1.4 However, it is feasible to update the MTFS to reflect the headline figures around Formula Grant and other specific grants referred to within the Spending Review. Details of the changes to the budget gap are set out below:-

	2010/11 £000s	2011/12 £000s	2012/13 £000s	2013/14 £000s	2014/15 £000s
Revenue Budget Gap at July 2010	1,434	2,144	2,322	2,522	2,750
Changes in assumption after Spending Review					
Adjustment to RSG/NNDR Grants		- 100	- 7	- 294	- 306
Incentive for Council Tax Freeze			- 89	- 89	- 89
Revised Budget Gap at October 2010	1,434	2,044	2,226	2,139	2,355

1.5 The most significant item from East Northamptonshire Council's perspective is the core funding from Government through Formula Grant. The Council's own MTFS had assumed a 25% cash cut in Formula Grant over the four years of the Spending Review with an assumption of a 10% cut in 2011/12 followed by 5% cut in each of the next three years. The Spending Review set out a real term reduction of 28% in funding over the four years but this equates, after inflation, in cash terms to a reduction of about 20%. The Spending Review also set out how the core funding will fall year by year. Therefore it is feasible to profile these cuts within the MTFS.

	CSR %age Reduction	CSR Estimated Reduction £	Estimated cash grant £	Previous MTFS Assumption £	Additional Grant £
2010/11			6,660,730		
2011/12	8.50%	566,162	6,094,568	5,994,730	99,838
2012/13	6.97%	424,791	5,669,777	5,662,730	7,047
2013/14	0.80%	45,358	5,624,418	5,330,730	293,688
2014/15	5.68%	319,467	5,304,951	4,998,730	306,221

1.6 The Spending Review clarified the availability of money that will be made available to support authorities with a council tax freeze in 2011/12. The Council's MTFS had assumed additional funding would be available in 2011/12 equivalent to a 2.5% increase in council tax but we were unsure about future years. The Spending Review has clarified that the additional grant will be available for the next four years but gave no guarantee that the funding for the 2011/12 freeze will continue beyond 2014/15. In due course the Council will need to consider whether or not to accept the extra funding or implement its own council tax increase but it should be remembered that capping powers are still available to the Government.

1.7 The Spending Review has not clarified how the New Homes Bonus scheme will operate or how monies will be distributed. However subsequent announcements suggest funding will be provided from 2011/12.

1.8 The changes in the budget gap have an impact on the revenue reserves available over the coming years. It is anticipated that if no further action is taken to tackle the deficit the Council will start to operate with inadequate reserves in 2012/13.

Revenue Reserves	**2010/11 £000s**	**2011/12 £000s**	**2012/13 £000s**	**2013/14 £000s**	**2014/15 £000s**
Balance at start of year - 1 April	6,415	4,981	2,937	711	(1,428)
Less deficit in the year	(1,434)	(2,044)	(2,226)	(2,139)	(2,139)
Balance at the end of year - 31 March	4,981	2,937	711	(1,428)	(3,567)

2 Recommendation

2.1 Members are recommended to note the changes to the Medium Term Financial Strategy following the Spending Review 2010.

Implications:

Corporate Outcomes or Other Policy/Priority/Strategy

Good Quality of Life	☐	Good Reputation	☒
Good Value for Money	☒	High Quality Service Delivery	☐
Effective Partnership Working	☐	Strong Community Leadership	☒
Effective Management	☒	Knowledge of our Customers and Communities	☐
Employees and Members with the Right Knowledge, Skills and Behaviours			☐
Other:			☐

Decision(s) would be outside the budget or policy framework and require full Council approval		[ ]
Financial	There are no financial implications at this stage	[ ]
	There will be financial implications – see paragraph 1	[x]
	There is provision within existing budget	[ ]
	Decisions may give rise to additional expenditure at a later date	[ ]
	Decisions may have potential for income generation	[ ]
Risk Management	An assessment has been carried out and there are no material risks	[ ]
	Material risks exist and these are recorded at Risk Register Reference – 535,541 inherent risk score - high residual risk score - medium	[x]
Staff	There are no additional staffing implications	[x]
	Additional staff will be required – see paragraph	[ ]
Equalities and Human Rights	There will be no impact on equality (race, age, gender, disability, religion/belief, sexual orientation) or human rights implications	[x]
	There will be an impact on equality (see categories above) or human rights implications – see paragraph	[ ]
Legal	Power: Local Government Act 1972 and Local Government Finance Act 2003	
	Other considerations: Need for adequate reserves and a robust budget	
Background Papers: Office file		
Person Originating Report: Mark Lovell, CFO. Tel: 01832 742074 email: malovell@east-northamptonshire.gov.uk		
Date: 28 October 2010		

CFO		**MO**		**CX**	

(Committee Report Normal Rev. 21)

The Spending Review 2010

Date: 20th October 2010

Local Government Group

Briefing

Headlines

- The spending review sets out real terms reductions of 28% in local authority budgets over the next four years. This compares with overall cuts of 8.3% across all departmental budgets. Local authority core funding from CLG falls from £28.5bn in 2010-11 to:
  - £26.1bn in 2011-12
  - £24.4bn in 2012-13
  - £24.2bn in 2013-14
  - £22.9bn in 2014-15
- The fall in grant is more than 7% a year in real terms, and significantly front-loaded.
- The schools budget, including a range of schools grants previously outside the Dedicated Schools Grant will increase by 0.1% in real terms each year. This includes funding for the £2.5bn pupil premium. Sure Start will be protected in cash terms and included within a new non-ringfenced Early Intervention Grant which will be worth £2bn by 2014/15.
- There is new social care funding of £530m in 2011-12, rising to £1bn in 2013-14, and a further £1bn of additional funding through the NHS budget to support joint working between the NHS and councils.
- Local authority capital funding is cut by the equivalent of 45% over the period, compared with 29% over the whole of the public sector. The flexibilities of prudential borrowing have been retained but interest rates for PWLB borrowing have been increased by 1% with immediate effect.
- 16 areas have been nominated to operate community budgets from April 2011, with the intention that all areas can take this approach from 2013.
- Grants totalling £7bn have been freed up or unringfenced from 2011-12.
- £700m has been set aside to allow councils to set a zero council tax increase for 2011-12, and for councils taking up this offer, the funding will be built into grants for the next four years.

LG Group key messages

- Local government has had some of the biggest cuts in the public sector. We must be clear about the impact that they will have. Apart from Fire and Rescue authorities, whose cuts fall mainly in 2013-14 and 2014-15, most authorities' cuts are significantly front-loaded to 2011-12.
- Town halls will now face extremely tough choices about which services they can keep on running. These front loaded cuts will be very difficult for millions of people who use the services councils provide; from keeping children safe to ensuring that streets are clean. They will lead to cuts at the front line.

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- Councils will do all they can to minimise the effect of these cuts and will build on their record of delivering new and better ways of doing things in order to keep public services running in these tough times.
- The government has responded positively to some of the central arguments made by local government. There is new adult social care funding of £530m in 2011-12, rising to £1bn in 2013-14, and further funding for joint working with the NHS; the number of separate grant funding streams has been significantly reduced and ring fencing lifted from all revenue grants apart from a simplified Dedicated Schools Grant and the new public health funding; and Community Budgets will be introduced from April 2011 involving 16 areas, with the intention that all areas can take this approach from 2013.
- There are also important moves towards much simpler funding mechanisms that will help councils do their job. The Government has eased burdens on local government, given us much greater freedoms and flexibilities over our budgets and taken a first step towards wider reform with councils in the vanguard of reforming the way the public sector operates.
- The arrangements for the council tax freeze grant have been usefully clarified: it will fund the equivalent of a 2.5% increase in council tax in 2011-12 and that funding will be carried through for each of the next four years.
- The major changes proposed to council tax benefit from 2013, and the likelihood that by 2014 or earlier the amount councils collect in business rates will be more than they receive in formula grant, mean that the time is now ripe for the return of the business rate to local authorities and the handing back of full and effective control over local taxation.
- The LG Group will continue to use our lobbying opportunities to make sure that community budgets are drawn as wide as possible and there is a clear route map to full implementation. We will use the Localism Bill to invite further freedoms are given to councils, like raising income through fees and charges. Our improvement activity will focus on all councils having capacity to meet the challenges and appetites of community budgets.

Further Information

For further information please contact Ben Kind, LG Group Public Affairs and Campaigns Manager, on 0207 664 3216 or ben.kind@local.gov.uk

Comprehensive Spending Review in detail

Community Budgets (place-based budgets)

- 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.
- The first sixteen areas are Greater Manchester, Leicestershire, Croydon, Blackpool, Islington, Hull, Kent, Blackburn with Darwen, Bradford, Swindon, a group of Westminster, Kensington and Chelsea, Hammersmith and Fulham and Wandsworth, Barnet, Lewisham, Essex, Lincolnshire and Birmingham.
- The areas will decide for themselves which departmental budgets they wish to pool locally, within the broad theme of helping "families with complex needs". Other areas have already been asked whether they wish to adopt the same approach.

LG Group View

- We are delighted that the government has taken on board the LG Group's place-based budgets proposal and is going to implement a version of it. It is good that the first community budgets already involve nearly a fifth of all upper-tier councils. The more areas that can adopt this model quickly, the more needless cost and bureaucracy can be taken out and the more money will be saved for the front line.
- We believe this model of accountability will help deliver better services cheaper, and allow a better focus on the needs of communities and individual service users, and on prevention and investment.
- We will argue that in the implementation, the government does not limit the policy objectives that community budgets can be linked to. A genuinely localist approach would allow organisations in the local area to pool budgets for whatever purpose they choose so as to provide the best services for local people.
- The LG Group will work with councils to provide support to any authority that wants to develop its readiness to pool money locally into a community budget.

Benefits

- Government will reduce spending on Council Tax Benefit by 10% and localise it from 2013-14. In addition, government will consider providing greater flexibilities to local authorities to manage pressures on council tax from the same date.
- The Government have confirmed that they phase in a Universal Credit from 2013. The LG Group understands that this will include support for housing costs.
- As previously announced by the Chancellor, household benefit payments will be capped at around £500 a week per couple and lone parent households and £350 per week for single adult households - so that no family can receive more than the average working household.
- Increasing the age threshold for the shared room rate from 25 to 35 – it is projected that this will save £215 million by 2014-15.

LG Group View

- The decision by government to localise council tax benefit as part of its wider reform of welfare benefits, and the discretion that local government will have to decide the best way to protect those members of the community who need help with making council tax payments, is an important step towards greater local decision-making about how resources in a place are used.
- The 10% saving (£400m a year) will mean that councils will have to find ways to reduce the overall amount of support people receive and there could be a transfer of risk with some areas being affected disproportionately.
- The LG Group and advisers will engage with government departments to ensure that the full cost to local government of these benefit changes are taken into account and that issues about risk transfer and disproportionality are fully explored.

<u>Adult and social care</u>

- Adult social care will receive an extra £1 billion in grant funding by the fourth year of the Spending Review and a further £1 billion will be made available for adult social care through the NHS to support joint working between social care and health.
- Supporting People will receive £6 billion over four years.
- The rules surrounding the mobility and care elements of the Disability Living Allowance for claimants in residential care will be aligned to generate savings.

LG Group View

- The additional £2 billion for adult social care is welcome. However, we estimate that the rise in annual cost of adult social care could be in the region of £6bn by 2014/15 and have concerns about this funding gap being met.
- The £1 billion from the NHS will come from a transfer from the NHS health capital budget. We seek clarification on how this money will be controlled.
- It remains absolutely essential that the Commission on Funding of Care and Support addresses how much more money can be brought into the adult social care system and the LG Group will continue to lobby on this.
- We are disappointed that the Government has decided to ring-fence funding for Public Health. The imposition of a ring-fence is at odds with proposals for community budgets.

<u>Capital</u>

- Total capital spending falls by 29% from £51.6b in 2010-11 to £40.2bn in 2014-15.
- Capital funding to councils is expected to fall by 45%, though after taking account of spending financed by councils’ own budgets, the fall is expected to be 30%.
- Over the four years:

- Education capital falls 60% from £7.6bn to £3.4bn
    - CLG Communities falls 74% from £6.8bn to £2.0bn
    - Transport falls from £7.7bn to £7.5bn.
- The CLG communities funding includes funding for 150,000 new affordable homes.
- The CLG will allocate up to £200m of capital in 2011-12 only to allow councils to restructure their services - for example by capitalising redundancy costs.
- The Government confirms it is <u>maintaining</u> the system of prudential borrowing. However the interest rates on future PWLB loans is increased by an average 1% over gilts with immediate effect.

LG Group View

- Capital funding from all department to councils is cut by 45% - which is a greater fall than the average. The LG Group is disappointed with this decision, as the highest economic returns come from smaller, locally managed schemes.
- Prudential borrowing is an important flexibility and the LG Group has lobbied hard for this to remain. Its retention is welcome.
- The LG Group has lobbied for support for councils in making changes to their services and workforce and the £200m fund for this is a useful development.

<u>Housing</u>

- The terms for existing social tenants and their rent levels will remain unchanged, new social landlords will be able to offer intermediate rents at around 80% of the market rent.

LG Group View

- The Chancellor has confirmed that the terms of the contract for existing social tenants and their rent levels will remain unchanged. This is welcomed as it will allow for stability within the tenant base.
- The proposals to place new tenants on a different contractual footing from existing tenants could mean that residents will be paying different rents for the same service.
- Many tenants are recipients of Housing Benefit (HB), this additional rent will add to difficulties in managing the cost of the HB bill at a time when Government is trying to reduce this bill.

<u>Concessionary fares and transport</u>

- Overall Department for Transport grants to local authorities reduced by 28%.
- Bus subsidy to be reduced by 20% to save £300m by 2014-15. The government will also work with bus operators and local government to examine smarter ways of administering this subsidy to get better results for passengers and tax payers.
- The statutory entitlement to concessionary bus travel will be protected and no change to the previous budget allocation (which aimed for a total of £180m savings by 2012/13).

LG Group View

- These reductions target local roads – 96% of all roads - with cuts over twice as large as the 4% of national roads the department funds directly. On roads, councils are already facing a backlog of unfunded maintenance worth £9.5bn. Further reductions in funding will lead to an increase in the backlog and a bigger requirement to invest in the long term.
- These reductions make it even more essential that councils are given maximum flexibility over how funding is spent locally. For that reason, the recently announced Sustainable Transport Fund should be rolled into general funding to councils, not subject to separate bidding processes. We are very disappointed that DfT has opted out of the simplification of grants seen elsewhere.
- Reducing bus subsidy without reforming the system will have a major impact on local bus services and neither government nor councils will have influence over which services are affected. The LG Group's proposals to channel all subsidies through a single funding stream under the control of local authorities offer a way to protect these services whilst delivering the savings outlined in the spending review - it is extremely disappointing that the department has so far refused to contemplate reform.
- There have been longstanding problems with funding for concessionary fares and it is not clear how the savings announced by the previous government will be delivered when the costs of the scheme are expected to raise due increase in bus operating costs. The LG Group's proposals for a single subsidy pot for bus subsidies would provide a simpler and cheaper way to administer the scheme.

Education/children

- The schools budget, including a range of schools grants previously outside the Dedicated Schools Grant, will increase by 0.1% in real terms in each Spending Review year. This includes funding for the £2.5bn pupil premium. Education Capital will fall by 60%.
- Sure Start will be protected in cash terms, but the DfE's non-schools budget will decrease by 12% in real terms.
- There will be a new non-ring-fenced Early Intervention Grant which will be worth £2bn by 2014/15.

LG Group View

- The real terms increase in the 5–16 schools grant of £3.6 bn in cash terms by the end of the Spending Review Period is welcome. Further clarification is needed as to whether the £2.5bn pupil premium is new or recycled money.
- An area of particular concern will be the reduction in per pupil funding for 16–19 year olds. Whilst we welcome the commitment to maintaining the previous governments pledge to raise the participation age to 18 by 2015, to achieve this there will need to be maximum flexibility in how this funding is deployed.
- Sure Start will be maintained in cash terms and the statement says that Sure Start is to be 'refocused on its original purpose of improving the

life chances of individual children'. We need clarification of what that means.

- The non-schools budget will decrease by 12% in real terms with no indication of the impact on non-schools spending covering areas such as child protection. The Early Intervention Grant, which will be included in core revenue grants to local authorities, is welcome.

Council tax freeze, Tax Incremental Funding and Regional Growth Fund

- The government have confirmed that they will fund a council tax freeze for 2011/12. The loss to the tax base for 2011/12 will be funded at 2.5% in each year of the Spending Review period. This will cost around £700m for each Spending Review year. The LG Group understands that it will be paid through an additional Area Based Grant. There is no funding for further freezes beyond 2001/12 and no guarantee that the funding to support the 2011/12 freeze will continue beyond 2014/15.
- The Government reaffirmed the commitment to the full rollout of Tax Incremental Funding.
- The Regional Growth Fund is extended to three years and is increased in size from the £1 billion announced at the Budget to £1.4 billion.

LG Group View

- Councils will welcome the confirmation that a council tax freeze will be funded at 2.5%. However, this only covers funding for the 2011/12 freeze for this spending review period. The LG Group will be seeking to ensure that this funding is a permanent addition to the baseline.
- Giving councils the powers to use Tax Increment Financing to turn local tax revenue into investment in infrastructure projects will be key to unlocking economic growth.
- The additional funding for the Regional Growth Fund, increased to £1.4 billion over 3 years, will help promote economic regeneration. But in comparison, the Regional Development Agencies budget was £2.3 billion a year.
- Local enterprise partnerships need to be able to ensure that the RGF is spent in line with local priorities, if it is open to non-LEP bidders.

Community Safety

- Central government funding to the Home Office will reduce by 20% in real terms, with police budgets likely to reduce by 14 per cent.
- The government expects the police to cut waste, back office functions and improve productivity before reducing frontline officers.
- There will be a 25% reduction in the funding of fire service.
- Savings of 23% from the Ministry of Justice budget over the spending review period are to be achieved by reforming sentencing, using innovative approaches to reducing re-offending and resolving more disputes out of court. Reforms to be set out include tough community penalties instead of short sentences and using restorative justice

LG Group View

- Given the reduction in funding, the government is predicting much of the police savings should be achieved with only a slight reduction in police and PCSOs numbers. However the LG Group believes that the police should be doing all they can to sustain neighbourhood policing levels at this time.

- We are concerned that the government is shifting the burden on funding the police to local taxpayers, and unless there continues to be a link between councils and police governance, with councils having a say on increases in the police precept, extra police funding could be at the expense of council services.
- Fire and Rescue Authorities have already demonstrated a strong record on efficiencies, having delivered £185m from 2004-08 and on course to deliver another £110m from 2008-11. They will do everything they can to secure further efficiencies and the back-loading of the reductions is important in facilitating that. However, the scale of the cuts mean there will inevitably be implications for delivery of frontline fire services.
- We agree with the government that community sentences and restorative justice tend to be more effective at reducing re-offending than short sentences. However we have concerns that a shift towards such approaches could impose an additional burden on councils, as well as other agencies such as probation and the voluntary sector.

<u>Warm Front</u>

- To cut the £345 million funding for Warm Front, the scheme which improves heating and insulation for fuel poor homes, and replace it with 'extra support' from energy companies.
- Householders will also be able to improve the energy efficiency of their house through the Green Deal.

LG Group View

- 78% of councils use Warm Front funding to improve the homes of the poor. However the LG Group is supportive of the Green Deal and is working with government to ensure that local government is involvement in its delivery.

<u>Flooding and flood defences</u>

- A commitment to improvements in flood defences and coastal erosion management through an investment of £2bn over the next 4 years.

LG Group View

- The LG Group is very concerned by this announcement given that it represents a large cut from the current level of spending on Flood Risk Management (£763m pa). This would appear to take no account of Environment Agency predictions that current investment needs to double by 2035, or of warnings by the insurance industry that it will only offer cover for flooding if the Government continues to invest adequately in flood risk management.