

NORTH LINCOLNSHIRE COUNCIL

CABINET

**JULY BUDGET REVIEW
REDUCTION IN GRANTS TO LOCAL GOVERNMENT 2010-11**

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 On 24 May the new coalition government announced £6.2bn of spending cuts in 2010-11. This included £1.166bn for local government. It made clear that this was the first step in a fundamental review of government spending which it will pursue through the 2011-15 spending review which starts now.
- 1.2 No detail was immediately available on the local government contribution, but a statement to the House on 10 June by the minister for local government identified which grant streams would be cut and provided detail for each authority.
- 1.3 In addition the Government has reviewed all spending commitments made since 1 January 2010 and on 17 June the Treasury announced some of the projects which would be cancelled or suspended. Other government departments are following up with further announcements.
- 1.4 In response service directors affected by the cuts have identified how spending reductions equivalent to the grant cut can be made and the impact on their services.
- 1.5 The paper considers alternative approaches to making in-year cuts. It also asks whether greater cuts should be made in the cost base now to reposition the council for the period ahead.

2. BACKGROUND INFORMATION

- 2.1 The Government has made clear that its most urgent priority is to tackle the deficit in order to restore confidence in the economy and support the recovery. It believes that it is better to start to make cuts in the current financial year. Included in that savings package was an expectation that savings of £1.166bn would be delivered by local government. The Chancellor has stated that he will be looking for savings of at least a further 25% in the period 2011-15, more for some as other areas are protected.

- 2.2 As with central departments, the Government expects local authorities will be able to make savings in 2010-11 from efficiency measures, eliminating waste and, where necessary, reducing spending in areas that are lower priority for their communities.
- 2.3 The Government wants local government to have flexibility to take decisions locally. It has therefore lifted restrictions on how local government spends its money by removing some ring fences. It says it is for local authorities to decide where their priorities and opportunities for efficiencies lie across the totality of their responsibilities.

3. OPTIONS FOR CONSIDERATION

- 3.1 The Local Government contribution towards overall savings of £6.2bn across Government in 2010-11 was initially notified as £1.166m; primarily through cuts to capital and area based grants. There were no cuts to formula grant or to dedicated schools grant, Sure Start and spending on education for 16-19 year-olds. However further cuts were announced on 17 June after the Treasury review of all new spending commitments made since 1 January 2010; and other cuts have followed.
- 3.2 For the £6.2bn cuts package, £1.166bn for local government, cuts to individual grants/funding streams have been made on a pro-rata basis, so that every authority is affected to the same proportionate extent in relation to that grant stream. This means there are differences between authorities with proportionately more required of authorities with more funding streams. A cap of 2% reduction in revenue grant has been applied. North Lincolnshire is required to make cuts of £1.2m equivalent to 0.7% of the revenue streams identified.
- 3.3 The Department for Transport has focused most of its cuts on capital. This scales back some general Local Transport Plan (LTP) allocations and takes away 50% of the carry forward of underspent funds from previous years in the Yorkshire and Humber region. It has also suspended or cancelled some major capital schemes nationally. A reduction of £1.3m is required to capital budgets.

- 3.4 The local government cuts by department are:

		£m
Department for Education	24% reduction across the Area Based Grant (ABG) stream	-311.0
Department for transport	£275m from capital grants, primarily integrated transport block, major schemes and road safety. Reduction in revenue grants for road safety and Kickstart	-309.0
Communities and Local government	A range of specific grants and ABG funding streams including: abolition of Housing and Planning Delivery grant and Local Authority	-533.5

Business Growth Incentive grant (LABGI); halving of Local Area Agreement (LAA) reward grant; withdrawal of supporting people admin grant and 10% off the Working Neighbourhood Fund (ABG)

DEFRA	Contaminated land grant	-7.5
Home Office	Taken from ABG	-6.0
Adjustment	To ensure no authority loses more than 2%	1.0
TOTAL		1,166.0

3.5 The direct impact on North Lincolnshire of the £1.166bn cuts is:

	£000
Revenue (Area Based Grant)	
Children's service	-958
Adults – supporting people	-99
CPRS – Cohesion & Home Office	-36
Highways –road safety; school travel adviser	-119
TOTAL	-1,212
Capital programme	
Highways- LTP	-1,200
Highways- Road Safety	-80

3.6 There are three other revenue grants which have been abolished or reduced, for which entitlement depends on performance. None of this funding has been allocated to projects in 2010/11:

- Housing and Planning Delivery Grant – abolished
- LABGI – abolished
- LAA reward grant – reduced by 50%

3.7 Subsequently on the 17 June government announced the outcome of its review of all spending commitments made since January 2010. 217 projects were re-submitted to the Chief Secretary for re-approval, totalling £34bn. Of these

- 12 will not go ahead, cost £2 billion
- 12 will be suspended, cost £8.5 billion

There is some overlap with the £6.2bn savings announcement, in particular no further rollout of the Future Jobs Fund in which the council is actively involved.

3.8 Further Departmental reviews of spending decisions that did not require Treasury approval continue to be announced, taking local authority cuts beyond the initial £1.2bn figure. The list to date follows and action will be

taken by services affected to reduce spending permanently in line with the funding reduction:

- Cancellation of the free swimming policy after 31 July 2010. Council to fund extension for under 16s to end August 2010
- Cancellation of the Contact Point project: £78k grant for 2010-11 reduced by 75%.
- A 50% cut in the Harnessing Technology Grant, a £409k cut (half in schools)
- A cut in the extended schools capital grant of £86k
- Withdrawal of revenue grants to playbuilder authorities

3.9 There is likely to be a further impact on local authorities through the £270m savings from ending lower value Regional Development Agency spending, which includes Yorkshire Forward.

3.10 The Government has removed the ring fences from around £1.7bn of grants to local authorities in 2010-11, but only identified £1.2bn in its announcement on 10 June. The scope to make use of this flexibility is reduced by the fact that £948m is capital grant which can only be spent for capital purposes; and all of this funding is allocated in the council's current capital programme.

4. **ANALYSIS OF OPTIONS** **2010-11**

4.1 Service directors have been asked to identify for each grant cut

- Which budgets the grant supports
- Whether it funds an activity in whole or in part
- Whether the activity can be stopped
- What alternative adjustments can be made to service budgets to deliver the saving

4.2 This works on the principle that spending cuts in the areas affected should be required first. Highways and Planning have identified how they can make £1.3m savings in the capital programme. All services which lose revenue grant except Children and Young People have identified how their revenue cuts can be made in full in 2010/11. Against the £0.96m cut in Area Based Grant the Children and Young People's Service have identified restructure savings of £280k which are feasible in the first year; the balance to be addressed in later years.

4.3 It is proposed that the principle of cutting spend in the service targeted for grant reduction is upheld. There is, however, a case for some phasing of that reduction where it cannot be realistically delivered in full in the current year as is the case in the Children and Young People's Service. A number of options have therefore been explored:

- i. Make a one-year charge against contingency or reserves
- ii. Use the £250k carry forward of underspends from 2009-10
- iii. Reconsider developments built into the 2010-11 budget
- iv. Make cuts in all service budgets to capture savings from the recently announced vacancy freeze

4.4 The contingency fund of £2.2m provides for a modest pay award, rising fuel and energy costs, potential safeguarding or recession costs, and for free personal care for high need clients. At this stage we know that the implementation of free personal care has been suspended pending a new commission on adult care. Therefore £370k of the contingency is available for other uses. It would be risky to take any of the other elements at this stage. The balance would therefore need to come from reserves.

The argument against this strategy is that the cuts in service spending are effectively deferred for a year and this increases the already formidable challenge of 25% real terms cuts or more signalled for 2011-15.

4.5 Cabinet approved the carry forward of £572k underspends from 2009-10 to support identified developments at its meeting on 9 June 2010. The discretionary elements of this one-off funding, £250k, could be redirected to meet part of the shortfall in 2010-11 but this has the drawback of deferring real cost cuts to 2011-15. In practice the most prudent stance now would be to withdraw non-ringfenced elements of the carry forward and return them to reserves.

4.6 Services have reviewed the service developments and pressures approved for 2010-11 in the February budget. The majority of these are already committed or spent and looking for in-year savings here is not feasible.

4.7 The fourth proposal is the most practicable option. It equates to a half percent reduction in the bottom-line budget for each service. The vacancy freeze should deliver permanent savings starting in 2010-11 to help meet this reduction. The impact by service, including the withdrawal of most discretionary carry forwards, is shown at appendix 1.

4.8 Current monitoring suggests that service spending in 2010-11 is on track and, given that we are only three months into the financial year, services should be able to take action to contain any emerging pressures and the cuts proposed here.

Future years 2011-15

4.9 The approach proposed above starts the process of making more substantial adjustments now to revenue budgets outside the areas directly affected by the 2010/11 grant cuts. For 2011-15 real-terms cuts of 25% or more in revenue grants are predicted. Similar large-scale cuts are also confirmed in future capital grants.

4.10 Given the need to take immediate action the leader and chief executive on 25 June announced a freeze on all jobs unless the Cabinet Member for

Corporate Services approves an exception. Only when absolutely necessary to safeguard a front-line service will recruitment be endorsed.

- 4.11 For capital a review of 2010-11 schemes which are not contractually committed has been made. Details of the review are given at appendix 2. This proposes that cuts of £0.475m are made now in current year spending funded from internal resources; and confirms the reduction in grant for the Local Transport Plan, the safety camera partnership and extended schools.

5. **RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

- 5.1 Grant cuts have a direct impact on council activity. This includes
- Reduced investment in capital projects
 - Curtailment or more specific targeting of service activity
 - A reduction of employees deployed in affected areas
- 5.2 It is probable that the general public or service users will notice an impact in the service they receive.

6. **OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)**

- 6.1 The decisions taken must not compromise the council's statutory duties, but the council does have discretion on the level of service it provides.

7. **OUTCOMES OF CONSULTATION**

- 7.1 Service directors have been asked how their services can adjust budgets and activity to accommodate the government funding cuts. Their proposals are incorporated in this paper.

8. **RECOMMENDATIONS**

- 8.1 To approve the amended revenue budget for 2010-11 at appendix 1
- 8.2 To approve the amendments to capital spending in 2010-11 at appendix 2
- 8.3 To endorse the vacancy freeze.

SERVICE DIRECTOR FINANCE

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Background Papers used in the preparation of this report

'Local Government's Contribution to £6.2billion efficiencies in 2010-11', CLG 10 June 2010

Service	Original Budget	Current Budget	Budget Cuts 2010-11		Revised Budget
			Savings identified	Balance from all services *	
			against cut in ABG		
	£000's	£000's	£000's	£000's	£000's
Asset Management & Culture	7,247	7,247		-39	7,208
Adult Social Care	39,102	38,963	-99	-237	38,627
Corporate Budgets	7,677	7,739		-70	7,669
Community, Planning & Resources	6,197	6,153	-36	-33	6,084
Children & Young People's Services	28,837	28,948	-280	-172	28,496
Finance	4,196	4,289		-116	4,173
Human Resources	2,023	2,027		-48	1,979
Highways and Planning	9,566	9,648	-119	-52	9,477
Legal and Democratic Services	2,844	2,844		-15	2,829
Neighbourhood & Environmental	17,973	17,973		-97	17,876
	125,661	125,831	-534	-879	124,418
Strategic Developments	275	275			275
Capital Financing	12,755	12,755			12,755
Contingency	1,836	2,206			2,206
Contribution to balances	1,008	1,008			1,008
Earmarked reserves	-250	-788		201	-587
	15,624	15,456	0	201	15,657
Total Budget	141,285	141,287	-534	-678	140,075
Financing					
ABG	-12,813	-12,815	1,212		-11,603
Council Tax Surplus	-921	-921			-921
Council Tax	-64,735	-64,735			-64,735
Scunthorpe Special Exp	-560	-560			-560
Formula Funding	-62,256	-62,256			-62,256
Total Funding	-141,285	-141,287	1,212	0	-140,075
Funding Gap (+) / Saving (-)	0	0	678	-678	0

* Proposal that services find residual savings , the vacancy freeze to contribute to these savings. Carry forwards have been removed from most services. Free personal care to be retained in contingency

CAPITAL PROGRAMME								APPENDIX 2
REVIEW OF SCHEMES WITH GRANT FUNDING CUT AND NLC FUNDED SCHEMES NOT YET COMMITTED 2010-11								
	Cost in Year	Supported Borrowing	Internally	Total	Not contractually			
Programme	2010/11	Funded	Funded	Funded	Committed 2010-11	PROPOSED REDUCTION	SAVING ON INTERNAL RESOURCES	COMMENT
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	
Asset Management & Culture Capital								
Aid To Communities	200	0	200	200	162	-145	-145	£38k committed, £68k bids to cabinet member pending. While council contribution is an effective lever for match funding to community projects this funding is not mandatory.
Design Preliminaries	169	0	169	169	0	0	0	Supports property design staff. Full budget committed on Internal fees. Retain for 2010-11
Minor Works Capital	86	0	86	86	33	0	0	Commitments on Scunthorpe Market, Crowle Resource Centre, Sheffield Park Roofing. Needed to address problems which arise during the year. Retain for 2010-11
Disabled Access	77	0	77	77	66	-66	-66	Retention Payments, Hewson House doors. Balance not committed. This budget planned to end 2011/12 as disabled access improvements now complete on all feasible council buildings (except schools which have separate funding)
Energy Management	75	0	75	75	75	0	0	Invest to save budget. Retain
Building Enhancement	333	0	333	333	250			These two budgets are part of the planned programme of work to maintain the operational viability of the council's building stock. Approximately £200k of the total in 2010-11 is committed to programmed work of this kind. Maximum £170k could be taken but with consequences for backlog maintenance.
Capitalised Property Enhancement	147	0	147	147	124	-100	-100	
Office Accommodation Schemes	100	0	100	100	75	0	0	Various works including support to Worksmart. Retain for 2010-11
Capitalised IT Staff Costs	50	0	50	50	0	0	0	Supports IT staff working on IT developments. Retain for 2010-11
20-21 Improved Storage	79	0	49	79	70	-70	-40	Scheme on hold and could be stopped. But lose £30k grant. Potential saving in internal funds £40k
Community Planning & Resource								
Winterton Community Hub	300	0	300	300	300	0	0	Retain scheme due to importance to local area
Corporate Budgets Capital								
Manifold Road Showman & Travellers Site	435		125	435	0	0	0	No commitments made. If cancel would also lose £310k grant funding. Retain scheme given funding leverage and need.
Hazard House	90	0	0	90	90	0	0	Reward Grant Funding allocated to Fire Service by LSP
Worksmart	210	0	210	210	0	0	0	Invest to save. Retain
Children & Young Peoples Service								
Access In Schools	351	351	0	351	263	-100	-100	Not fully committed, but a number of projects at various stages of development. Funding ensures that schools are accessible and meet the specific needs of pupils with disabilities. Legally required to meet the needs of pupils. Reduce by £100k and leave balance for new requirements. Review for 2011-15

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Programme	2010/11	Funded	Funded	Funded	Committed 2010/11	PROPOSED REDUCTION	SAVING ON INTERNAL RESOURCES	COMMENT
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	
Extended schools	389					-86	0	Extended schools grant has been reduced by £86k. Projects earmarked for support through the grant will be reviewed.
Children's Homes Refurbishment	70	0	70	70	70	0	0	Bathroom Upgrades, start September 2010. Aiming to meet National Minimum Standards for Children's Homes and contributes towards Ofsted outcomes. Risk of inspection failure if works withdrawn.
St Bedes School Playing Field	28	0	28	28	24	-24	-24	Not committed. To start project on site with completion during the school summer holidays. If cancelled the school would be unable to release their former field back to the community. Committed £4k(abortive fees)
Highways & Planning Capital								
Rolling Programme								
Local Transport Plan	5,504	3,309	116	5,504	-1,200	-1,200	0	Grant withdrawn by Department for Transport, over 20% of the programme. Any further reduction could compromise the council's ability to meet its statutory obligations
Safety Camera Partnership	118	0	0	118	-80	-80	0	Grant withdrawn by Department for Transport. Balance is carry forward from 2009-10
Street Lighting	500	0	500	500	50	0	0	A long-term programme to address health and safety issues in the council street lighting stock. Retain for 2010-11
Countryside Rights of way	50	0	50	50	0	0	0	Required to achieve national target to maintain and develop public rights of way by 2024. Retain for 2010-11
Carbon management	500	0	500	500	0	0	0	Spend to save initiative to reduce energy costs and achieve target of 33% reduction in carbon over five years. Retain
Neighbourhood & Environment Capital								
Renovation Grants	1,157	0	1,157	1,157	0	0	0	Aim to clear commitments in 2010/11 and restrict demand in 2011/12 and beyond. Some support to DFG budget.
Disabled Facilities Grants	933	0	228	933	0	0	0	A legal requirement. Demand outstrips funding. £1.6m current commitments in 2010/11. Aim to manage down in 2011/12.
Fleet Replacement Programme	1,540	0	0	1,540	0	0	0	A review of current vehicles has been made and some renewals deferred to 2011/12. Others are essential. Budget fully committed.
Mercury Filtration Plant at Woodlands Crematorium	50	0	50	50	0	0	0	Deletion of this scheme would save a further £800k in 2011/12. However this is a statutory requirement and we would have to close the crematorium or sell it to someone prepared to upgrade. Retain
Total		3,660	4,620	13,151	372	-1,871	-475	