

## **NORTH LINCOLNSHIRE COUNCIL**

### **CABINET**

## **GOVERNMENT SPENDING 2011-15**

### **1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 This paper reports on Government spending plans announced in the October Spending Review 2010.
- 1.2 The Review set government spending totals by department for the period 2011/15. This matters to local government because around 73% of funding comes through government grant. Overall there will be
  - a 26% real-terms reduction in revenue grant
  - a cash freeze on core school funding per pupil, supplemented by a new pupil premium
  - with some additional funding for social care
  - the removal of restrictions on how councils spend certain ring-fenced grants, and
  - a 45% reduction in capital funding.
- 1.3 This allows us to make broad assumptions about the funding which North Lincolnshire Council will receive. Detailed figures authority by authority will be part of the Local Government Settlement which we expect in early December. An update will be given to cabinet on the day.
- 1.4 In essence the Spending Review implies a £20m funding gap on net revenue spending, with further reductions in some specific grants.

### **2. BACKGROUND INFORMATION**

#### **The National Picture**

- 2.1 In June the Government's emergency budget set ambitious targets to
  - Bring the public sector deficit into balance
  - Start reducing debt by 2014-15
  - And to do this largely through spending cuts (77%) rather than tax increases (23%).

2.2 It set public spending totals for 2011-15 to achieve these objectives. Government spending is split between

- Current spending on staff and programmes, and capital spending on infrastructure
- Current spending is managed in two separate categories: spending by government departments (DEL or Departmental Expenditure Limits) and spending on welfare and pensions (AME or Annually Managed expenditure)

The totals set in the June emergency budget are at Appendix 1.

2.3 It also announced a Comprehensive Spending Review (CSR) to report in October. Discussions between the treasury and departments would determine their share of the spending totals. As a starting point spending on the NHS and overseas aid would grow in real terms. This implied a 25% cut in other departmental budgets. Further protection for education and defence would mean greater cuts for others. Additional cuts in welfare could be used to reduce the 25% average.

2.4 The Chancellor announced the outcome of the Spending Review on 20 October:

- The same current spending totals as in June (£2bn more for capital)
- £11bn more savings in welfare and public service pensions
- To pay for a smaller reduction in departmental spending
- This includes protection for the core schools grant, a 7.5% cut for defence and an average 19% cut overall
- But for local authorities an average 26% real terms reduction

Appendix 1 shows the CSR totals and the reallocation of £11bn cuts from departments to welfare.

### **Revenue grant**

2.5 Appendix 2 shows the headline totals for **formula grant** which is the main general grant to local government, a reduction from £28bn to £22bn over four years. This is a substantial cash cut and means local government fares less well from the spending review than most other areas of government. It equates to an average 7.25% reduction each year for four years, but in practice the greater reduction is at the start of the period.

2.6 There is £0.7bn grant earmarked for a **council tax freeze**, to the value of a 2.5% increase. The grant is only available for those authorities which make no increase in 2011/12.

- 2.7 Taking these together the reduction in formula grant implies a 14% average reduction in net expenditure. This is because local authorities raise part of their funding through the council tax. The actual impact authority by authority will depend on the differing extent to which they depend on government grant.
- 2.8 To compensate for lower funding the government has removed ring-fencing from a range of **specific grants**. A range of specific grants will be rolled into formula grant, totalling more than £4bn. These are listed at Appendix 3 and include supporting people grant, concessionary travel grant and a range of social care grants. There are four points to note:
- Removing the ring-fence gives greater flexibility in setting spending priorities, but not more money
  - Many of the grants are already part of Area Based Grant, which means the ring-fence has already been removed
  - The formula used to share out general grant will change the distribution between authorities
  - There is £1bn new personal social services funding to protect social care spending, but it is not ring-fenced. If not already included in the formula grant figure it will reduce the cut in grant.
- 2.9 The change agenda for **schools funding** has become clearer with the publication of the white paper 'The Importance of Teaching'. We now know that the government will:
- Consult on a clear, transparent and fairer national funding formula based on the needs of pupils including a pupil premium for deprived children
  - Initially, at least, funding will continue to come via local authorities
  - Give schools a single funding stream, the dedicated schools grant, so that previously separate grant streams will end (see appendix 3)
  - Devolve the maximum amount of funding to schools
  - End the disparity in funding for 16–18 year-olds, so that schools and colleges are funded at the same levels as one another.
- 2.10 In financial terms schools are relatively protected for 2011/15:
- Average per pupil funding will be maintained in cash but not real- terms (not all schools will be average)
  - There will be additional funding for the growth in pupil numbers and a pupil premium targeted at deprived pupils, rising to £2.5 billion by 2014-15
  - The government says this means schools will need to make savings of around £1 billion after taking account of the pay freeze.

The details of funding by authority for 2011/12 will not be released before the Local Government Finance Settlement in early December.

2.11 There will be three new specific grants:

- An Early Intervention Grant, which incorporates Surestart funding (maintained in cash terms) and is not ring-fenced
- A new Public Health Grant from 2013 to fund new responsibilities
- A New Homes Bonus to reward council's which facilitate new housing development
- And a further £1bn for social care by 2014/15 through the NHS to cover the initial costs of patients discharged from hospital.

### **Capital Funding**

2.12 As already announced in the June emergency budget capital expenditure will be substantially scaled back over the four year period compared to current investment levels. It will also be refocused on those infrastructure projects which will bring maximum economic benefit. For local government there is a reduction of 45% in government funding for investment. In the schools' programme the reduction is 60%.

2.13 Other potential opportunities and flexibilities remain for local authorities, including North Lincolnshire. They can:

- Continue to undertake prudential borrowing
- Generate capital receipts for reinvestment
- Bid for a £1.4bn Regional Growth Fund over three years as part of public – private partnerships
- Use Tax Increment Financing (TIF) to fund regeneration projects from the future tax revenues they will generate.

2.14 However:

- The affordability of new prudential borrowing depends on the level of revenue resources which will be severely restricted
- The cost of borrowing through the Public Works Loans Board has been increased by 1% with immediate effect
- Capital receipts continue to be depressed following the recession
- The Regional Growth Fund of £1.4bn represents about one third of the level of investment through the previous Regional Development Agencies
- The terms under which TIF can be used has yet to be defined in new legislation.

## **3. OPTIONS FOR CONSIDERATION**

### **North Lincolnshire Council**

3.1 The implication of a 26% reduction in general grant for North Lincolnshire is a £20m cut in net revenue spending. For planning purposes this assumes that the council would freeze council tax in 2011/12 and raise it by 3% a year after that in line with the current financial strategy. The figures are at appendix 2.

- 3.2 What this shows is that the reduction in grant is not even over the four years but has been front-loaded with a 10.4% reduction in the first year 2011/12. This makes the challenge of balancing our budget harder.
- 3.3 Additional cuts can be expected in specific grants and these will have to be factored into our planning. Dedicated Schools Grant (DSG) apart, the council receives £30m a year in specific grants. Some are education related grants which will be incorporated into the general schools grant (DSG). We may know these details before cabinet meets. Detail of other grants may be announced at the same time as the local government settlement or shortly afterwards.
- 3.4 Government funding for capital investment will be significantly reduced:
- This has already affected the scheme to upgrade the A160 in support of the South Humber Gateway development for which there will be no funds in the 2011-15 period
  - The Building Schools for the Future programme for secondary schools in Scunthorpe is proceeding. However, government requires the council and its 'Local Education Partnership' to identify 'savings and efficiencies' for each school that is not yet at 'financial close'. It is expected that capital grant for the programme will be reduced (announcement in January 2011).

#### **4. ANALYSIS OF OPTIONS**

- 4.1 At this stage of the budget process options are being formulated to bridge the revenue funding gap.

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

- 5.1 Revenue spending cuts in excess of £20m over four years are on an unprecedented scale. There will be implications for all areas of council activity. While the council will try to manage as much of this as possible through efficiency measures, reductions in services and staffing levels are inevitable.

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

- 6.1 The implications of budget proposals will be evaluated for their impact in line with established procedures.

#### **7. OUTCOMES OF CONSULTATION**

- 7.1 Not applicable

## 8. RECOMMENDATIONS

8.1 That the implications of government spending plans for the council are noted.

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#### **Background Papers used in the preparation of this report**

Spending Review 2010, Cm 7942, HM Treasury October 2010

Local Government and the Spending Review, letter to Leaders of Local Authorities,  
20 October 2010

Message from the Secretary of State on the outcome of the Comprehensive  
Spending review, 27 October (Michael Gove)

**JUNE EMERGENCY BUDGET****APPENDIX 1**

| <i>Spending totals</i>             | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | Change |
|------------------------------------|---------|---------|---------|---------|---------|--------|
|                                    | £bn     | £bn     | £bn     | £bn     | £bn     | £bn    |
| Annually Managed Expenditure (AME) | 295     | 308     | 323     | 337     | 355     |        |
| Departmental spend (DEL)           | 342     | 343     | 341     | 341     | 338     |        |
| Current spend                      | 637     | 651     | 664     | 678     | 693     |        |
| Capital investment (gross)         | 60      | 49      | 47      | 43      | 45      |        |
| Total Managed Expenditure          | 697     | 700     | 711     | 721     | 738     |        |

**COMPREHENSIVE SPENDING REVIEW OCTOBER**

| <i>Spending totals</i>             | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |     |
|------------------------------------|---------|---------|---------|---------|---------|-----|
|                                    | £bn     | £bn     | £bn     | £bn     | £bn     |     |
| Annually Managed Expenditure (AME) | 295     | 308     | 319     | 329     | 344     | -11 |
| Departmental spend (DEL)           | 342     | 343     | 345     | 349     | 349     | 11  |
| Current spend                      | 637     | 651     | 664     | 678     | 693     |     |
| Capital investment (gross)         | 60      | 51      | 49      | 46      | 47      | 2   |
| Total Managed Expenditure          | 697     | 702     | 713     | 724     | 740     |     |

## Budget Planning Scenario 2011-15

## APPENDIX 2

### LOCAL GOVERNMENT AT CSR

|                          | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|--------------------------|---------|---------|---------|---------|---------|
|                          | £bn     | £bn     | £bn     | £bn     | £bn     |
| Formula grant            | 28.0    | 25.0    | 23.4    | 23.2    | 21.9    |
| Change year on year      |         | -10.7%  | -5.7%   | -0.7%   | -4.7%   |
| Council tax freeze grant |         | 0.7     | 0.7     | 0.7     | 0.7     |

### NORTH LINCOLNSHIRE COUNCIL

|  | 2011-12      | 2012-13       | 2013-14       | 2014-15       |
|--|--------------|---------------|---------------|---------------|
|  | £000         | £000          | £000          | £000          |
| Funding through general grant (formula grant and area based grant) and council tax | -133,146     | -131,254      | -133,047      | -132,266      |
| Net Budget   | 142,930      | 145,111       | 148,739       | 152,457       |
| Funding Gap  | <u>9,784</u> | <u>13,857</u> | <u>15,691</u> | <u>20,191</u> |

Funding reflects the reduction in headline formula grant as per the CSR; Council tax assumptions are freeze followed by 3% increases

Projected forward from the 2010/13 financial plan



## GRANTS ROLLING INTO FORMULA GRANT

## APPENDIX 3

| <u>Communities and Local Government</u>   | Baseline<br>£m | 2011-12<br>£m | 2012-13<br>£m | 2013-14<br>£m | 2014-15<br>£m |
|---|----------------|---------------|---------------|---------------|---------------|
| Supporting People   | 1,636.00       | 1,625.00      | 1,620.00      | 1,620.00      | 1,590.21      |
| Housing Strategy for Older People   | 20.00          | 15.50         | 13.50         | 11.50         | 10.50         |
| Race Equality   | 0.17           | 0.03          | 0.03          | 0.03          | 0.03          |
| Economic Assessment Duty  | 11.03          | 1.50          | 1.50          | 3.00          | 3.00          |
| Open Source Planning  | -              | -             | -             | 15.00         | 20.00         |
| Fire  | -              | -             | -             | 49.82         | 50.28         |
| <br><b><u>Department for Transport</u></b>                                      |                |               |               |               |               |
| Concessionary Travel  | 223.00         | 224.00        | 204.00        | 208.00        | 212.00        |
| Other Transport Revenue   | 112.00         | 79.00         | 72.00         | 80.00         | 83.00         |
| <br><b><u>Department for Environment, Food<br/>and Rural Affairs</u></b>        |                |               |               |               |               |
| Animal Health Enforcement   | 8.50           | 4.80          | 4.00          | 3.20          | 2.40          |
| <br><b><u>Department for Education</u></b>                                      |                |               |               |               |               |
| <b>Total</b>  | <b>114.05</b>  | <b>109.34</b> | <b>83.17</b>  | <b>70.51</b>  | <b>66.34</b>  |
| <b>Previously formed from:</b>  |                |               |               |               |               |
| <i>LSC Staff Transfer</i>   | <i>51.47</i>   | <i>47.44</i>  | <i>43.17</i>  | <i>38.91</i>  | <i>34.64</i>  |
| <i>Services for Children in Care</i>  | <i>54.88</i>   | <i>58.40</i>  | <i>36.50</i>  | <i>28.10</i>  | <i>28.20</i>  |
| <i>Child Death Review Processes</i>   | <i>7.70</i>    | <i>3.50</i>   | <i>3.50</i>   | <i>3.50</i>   | <i>3.50</i>   |
| <br><b><u>Department of Health</u></b>  |                |               |               |               |               |
| AIDS Support  | 25.50          | 27.70         | 30.30         | 33.10         | 36.20         |
| Preserved Rights  | 235.40         | 228.84        | 221.68        | 215.11        | 209.80        |
| <b>On-going Personal Social Services</b>  | <b>752.34</b>  | <b>767.02</b> | <b>784.43</b> | <b>804.98</b> | <b>826.31</b> |
| <br><b>Previously formed from:</b>  |                |               |               |               |               |
| <i>Mental Health</i>  | -              | -             | -             | -             | -             |
| <i>Child and Adolescent Mental Health<br/>Services</i>                          | -              | -             | -             | -             | -             |
| <i>Learning Disability Development Fund</i>                                     | -              | -             | -             | -             | -             |
| <i>Mental Capacity Act and Independent<br/>Mental Capacity Advocate Service</i> | -              | -             | -             | -             | -             |
| <i>Carers</i>   | -              | -             | -             | -             | -             |
| <i>Adult Social Care Workforce</i>  | -              | -             | -             | -             | -             |
| <i>LINKs</i>  | -              | -             | -             | -             | -             |
| <b>Re-cycled Personal Social Services<br/>(inc. safeguarding and autism)</b>    | <b>303.00</b>  | <b>318.15</b> | <b>335.75</b> | <b>354.91</b> | <b>373.11</b> |
| <br><b>Previously formed from:</b>  |                |               |               |               |               |
| <i>Social Care Reform</i>   | -              | -             | -             | -             | -             |
| <i>Learning Disability Campus Closure<br/>Programme</i>                         | -              | -             | -             | -             | -             |

|   |                 |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| <i>Stroke Strategy</i>                      | -               | -               | -               | -               | -               |
| <b>New Personal Social Services Funding</b> | <b>New</b>      | <b>530.00</b>   | <b>930.00</b>   | <b>1,000.00</b> | <b>1,000.00</b> |
| <b>TOTAL</b>                                | <b>3,440.99</b> | <b>3,930.87</b> | <b>4,300.36</b> | <b>4,469.16</b> | <b>4,483.18</b> |

### **OTHER CORE REVENUE GRANTS**

|  |       |        |        |        |        |
|--|-------|--------|--------|--------|--------|
| Dedicated Schools Grant                                      |       | ?      | ?      | ?      | ?      |
| Early Intervention Grant                                     |       | ?      | ?      | ?      | ?      |
| Public Health Grant (from 2013-14)                           |       | ?      | ?      | ?      | ?      |
| Learning Disabilities  |       | ?      | ?      | ?      | ?      |
| Housing Benefit and Council Tax Benefit Administration Grant |       | ?      | ?      | ?      | ?      |
| PFI Grant  |       | ?      | ?      | ?      | ?      |
| Council Tax Freeze Grant                                     |       | 650.00 | 650.00 | 650.00 | 650.00 |
| New Homes Bonus  | -     | 196.00 | 250.00 | 250.00 | 250.00 |
| Preventing Homelessness                                      | 70.97 | 90.00  | 90.00  | 89.30  | 88.00  |

### **Schools Grant**

The secretary of state for education has indicated that the ring-fence will be removed from the following grants and merged into Dedicated Schools Grant:

One-to-one tuition  
 Every Child programmes  
 Extended schools  
 School Lunch Grant  
 School Standards Grant  
 School Development Grant  
 Specialist schools grant  
 Ethnic Minority Achievement Grant  
 National Strategies' budgets that were allocated to schools  
 Academies running costs

### **Regional Growth Fund**

Local authorities will also be able to bid for the £1.4 billion Regional Growth Fund which will provide a mix of revenue and capital funding over 2011-12, 2012-13 and 2013-14. Further information will be published shortly. Arrangements for Pupil Premium Grant are to be determined.