

## **WIRRAL COUNCIL**

### **COUNCIL EXCELLENCE OVERVIEW AND SCRUTINY COMMITTEE**

**18 NOVEMBER 2010**

### **REPORT OF THE DIRECTOR OF FINANCE**

#### **SPENDING REVIEW 2010**

#### **1. EXECUTIVE SUMMARY**

- 1.1. The Chancellor of the Exchequer presented his Spending Review on 20 October 2010. This report provides a summary of the main measures that will affect local authorities over the four years of the review. The full financial impact will not be known until the Provisional Formula Grant Settlement is announced in early December 2010.

#### **2 SPENDING REVIEW 2010**

##### **2.1 Headlines**

There will be a real terms reduction of 28% in local authority budgets over the next four years, with core funding from the Department for Communities and Local Government (DCLG) falling 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 reduction for local authorities will be front loaded.

##### **2.2 Localising power and funding**

Ring-fencing of all local government revenue grants will end from 2011-12, except the simplified schools grants and a new public health grant. The number of separate core grants will be reduced from over 90 to fewer than 10, excluding schools, police and fire. More than £4bn of revenue grants will be rolled into Formula Grant.

Community budgets will be established in 16 areas to pool departmental budgets for families with complex needs and will be rolled out to all areas over the Spending Review period.

The New Homes Bonus is intended to give authorities clear financial incentives to ensure that local communities benefit from new housing and economic development in their areas.

The Spending Review intends to shift power directly to people by giving them more control over the money spent on public services. The Government will look to significantly extend the use of personal budgets across a range of service areas including special education needs, support for children with disabilities, long term health conditions and adult social care.

### **2.3 Sharing responsibility**

The Government accepts that whilst it should continue to fund important services it does not have to be the backstop provider. To create opportunities for non-state providers the Government proposes to look at more innovative payment mechanisms for new areas, one of which would be children's centres.

The intention is to specify the proportion of appropriate services that should be delivered by independent providers, such as the voluntary and community sectors and social and private enterprises. Areas that will be explored include adult social care, early years, and early interventions for the neediest families.

Over the Spending Review period £470m will be directed to support capacity building in the voluntary and community sector.

To bring external investment and expertise into the public sector the Government will look to work with the financial and voluntary sectors to develop innovative equity investment opportunities in public services.

Cultural institutions, such as museums will be allowed to use money raised independently more flexibly and to establish trusts that may generate more funding from the private sector.

### **2.4 Adult and Social Care**

The current Department of Health grant to local authorities, the Personal Social Services grant, will increase by £530m in 2011-12, rising to £1bn in 2014-15. This will be allocated through the Formula Grant.

The NHS will set aside, by a transfer from capital to revenue, funding rising to £1bn in 2014-15 to support joint working between the NHS and Councils. How this money will be controlled and allocated, whether it is by the NHS or local government requires clarification. The LGA estimates that the increase in the cost of adult social care could be in the region of £6bn by 2011/14 and there could, therefore be a significant funding gap.

There will be two new grants issued from the Department of Health over the Spending Review period. Learning Disabilities and Health Reform, an unringfenced specific grant worth £1.3bn from 2011-12 for which details will be announced at the time of the provisional Formula Grant Settlement. A new Public Health grant will be effective from 2013-14 and is likely to be ringfenced. These two grants reflect a transfer of responsibility for services from the NHS to local authorities.

Supporting People will receive £6.5bn over four years. This is broadly in line with the current allocation for 2010-11.

The rules surrounding the mobility and care elements of the Disability Living Allowance for claimants in residential care will be aligned to generate savings.

## **2.5 Capital**

Capital funding is to be cut by 45% over four years, compared with 29% for the rest of the public sector. Over the four years:

- Education falls 60% from £7.6bn to £3.4bn

- DCLG Communities falls 74% from £6.8bn to £2.0bn

- Transport falls from £7.7bn to £7.5bn.

The DCLG Communities funding includes provision for 150,000 new affordable homes

The DCLG will allocate up to £200m of capital in 2011-12 only to allow Councils to restructure their services e.g. capitalising redundancy costs. A bid was submitted to the DCLG prior to the deadline of 29 October 2010.

Prudential borrowing has been retained but interest rates for the PWLB were increased by 1% with immediate effect.

## **2.6 Benefits**

The Government will reduce spending on Council Tax Benefit by 10% and localise it from 2013-14. This equates to £400m a year nationally, and £3.2m for Wirral and will mean that local authorities will have to find ways to reduce the overall amount of support people receive.

The Government will also consider certain flexibilities so that local authorities can manage pressures on Council Tax from that date. Authorities will have discretion to decide the best way to protect those members of the community who need help with making Council Tax payments.

Total household Benefit payments will be capped from 2013 at around £500 per week for couple and lone parent households and £350 for single adult households. The age threshold for the share room rate will increase from 25 to 35. Disability Living Allowance claimants, war widows and working families claiming the working tax credit will be exempt from the cap.

## **2.7 Housing**

The terms for existing social tenants and their rent levels will remain unchanged. However, in the future social landlords will be allowed to offer new social tenants contracts that are more flexible and at rent levels between current market (i.e. private landlords) and social rents. This could lead to residents paying different rents for the same service.

There is a commitment to reform the council housing finance system to give local authorities greater control over their own finances.

Provision for capital funding of Disabled Facilities Grants is planned to rise with inflation over the period of the Spending Review. The current ring fencing of this grant will cease.

The Homelessness Grant will be protected and will remain at current levels.

The £345m funding for Warm Front will be cut and will be replaced by "extra support" from energy companies.

## **2.8 Concessionary fares and transport**

Overall Department of Transport grants to local authorities are reduced by 28%. The recently announced Sustainable Transport Fund is to be subject to a bidding process.

Bus subsidy is to be reduced by 20%. This could have an adverse affect on the service provided and/or result in significant fare increases.

The entitlement to concessionary travel is to remain unchanged. However the previously announced budget allocation aims to achieve a reduction of £180m by 2012-13. It is unclear how these savings will be delivered and the issue is compounded by the fact that increases in bus operating costs impact on the costs of the scheme.

The Concessionary Travel Grant will be rolled into Formula Grant

## **2.9 Education/children**

The 5-16 schools budget, including a range of schools grants previously outside the Dedicated Schools Grant (DSG) will increase by 0.1% in real terms each year. This includes funding for the pupil premium which will rise to £2.5bn by 2014-15. The aim is to support the educational development of disadvantaged pupils and incentivise good schools to take on pupils from more disadvantaged backgrounds. Clarification is required as to whether this is new or recycled money.

The introduction of a new "Fairness Premium (£7.2bn to 2014-15). At present there is an entitlement to 15 hours of free early education per week for all 3 and 4 year olds. This will be extended to provide free early education and care to all disadvantaged 2 year olds from 2012-13.

Sure Start will be protected in cash terms and included within a new non-ringfenced Early Intervention Grant worth £2bn by 2014-15. The Spending Review states that it is to be "refocused on its original purpose of improving the life chances of individual pupils". Clarification is required as to what this actually means.

The Department for Education non-schools budget will decrease by 12% in real terms. This will be achieved by cutting administration costs, reducing 16-19 unit costs and focusing the support currently provided by the Education Maintenance Allowance (EMA) on the most disadvantaged children in the context of raising the participation age to 18 by 2015.

Capital funding to rebuild or refurbish more than 600 schools from the Building Schools for the Future (BSF) and Academies programme. The decision to end the BSF programme will allow investment in new school provision in areas of demographic pressure.

## **2.10 Council Tax Freeze**

£700m has been set aside to allow local authorities to set a zero Council Tax increase for 2011-12, and for those taking up this offer, the funding will be built into grants over the next four years. The loss to the tax base for 2011-12 will be funded at 2.5% in each year of the review period. This will be paid by way of a specific grant. There is no funding for any freezes beyond 2011-12 and no guarantee that the funding to support the 2011-12 freeze will continue beyond 2014-15. There is no indication as to whether this is a permanent addition to the baseline funding.

## **2.11 Flooding and flood defence**

Investment of £2bn over the next 4 years. This represents a large reduction to the amount currently spent on Flood Risk Management (£763m p.a.)

## **2.12 Energy and Climate Change**

The Carbon Reduction Commitment Energy Efficiency scheme will be simplified, with the first allowance sales for 2011-12 emissions now taking place in 2012 rather than 2011. Revenues from allowance sales will be used to support the public finances, including spending on the environment, rather than recycled to participants. Clarification is awaited but the scheme will in effect become a carbon tax rather than an incentive scheme. The cost to Wirral is estimated at £1m.

## **2.13 Local Growth and Worklessness**

As a result of the closure of the Government Office Network, programmes including the Working Neighbourhoods Fund will end. This currently forms part of the Area Based Grant and Wirral is receiving £10.3m in 2010-11.

Funding for the Regional Growth Fund has been increased by £0.4bn to £1.4bn over 3 years. However, the Regional Development Agencies budget was £2.3bn a year.

Funding for new adult apprenticeships will be increased by £250m a year by 2014-15.

The intention is to increase housing supply by reforming the planning system. A New Homes Bonus is to be introduced from 2011-12 that will directly reward and incentivise local authorities to be supportive of housing growth. This will be the equivalent of the additional Council Tax from every new home for the next six years. A consultation paper will be issued in November 2010.

## **2.14 Tax Incremental Funding**

The Government confirmed its commitment to tax incremental funding.

Authorities will be able to borrow against future growth in business rates to fund infrastructure projects. A sub-national growth white paper will be issued in November 2010.

## **2.15. Equitable Life Assurance Society**

Equitable Life was the original provider of Additional Voluntary Contributions to employees of the Council. It went to into Administration in 2000. In 2008 Ann Abraham, the Parliamentary Ombudsman, declared that the Government had been negligent in its regulation of Equitable Life. The Government has now agreed to make £1.5B available to partially compensate for the losses suffered by policy holders. Clarification is awaited of how and when this will be paid.

## **2.16. Local Government Pension Scheme**

Lord Hutton released his interim report of the Independent Public Service Pensions Commission on 7 October 2010. The Government has indicated that it will increase employee contribution rates but clarification of the amount of the increase and the timescale for implementation will not be received until the Formula Grant Settlement. The final report of the Hutton enquiry should be released in March 2011.

## **3. FINANCIAL AND STAFFING IMPLICATIONS**

- 3.1 The Spending Review provided headline figures which give an indication of the likely reductions that will be required over the four years commencing 2011-12. There is insufficient detail to allow an accurate prediction of the precise year on year savings required.
- 3.2 For local authorities the reduction in funding appears to be front loaded. However, it is impossible to calculate the effect for individual authorities.
- 3.3 Insufficient detail is provided in the Spending Review with regard to Area Based Grant and specific grants. For metropolitan areas the move to switch most specific grants into Formula Grant could have a more adverse affect than for other Councils. The case will now be made for the Needs Element within Formula Grant to be significantly adjusted to provide suitable compensation, but this will only become apparent when Formula Grant is announced.
- 3.4. There will be a significant reduction in the number of staff employed by the Council and discussions are currently taking place with both employees and Trade Unions.

## **4. EQUAL OPPORTUNITY IMPLICATIONS**

- 4.1 There are none arising directly from this report.

**5. COMMUNITY SAFETY IMPLICATIONS**

- 5.1 There are none specifically referenced in the Spending Review, but there may be implications resulting from future budgetary decisions taken by the Council and the Police Authority

**6. HUMAN RIGHTS IMPLICATIONS**

- 6.1. There are none arising directly from this report.

**7. LOCAL AGENDA 21 IMPLICATIONS**

- 7.1. The Spending Review 2010 contains a number of measures relating to energy efficiency and climate change.

**8. PLANNING IMPLICATIONS**

- 8.1. The planning system is to be reformed to make it more effective in supporting economic development.

**9 MEMBER SUPPORT IMPLICATIONS**

- 9.1. There are none arising directly from this report.

**10. BACKGROUND PAPERS**

- 10.1. Spending Review 2010 – Chancellor of the Exchequer – 20 October 2010.

**11. RECOMMENDATION**

- 11.1. That the case continues to be made with the Government to try to ensure the best possible outcome for Wirral in the Formula Grant Settlement.

IAN COLEMAN  
DIRECTOR OF FINANCE