

Item 2

Spending Review 2010

Purpose of report

For decision

Summary

This paper summarises the outcomes of Spending Review 2010 for local government, and, in particular, environment and housing policy.

Recommendation

Members are asked to consider the main issues and discuss the proposed lobbying approach.

Action

As directed by the Programme Board.

Contact officer: Piali DasGupta
Position: Senior Policy Consultant, LGA
Phone no: 020 7664 3041
E-mail: piali.dasgupta@local.gov.uk

Item 2

The 2010 Spending Review

Background

1. The Local Government Group submission for Spending Review 2010 (SR10) set out the major spending pressures that face local government through to 2014-15. Given the Government's commitment to full or partial protection of a number of departmental budgets, we modelled cuts to the local government budget in the order of 30 per cent. Our submission projected a shortfall in funding of around £20bn by 2014-15 based on current spending patterns and expected pressures, including:
 - 1.1 adult social care needs increasing costs by £6 billion;
 - 1.2 demand for school places and protective services driving up costs for children's services by £5 billion; and
 - 1.3 spending on waste management rising by almost £1 billion.
2. The submission called for the Government to pool funding for public services in local budgets to eliminate waste, target funding more effectively and provide greater accountability to local people. We also called for additional powers and flexibilities that would help local authorities to manage pressures while making savings, including the removal of all ring-fencing, freedom from reporting and regulatory burdens, and deregulation of fees and charges.
3. The range of difficult decisions that local authorities would inevitably have to make as a result of deep spending cuts were also clearly set out in the submission, including reductions in service levels and withdrawal from non-statutory services.
4. SR10 reported on 20 October and set out the broad funding envelope for local government. The distribution of this funding to individual local authorities will not be known until early December, and there are still significant issues around the total funding position that have yet to be clarified.

Outcomes for local government

5. SR10 sets out real terms reductions of 28 per cent in local authority grant funding through the Department for Communities and Local Government (CLG) over the next four years. This compares to an average 19 per cent reduction in 'unprotected' departmental budgets.

Item 2

6. Other funding outcomes include:
 - 6.1 an increase to the schools budget of 0.1% in real terms every year
 - 6.2 police funding cut by 20 per cent in real terms over the period to 2014-15
 - 6.3 the fire and rescue budget cut by 25 per cent in real terms over the same period, although these cuts fall mainly in the latter half of the spending review period
 - 6.4 capital grant cut by 45 per cent
7. Several of the LG Group's key asks were met at least in part, including:
 - 7.1 The number of ring-fenced funding streams was reduced from 90 to around 10, amounting to about £7 billion in grants freed up;
 - 7.2 The rollout of community budgets in 16 areas was announced, with a commitment to allowing all areas to take this approach by 2013-14;
 - 7.3 Flexibility on prudential borrowing was maintained, albeit with a one percentage point increase in PWLB loan rates;
 - 7.4 Funding for the proposed council tax freeze in year 1 has been allocated for the duration of the spending review period;
 - 7.5 An additional £2 billion in funding towards adult social care, half of which will come directly to councils;
 - 7.6 Local authorities will be allowed to make use of tax increment financing; and;
 - 7.7 Council housing finance will be reformed.
8. Local authority cuts are significantly front-loaded, with an average loss of grant of over 10 per cent in the first year. For England as a whole, our expectation before the CSR, based on a £20bn funding gap by 2014-15, was that in the first year the gap to be bridged would be around £4.5bn. Our analysis of the settlement as announced is that the first year gap is around £6.5bn.
9. Formula grant in 2014-15 is set at a level that is some £2 billion short of the total amount of business rates that are projected to be collected. This discrepancy may be explained by the Government's commitment to consulting on the localisation of business rates in the Local Growth White Paper published on 28 October.
10. We are also trying to identify the total amounts that will be paid through the simplified set of specific grants announced in SR10. At the time of writing, the future of a further £1 billion in funding that had been in Area Based Grant has still to be clarified. Changes to these grants could have an enormous impact on individual councils' financial positions.

Item 2

11. There are also a number of other “known unknowns”, including the floors and ceilings that will be set for the distribution of formula grant, the amount of the public health budget that will be transferred to local authorities, the distributional impact of the pupil premium, and the Government’s detailed plans on pay and pension reform.

Key issues related to environment and housing

Department for the Environment, Food and Rural Affairs

12. The Defra settlement includes:
- 12.1 continued investment in flood and coastal erosion risk management, with £2billion being spent in total over the Spending Review period;
 - 12.2 overall resource savings of 29 per cent in real terms by 2014-15, through reducing the number of Arms Length bodies from 92 to 39 and focusing spending on key priorities.
13. On **waste**, Defra will cease funding for **seven waste PFI projects** which, on reasonable assumptions, will no longer be needed to meet landfill diversion targets set by the European Union, saving £3 million by 2014-15, and more in the longer term. These projects are as follows:
- 13.1 Cheshire West and Chester and Cheshire East
 - 13.2 Coventry, Solihull and Warwickshire (“Project Transform”)
 - 13.3 Gloucestershire
 - 13.4 Leicestershire
 - 13.5 Milton Keynes and Northamptonshire
 - 13.6 North London Waste Authority
 - 13.7 South London Waste Partnership (consisting of the London Boroughs of Croydon, Kingston, Merton and Sutton).
14. The Government has taken the decision to cut funding to these PFI projects without consulting the authorities involved, even though the achievement of EU landfill diversion targets is far from assured. Authorities have already made significant investments from their own resources towards these projects and are partway through costly procurement exercises. Investment in waste disposal capacity must be maintained to avoid incurring heavy EU fines and not result in increased fly tipping. The Landfill Allowance Trading Scheme should be relaxed to help authorities manage in the medium term.
15. The **Waste Infrastructure Delivery Programme**, of which Local Partnerships is a part, is continuing to offer expert support to those procurements that have their PFI credits withdrawn following Defra’s review of the programme pipeline

Item 2

as part of the CSR process. Should those projects continue with their procurements and require such support, WIDP will be providing transactor support, with access to central data, commercial experience and Network Group events.

16. That credits have been withdrawn is not a reflection on the project itself. Defra performed a gap analysis to establish how much infrastructure would be required to provide reasonable assurance that the 2020 Landfill Directive targets would be met. This structured approach led to a requirement for a certain capacity which can be achieved through the 11 projects continuing to be supported.
17. Defra will provide £2.1bn over the next 4 years for **flood and coastal erosion protection**. Current spending (not including formula grant) is £664m pa.
18. Defra argue that against the last 4 years (including 2007, before investment in flood risk management rose significantly) there is only an 8% cut. LGA finance colleagues advise that compared to 2010/11, there will be around an 18% cut in 2011/12 and subsequent years. Officers are liaising with DEFRA and floods advisers on the possible impacts on local flood protection work.
19. Additionally, lead local flood authorities (unitaries and counties) will be taking on significant new responsibilities for local flood risk management from April 2011 (Flood and Water Management Act 2010). It was intended to recycle £50m away from all authorities due to 'savings' (which LGA dispute) from the transfer of private sewers and to reallocate this to lead authorities, including £36m as Area Based Grants. DEFRA are now intending to allocate £22m, with £28m held in Formula Grant. LGA is concerned that any further reduction to the local government settlement may compromise local authorities' ability to deliver both existing and new responsibilities.
20. We are concerned about any cuts when 5.5m properties are at risk of flooding, flood risk is increasing and without increased investment the insurance industry will withdraw its agreement to provide cover for flooding.
21. It is not yet known whether non-ringfenced air quality and contaminated land capital funding grants provided by DEFRA will continue. Expertise in councils is likely to be lost as a result of staff cutbacks and, as environmental protection services are largely rooted in health protection, this could lead to reputational and legal risks. Locally set planning fees that truly reflect the cost of assessing the environmental impact of developments and locally set fees for environmental permits would go some way to reduce the risks. In this and other service areas, it will also be important for councils to work in more innovative ways, and share expertise and resources more effectively.

Item 2

Department for Energy and Climate Change

22. The Spending Review has had implications for council work on energy and fuel poverty. The **Warm Front programme** is going to be cut by 70 percent, which will have significant implications for many councils, 78 percent of whom rely on Warm Front funding to alleviate fuel poverty in their areas. It is all the more vital that the design of the Green Deal and councils' role in it support the continuation of activity which helps people on low incomes cut their fuel bills.
23. Perhaps most significant is the announcement that the **Carbon Reduction Commitment** has been changed, so that participants, including councils, will now effectively have to pay for the CO2 emissions they generate from energy use, rather than buying permits they can trade and receiving money back from their purchase. First estimates from councils mean this will cost them £750K - £1million per annum. We will be investigating this further and will keep you up-to-date as this issue develops.
24. At present there is very little detail on how the money will be used; the CSR state only that it will support "public finances, including spending on the environment", and even less clarity surrounding the Government's full intentions in respect of other aspects of the scheme, e.g. relationship with schools, role of the League Table or the role of public vs. private sector participants. Government have stated they intend to begin shortly a public dialogue with participants on proposals to simplify other elements of the scheme.

Department of Communities and Local Government

25. £6.5bn of funding was allocated within the Spending Review for **housing**. This is split into £2bn to fund the Decent Homes initiative and a further £4.5bn for building of new homes.
26. The £4.5bn allocated for building new homes (155,000 over the SR period) breaks down as:
 - 26.1 £900m to fund new homes bonus
 - 26.2 £100 million to bring empty properties back into use
 - 26.3 £200m mortgage rescue scheme
 - 26.4 The remaining £3.3 billion currently constitutes uncommitted funding.
27. There is also a £100m allocation for homelessness.
28. **The Regional Growth Fund** is confirmed as consisting of £1.3bn of funding to be allocated to fund capital projects focussing on regeneration and renewal.

Item 2

The additional funding which has 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. Among other things the fund will be a source of funding for housing market renewal.

29. **Housing associations** will be allowed to offer homes to rent to those on waiting lists at 80% of market price and use income to support building new homes.
30. The **New Homes Bonus**, which will see councils have the council tax raised from new homes built in their area matched by the Government for six years, is an idea we support in principle. We believe this could work to stimulate house building and offer significant financial benefits to local neighbourhoods. However, we have concerns about how this policy will work in practice.
31. We were pleased that the Housing Minister recently confirmed that the **Housing Revenue Account** subsidy system will be reformed. Under the proposed new rules councils will be freed from the discredited Housing Revenue Account subsidy system and be able to borrow and manage their resources through a long term business plans. They will also be able to keep all the rents and sales receipts they collect. Whilst we welcome this announcement, we have yet to see the full details of the new system and how it will work for individual councils.
32. The CSR reiterated existing government proposals related to the **reform of the planning system**. The Secretary of State's letter to leader of Local Authorities dated 20 October 2010 indicates that there is new money for planning in the form of a special grant called "open source planning". The money takes the form of a special grant in the first two years which is rolled into the formula in successive years. More details would be revealed when the Localism Bill is published.