

# Spending Review 2010

## Introduction

Following the general election on 6 May 2010, a new Coalition Government was formed on 12 May 2010. An emergency budget followed on 22 June 2010, which delivered plans for additional consolidation for the period to 2014-15 on top of the plans set in the March 2010 Budget, with further spending reductions of £32 billion a year by 2014-15 and further net tax increases of £8 billion. This adds up to a total consolidation of £128 billion per year by 2015-16, consisting of total reductions in spending of £99 billion and a net increase in taxes of £29 billion.

The Chancellor of the Exchequer, the Rt. Hon. George Osborne MP, revealed details of the Spending Review on 20 October 2010, covering the four years from 2011-12 to 2014-15. This briefing summarises the key aspects of the Spending Review 2010 for local authorities in London. It is, necessarily, high level. **Further analysis will be undertaken by London Councils as more detailed information becomes available.**

The full Spending Review 2010 report, press notices and further details can be found on the HM Treasury website at:

[http://www.hm-treasury.gov.uk/spend\\_index.htm](http://www.hm-treasury.gov.uk/spend_index.htm)

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## Local Government funding 2010-11 – the cuts so far

In addition to the public spending cuts announced as part of SR2010, local government in England has already been subjected to substantial in-year funding cuts in the current 2010-11 financial year.

### ***Communities and Local Government (CLG) cuts – June 2010***

On 10 June 2010, the Government announced that local government spending was to be cut by £1.166bn. Of this amount, total cuts to London boroughs and the City were estimated at £169m – made up of cuts to Area Based Grants (£75.3m), LAA reward grant (£63.3m), Local Authority Business Growth Incentive (£12.4m) and the Housing Planning and Delivery Grant (£17.9m). Moreover, the GLA was also subject to cuts of £186m bringing total initial in-year funding cuts to London as a whole to £354.5m – 30% of the national cuts.

### ***Department for Education (DfE) capital cuts – July 2010***

In addition, on 5 July 2010, additional cuts to education capital grants were announced, including the cancellation of the Building Schools for the Future (BSF) programme. London local authorities have had £27.3m of known cuts to individual education capital grants, excluding BSF, with an additional three grants subject to potential clawback in-year.

Revised 2010-11 play capital allocations were provided to local authorities by DfE after the main Spending Review announcement – the England total has been reduced by 28%.<sup>1</sup>

DfE have not provided an authority-by-authority breakdown of the impact of the cancellation of BSF funding but research by London Councils suggests that boroughs with approximately 85% of the stopped BSF projects in London have lost around £2.5bn in anticipated BSF funding<sup>2</sup>. This is in addition to the £60m they had spent preparing for BSF projects. London Councils has recently written to Michael Gove setting out London's need for capital funding.

### ***Other in-year cuts***

Migration Impacts Fund has also been subject to cuts with payments for the second half of 2010-11 suspended. London Councils has estimated that this has cost London authorities £2.4m.

Free Swimming Grant is subject to a £40m clawback (from a total of £140m) – however it is not yet possible to identify London's share of this.

Table 1 sets out the impact of the 2010-11 in-year cuts to local government funding on London authorities and London as a whole.

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<sup>1</sup> See <http://www.education.gov.uk/inthenews/inthenews/a0065475/revised-play-capital-allocations-for-local-authorities>

<sup>2</sup> London Councils survey, September 2010 - £2.5bn of lost funding relates to anticipated BSF funding for BSF projects which were stopped in London authorities – not all of this funding would have been received in 2010-11

**Table 1: In-year cuts to local government funding, 2010-11, £m**

	<b>London</b>	<b>Total London inc GLA</b>	<b>England</b>
In-year cuts announced 10 June	-168.855	-354.455	-1165.979
<b><i>Education capital grants</i></b> <sup>3</sup>	27.300	27.300	188.249
Free Swimming	?	?	-40.000
Migrants Impact Fund	-2.364	-2.364	-11.050
<b>Total known cuts</b>	<b>-198.501</b>	<b>-384.101</b>	<b>-1405.278</b>

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<sup>3</sup> Excluding cuts to BSF funding

## The impact of cuts announced in SR2010 for London

The Government has announced that overall revenue funding from Government will reduce by 26% in real terms by 2014-15, “excluding schools, fire and police.”<sup>4</sup> This corresponds to a cash reduction of 19% over the same period.

The cuts over the four year period will be significantly front-loaded. This is based on the profile of cuts to the CLG Local Government budget, from which many of the grants to local authorities will be derived, as shown in the table below.

	2010/11	2011/12	2012/13	2013/14	2014/15
Local Authority core funding from CLG	£28.5bn	£26.1bn	£24.4bn	£24.2bn	£22.9bn
Cumulative cash cut	-	8.4%	14.4%	15.1%	19.6%

A more detailed understanding of the impact of these cuts will not be known for some time. Looking forward to 2011-12 and beyond, the impact of the cuts will depend on a number of unknowns, including:

- The criteria used to distribute funding for the remaining core grants (into which the majority of existing Specific and Area Based Grants will be merged)
- The methodology used to roll Specific and Area Based grants into Formula Grant (e.g. the new formula to be used and any baseline adjustments)
- Other changes to the model used to allocate Formula Grant. These include:
  - the level at which funding floors will be set in 2011-12 and beyond,
  - the possible introduction of options included in recent Formula Grant distribution consultation, the results of which are expected in late November or early December 2010. Most significant for London is likely to be any changes to Area Cost Adjustment methodology, which could see around £100m of grant move out of London.
  - The impact of using new data (e.g. population projections) in 2011-12 and beyond.

Bearing these caveats in mind, London Councils has attempted to estimate the impact on London of the cuts based on the best information that is currently available. Our modelling suggests that a 26% real terms cut to non-school funding would translate to **a reduction in revenue funding of around £1.5bn (in 2010-11 prices) for London councils by 2014-15**. This would equate to approximately 27% of London authorities’ grants, excluding schools and police funding.

Naturally, these figures are subject to significant caveats. This includes the necessary assumption that authorities’ futures shares of revenue grants will largely reflect the current funding distribution (albeit reduced in line with a shrinking quantum). Given the uncertainties listed above, this is clearly an heroic assumption.

It should be noted that the 26% cuts do not, as we understand it, apply to school grants. School budget grants account for £35bn of revenue in 2010-11 (almost half of local authorities’ grants from central government), and these are set to increase in real terms over the Spending Review period. Were this funding also subject to the 26% real reductions then the overall monetary cut for London would be significantly larger than £1.5bn.

<sup>4</sup> Letter from the Secretary of State to Leaders of Local Authorities, 20 October 2010.

London Councils is urgently seeking clarification from government about precisely what the 26% cut relates to in order that more accurate forecasting can be achieved.

## Highlights relating to local government finance streams/funding by Government Department

### 1. Department for Communities and Local Government (CLG)

#### *Local authority ringfenced and specific grants*

- Ringfencing of all local government grants (with the exception of schools grants and a public health grant from 2013) will end in 2011-12.
- The total number of ringfenced grants paid to local authorities has been reduced from 90 to fewer than 10 - this equates to £4bn of revenue grants being rolled into Formula Grant.
- Personal Social Services grant has been increased by £1bn to £2.4bn a year by 2014-15.
- Funding for Homelessness Grant will remain at current levels.

#### *Local Authority Performance Arrangements*

- Local Area Agreement (LAA) Reward Grant has been stopped. There will be no further payments of LAA Reward Grant against the 2008-11 LAA targets in the next SR period. London Councils are unable to quantify the amount of funding which has been withdrawn.
- All designations of local improvement targets in local authority LAAs have been revoked and local authorities are free to amend or withdraw targets from LAAs as they see fit. Those targets which remain within LAAs will not be monitored by CLG.

#### *Community Budgets*

- The first Community Budgets will be established to tackle families with complex needs from April 2011 in 16 local areas. Of these 16 prototypes, five will be local authorities in London: Westminster, Islington, Barnet, Lewisham and Croydon.

#### *Council Tax*

- The Government has announced that councils choosing to freeze their local council tax levels in 2011-12 will receive funding equivalent to a 2.5% increase in council tax for that year for the entire Spending Review period (£700m has been set aside to fund this policy each year).
- Spending on Council Tax Benefit (CTB) to be reduced by 10% and CTB to be localised from 2013-14

#### *New Homes Bonus Consultation*

- The Chancellor confirmed that a New Homes Bonus Scheme (NHB) would commence in April 2011.
- The NHB scheme will reward local authorities that build new homes by match funding Council Tax for six years.
- A consultation paper setting out the mechanics of the scheme is due to be published in November 2010. London Councils will be co-ordinating response to this consultation.

### ***Protecting funding for services that support the most vulnerable in society***

- The Disabled Facilities Grant, to which £168.8m was allocated in 2010-11, will rise in line with inflation.
- The Supported People Programme will receive £6bn of funding over the SR period (the current 2010-11 allocation is £1.6bn).
- Provision for resources for disabled housing adaptations.

### ***Reform of the council housing finance system***

- Confirmation there will be a Housing Revenue Account (HRA) review. A 1% increased cost of prudential borrowing will increase the cost of debt taken on by boroughs and increase the pressure to charge intermediate rents (between current social and market rents), which will further impact on housing in the capital.

### ***Flexible tenancies***

- There will be local discretion on the length of new social tenancies. Whilst reducing under occupancy in the long term this will lead to an increasing proportion of tenants who will be on intermediate rent levels.

### ***Reduced new build programme***

- Commitment to a national total of 150,000 Affordable Homes over 4 years (2011-12 – 2014-15). The impact on London is currently being analysed and will be included in a separate, more detailed, briefing on housing issues.

### ***Decent Homes***

- A national decent Homes programme to continue with £2bn funding, although recent London estimates suggest that closer to £2.6bn is required in London.

### ***Housing benefit single person rate***

- From April 2012, the Local Housing Allowance shared room rate (and single room rent in the old scheme), which applies to most single people aged under 25, will be extended to people aged 35 and under. This will mean that any person aged 35 and under will have a reduction in their Housing Benefit rate - this could range from £30 to £60 a week.

### ***Fire and Rescue Services***

- Grant for fire and rescue services will be reduced by 25%, with the reduction being back-loaded to years 3 and 4 to give authorities time to make the necessary changes without affecting the quality and breadth of services they provide to their communities.

## **2. Department for Transport (DfT)**

The DfT is being asked to make overall resource savings of 21 per cent by 2014-15. Most of transport announcements will be set out in the national infrastructure plan which will be published next week.

### ***Rail and rail fares***

- £14bn of funding for Network Rail which will be used to support maintenance and investment over the spending review period.
- High Speed Two: The Government is proceeding with its plans to deliver a new high speed rail network, and will bring forward legislation during this Parliament to allow construction to proceed.
- There will be an increase to the cap on regulated rail fares to three per cent above RPI for three years from 2012 to support investment in new rolling stock. Increases in the price of rail fares will impact on the concessionary fares settlement with the train operating companies. [London Councils has previously expressed concern about the removal of the cap on rail fares and the implications that this could have for the costs of rail travel for those commuting into London]

### ***Capital Projects***

- There will also be funding to support £6 billion of capital expenditure by Transport for London (TfL) to maintain and upgrade the London Underground network.
- Crossrail will continue to be funded.

### ***Incentive scheme for ultra-low emission vehicles***

- An incentive scheme will be put in place which offers up to £5,000 towards the cost of a new ultra-low emission vehicle from January 2011.

### ***Transport for London***

- There will be more scrutiny and transparency for TfL's investment programme. This will include benchmarking of London Underground costs in order to support the objectives of efficiency and economy.

### ***Local government resource grants***

- There will be a simplification of local transport funding with a consolidation of grant streams from 30 to 4. Local authority resource grants will be reduced by 28% - no further details are yet available.

## **3. Department for Education (DfE)**

DfE will need to make real terms savings by 2014/15 of 3% for revenue funding and 60% for capital funding. This is in addition to in year cuts from 2010-11. The bulk of the savings are to come from the non-schools budget which will reduce by 12% by 2014-15.

In addition, education revenue funding streams are to be 'simplified' into two core revenue grants – an 'Early Intervention Grant' and a 'Dedicated Schools Grant'

## **Schools**

- The schools budget will increase in real terms over the SR period from £35 billion to £39 billion. Per pupil funding is to be maintained in cash terms.
- A pupil premium of £2.5 billion per annum by 2014/15 is included within the schools budget.
- £15.8 billion of capital funding is to be provided over the SR period to provide new school places in areas of severe demographic pressure, maintain the school estate and meet existing BSF commitments to rebuild and refurbish 600 schools. This is likely to be of particular significance to London given the well-documented shortage of school places in the Capital. It is not clear whether some of this funding will be used to support the establishment of Free Schools.
- There were also some separate announcements from the Secretary of State for Education on sport in schools. Ring-fenced funding for school sport partnerships to cease, with requirements relaxed immediately.<sup>5</sup>

## **Early Years**

- Sure Start services to be maintained in cash terms and refocused on their 'original purpose of improving the chances of disadvantaged children'. This is likely to mean greater targeting of resources at the most disadvantaged communities away from universal provision.
- 15 hour entitlement to free childcare for 3 and 4 year olds to be extended to the most disadvantaged two year olds.

## **16-19 Education and Training**

- Plans to raise the participation age to 18 by 2015 will be retained.
- Education Maintenance Allowance (EMA) to be refocused on the most disadvantaged young people.

## **4. Department of Health (DH)**

### ***Additional funds to support social care***

- Councils will receive an increase of £1bn in real terms funding through the Personal Social Services grant, rolled into Formula Grant, by 2014-15.
- In total, grant funding for local government social care will reach £2.4bn by 2014/15 (assuming the existing DH grants for social care rising in line with inflation to £1.4bn by 2014/15).
- A further £1bn of annual funding will be made available through the NHS budget to support joint working between NHS and councils '...in order to break down the long-standing barriers between health and social care'.
- Local authorities and the NHS will be expected to work together to agree how this funding should be used. The details of which will be published alongside the 2011/12 NHS Operating Framework.
- There will be report on the long-term funding of social care published in July 2011.

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<sup>5</sup> <http://www.education.gov.uk/inthenews/inthenews/a0065473/refocusing-sport-in-schools-to-build-a-lasting-legacy-of-the-2012-games>

## ***Revenue Grants***

- All Department of Health specific and revenue grants will be rolled into Formula Grant with the exception of:
  - Learning Disabilities and Health Reform Grant; and
  - Public Health Grant.
- Both grants mentioned above are new and will be issued by DH over the Spending Review period to reflect the transfer of responsibility for services to local authorities.
- The Learning Disabilities and Health Reform Grant will be an unringfenced, special grant worth approximately £1.3bn from 2011/12. The Public Health Grant will be introduced in 2013/14. Further details will be given at the time of the provisional local government settlement.

## ***Transformation and Efficiency***

- DH will shortly publish an ambitious vision for social care, under which local authorities will be expected to put individuals in greater control of their care, as well as making significant efficiency savings by focusing on prevention and delivering more cost-effective care.

## **5. Home Office (HO)**

### ***Police Service***

- Central government police funding will reduce by 20% in real terms by 2014-15. This reduces to 14% in real terms if police authority precepts increase at the level forecast by the Office of Budget Responsibility.
- Funding for counter-terrorism will reduce by 10% in real terms. Funding for a safe and secure Olympic Games will be ensured. The review emphasises modernisation and efficiency, ending central bureaucracy and targets, reducing reporting requirements in order to '...save hundreds of millions of pounds and hundreds of thousands of man hours'.
- The SR also covers the introduction of directly elected Police and Crime Commissioners, cuts to the budget of UK Border Agency by 20% over the next four years, abolition of the National Policing Improvement Agency, plus two ideas suggested by the public: making it possible for employers to share CRB checks, and collaborative procurement by police forces of goods and services.

### ***Other Home Office***

- 30% real term savings will be made to non-police Home Office funding.

## Other issues/announcements

### *Child poverty*

- There will be above indexation increases in Child Tax Credit worth £30 in 2011-12 and £50 in 2012-13. The government estimates that around 540,000 families in London will benefit.
- The proportion of costs covered by the childcare element of Working Tax Credit will be reduced from 80% to 70% of costs. This will disproportionately affect families in London where childcare costs are higher.
- Community budgets will be established in 16 local areas from April 2011 to pool departmental budgets for families with complex needs, rolled out to all local areas over the next five years. Westminster, Islington, Lewisham, Barnet and Croydon are within the first 16 areas. This is in line with the place-based budgeting model that London Councils has proposed around child poverty.

### *Skills*

- Funding for adult apprenticeships (25 year olds plus) will be increased by £250 million a year by 2014-15 equating to around 75,000 more adult apprenticeships nationally. The government will continue to fund basic skills provision and will protect and reform Adult Community Learning. London Councils called for these measures in its response to the government's consultation on future skills policy.
- Within Further Education (FE), individuals will now have to contribute to fund Level 3 qualifications via student loans to meet tuition fees (repayment levels varying with income). The government confirms that it will move to an all-age career service (currently there is Connexions for young people and the Adult Advancement and Careers Service).

### *Welfare*

- The government is predicting £7 billion of savings from AME by 2014-15 from the welfare bill.
- The review confirms the government's intention to establish a new Universal Credit to replace means tested working age benefits with an integrated payment to reduce error and fraud and ensure work pays. This will take place in a phased way with a full transfer complete by April 2017. It will cost £2 billion over the next four years. Further details will be set out in a White Paper from DWP.
- Cap household benefit payments from 2013 at around £500 a week for couple and lone parent households and £350 a week for single person households (Disability Living Allowance claimants, War Widows and households in receipt of working tax credit are exempt)

### *Economy*

- Capital spending reduction is in line with the previous government plans. It is prioritising economic infrastructure supporting growth, the transition to a low carbon economy and private sector investment in infrastructure e.g. plans for a Green Investment Bank.
- The Regional Growth Fund will be extended from 2 to 3 years. This means an extra £0.4 billion in 2013/14. The total fund now stands at £1.4 billion. The government will also reform the way it delivers European Regional

Development Funding (ERDF) linking it with the RGF in future and reinvesting revenue from its assets. This could have implications for London's share of ERDF in the longer term but it is too early to tell.

- Further detail on Tax Increment Financing (TIF) and future incentives to boroughs to promote economic growth will be set out in a White Paper on local growth later in the year.
- Working Neighbourhoods Fund (WNF), Growth Area Funding and Thames Gateway programme will end. London boroughs have benefited from all of these funds. In the past three years, London boroughs received just over £270 million of WNF.
- Business Support: The government will provide £200 million a year by 2014-15 to support manufacturing and business development and will continue the Enterprise Finance Guarantee scheme for small businesses.
- Banking sector: Draft legislation on a Bank Levy will be published and should be in place by end of the year. This will generate around £2.5 billion of annual revenues. London-based banks will be large contributors to this. The government will also take forward a Financial Activities Tax on profits and remuneration with international partners.
- The banks will also establish a £1.5 billion Business Growth Fund to provide capital to small businesses.
- As previously announced Local Enterprise Partnerships (LEPs) are to take over the role of the Regional Development Agencies (RDAs), providing strategic leadership to set out local economic priorities and grow the local private sector. Local authority and business leaders were asked to develop proposals for LEPs for 6 September 2010.

### ***Broader public service reform***

- In addition to the service-specific proposals in the spending review, the government will provide new opportunities, rights and resources to enable all parts of society to play a larger role in providing services and strengthening community life. This will include paying and tendering for more services by results rather than government being the default provider. The use of simple tariffs and more innovative payment mechanisms could be explored in some service areas in or linked to local government such as community health services, processing services, children's centres, building on measures already announced on welfare to work, mental health and offender rehabilitation services.
- Government will look at setting proportions of services to be delivered by independent providers such as the voluntary and community sectors, and social and private enterprises. Areas to be explored include adult social care, early years, community health, pathology, youth services, court and tribunal services and early interventions for the neediest families.
- These announcements extend rights to communities, citizens and employees to run and own services including the right to buy or run public assets and services that otherwise might close or face significant reductions; public sector workers forming employee-owned cooperatives and mutuals; giving parents, teachers or community groups the right to bid to start new schools.
- Over the spending review period government will direct around £470m to support capacity building in the voluntary and community sector, including funds to pilot the National Citizen Service and a Transition Fund of £100million to provide short term support for voluntary sector organisations

providing public services. Other funding initiatives will include the Big Society Bank, and innovative equity investment opportunities in public services.

### ***2012 Olympic and Paralympic Games***

- The public sector funding package of £9.3 billion will be maintained. A further announcement relating to the unavoidable games-related and 'last mile' costs for boroughs is expected on 21 October 2010.
- DCMS will become sole budget holder for central government spending on the Olympics.

### ***The Localism Bill***

- CLG will shortly publish a Localism Bill that will set out '*significant new freedoms, powers and responsibilities for councils and communities.*'
- The Localism Bill will include a 'universal power of competence' and reforms to the planning system. These will ensure that the planning system both works for sustainable growth and is responsive to the needs of local communities.

**London Councils**  
**20 October 2010**