

## Spending Review 2010 Summary

### Introduction

The paper below sets out a synopsis of what was in the Spending Review, and then adds (in blue) some commentary about the impacts of those statements on Oxfordshire. Those comments include highlighting where there are uncertainties and the level of risk those uncertainties form for the authority.

### Overview

The Chancellor set out his proposals for funding changes, based on the three principles of Reform; Fairness; and Growth. He indicated an intention to protect healthcare; security; and infrastructure for growth by cutting back the “welfare state”, major benefit reform and reducing debt (“the largest structural deficit in Europe, with £43bn a year in debt interest”).

### National spending announcements

- Capital spending will reduce to £47bn in 2014/15. However, this is £2bn higher than proposed in the June budget.
- Overall spending will rise to £740bn by 2014/15.
- It is estimated that there will be a reduction of 490,000 in the public sector headcount over four years.
- Over the course of the next month, each Govt department will set out a business plan for reform.
- The average departmental saving is 19% over the period to 2014/15.

### Department for Communities & Local Government

Overall, revenue funding from Government will reduce by 26% in real terms between 2010-11 and 2014-15 – excluding schools, fire and police. That means, on average, a grant reduction of 7.25% a year. However the impact on individual authorities is as yet unclear, particularly with regard to ring fencing and the effect of the grant floor system (see below).

The Department for Communities & Local Government overall budget will be cut by 33%, also including major social housing reforms, giving housing authorities more control over finances but with the capital budget for new affordable homes significantly reduced.

### Specific announcements affecting Oxfordshire County Council:

- Ring fencing of local government revenue Specific grants will end by April 2011 (excluding simplified schools grants and a public health grant). The total number of grants will reduce from over 90 to fewer than 10. This gives councils more flexibility to move funding around to reflect local priorities.

The "less than" 10 grants appear to be:

#### Non ringfenced

- Early Intervention Grant (including Sure Start)
- Learning Disabilities
- New Homes Bonus (not clear whether going to County and/or Districts although Eric Pickles has indicated a likely split of 80% to districts and 20% to counties – the reverse of infrastructure need!) It seems likely this Bonus will be funded by a top-slice of the formula funding which represents a transfer of resources from counties to districts in two-tier areas.
- Council Tax Freeze Grant (specific grant)

#### Ring Fenced

- Public Health Grant (from 2013-14)
- Dedicated Schools Grant

#### Not Applicable to OCC

- Housing Benefit & Council Tax Benefit Admin Grant (district only)
- Preventing Homelessness (district only)
- PFI Grant

Although there is also Formula Grant - so still 10 in total! This raises a number of uncertainties about other grants, which appear no longer to exist and for which any service provision will be expected to be picked up under the reducing level of Formula grant. However, under the education press release there are also reported to be what is being defined as a Schools Baseline, which includes a number of school related grants but which it isn't clear how they are to be paid.

School Baseline grants are listed as:

- Funds allocated for one to one tuition
- Funds allocated for 'every child programmes' such as Every Child a Reader
- Extended schools
- School lunch grant
- School Standards Grant
- School Development Grant
- Specialist schools grant
- Ethnic Minority Achievement grant
- The National Strategies' budgets that were allocated to schools
- Dedicated Schools Grant
- Academies running costs

The above School Baseline Grants appear to be in addition to the Dedicated Schools Grant (DSG) which is the only one to appear in the list of 10 Specific Grants which have been saved. All of the grants on the list above are currently specific grants which get passported directly to schools. Major grants, such as Connexions (£4.5m) are not included here or on the list of

grants transferring to Formula Grant and, therefore, must be assumed to be part of the mechanism for the reduction and any service expenditure will need to come from the lower level of Formula Grant or Council Tax. A schedule of grants is attached which shows where they are or are not accounted for (Annex 1). £20.4m is not accounted for.

The remaining grants will then be subject to the 7.25% year on year reduction, which amounts to a grant loss of a further £40.7m over the four years if the reduction is applied to all grants. This creates a near minimum £61.1m reduction in grant. This minimum would actually occur if the Early Intervention (EI) Grants were also protected, because it was announced that Sure Start (which forms part of EI) will be protected in cash terms, i.e. not get inflationary increases but not be decreased. This would give a grant reduction of £56.0m.

It should be noted that this should be compared to the target of £100m less the element passported to schools of £17m, giving £83m and not the £200m which included the previous years MTFP savings which offset pressures. However, it is by no means certain that the reduction would be limited to that level, given the distributional and floor impacts.

There are a range of options about how the transfer of Specific Grants will be made and the subsequent distribution through the formula grant. At best, the existing allocations will transfer across and the only amendment would relate to those authorities below or above the floor/ceiling. These could result in a further loss of around £6.1m, if the floor is set 1.25% below the average decrease. This gives an overall £67.2m reduction in grant. However, the level of the floor could well be adjusted as part of the process and this figure could increase.

- However, the effect of £4bn specific grant transferring into formula grant could reduce grant to OCC because of the distributional and 'floor' effects. This has a potentially significant negative impact. We are unlikely to know the full extent of this until the settlement in December.

A letter to Leaders from the Minister was received on the 20<sup>th</sup> October which set out which grants formed the £4bn transferring to Formula Grant. These are listed in Annex 2, along with the totals received by OCC in 2010/11 for these grants.

At worst the transfer could reflect the national distribution of the formula grant. We current receive about 1.1% of specific grants but only 0.345% of formula grant. This would result in a further potential reduction in grants, although the impact of the floor could actually protect against that degree of loss, hence a range of total reductions up to around £81.2m

We will not know how this will impact OCC until further details are released, possibly not until the Local Government Finance Settlement in late November or Early December.

There is also, however, a broader mitigation and this is that the reduction needs to be offset against our current target. We have been planning on a

figure of 10% per year reduction in grant. It appears that the 7.25% per year reduction PLUS the impact of the transfer of specific to formula will be lower in total, however, the timing will be substantially different, with more loading in year 1 due to the £20.4m grants which have been removed completely.

Dependant on the option chosen, the reduction in year 1 ranges from 54% to 66% of the total reduction, with reductions between 10% and 18% in subsequent years. This is a considerable change from the even spread in our original targets. We will therefore be bringing forward a new set of target proposals based on the front loading, although there remains a high degree of uncertainty in any option.

- Capital funding from all departments will fall by around 45% over the review period.

There had been a widespread expectation that capital expenditure would fall by 50% and this has been built into the county council's planning process. If this level of expenditure is not reduced as much there will be a revenue cost of increasing the borrowing. This will be on top of the additional borrowing costs related to the 1% increase in borrowing rates.

The details of the programmes cuts are

- As announced earlier by Eric Pickles, councils will no longer need to report on LAA targets.
- We offered to pilot place-based budgets (now described as Community Budgets) but have not been selected. The 16 selected areas including Kent, Essex, Swindon and various authorities in the north and the midlands.
- Tax Incremental Financing to be introduced to allow borrowing against assets and future income (to be detailed in the Growth White Paper).
- The Government will allocate additional grant funding for Personal Social Care of £1bn per year by 2014/15 alongside a further £1bn from the NHS.

This is included within the £4bn funding which is going into Formula Grant, and is taken into account in the calculation of the targets above. However, we will not know how much Oxfordshire is likely to receive until the distribution is announced, and any adjustments to the floor.

- £6bn funding for the Supporting People programme over the review period. It appears that Supporting People funding is being largely protected, however this is to transfer into formula grant, meaning a potentially large reduction in funding for OCC. This message needs careful handling.

The £6bn announcement on Supporting People in fact comprises £1.6bn per annum nationally, but is also part of the Formula Grant £4bn above. The amount Oxfordshire will receive is therefore totally reliant on the distribution basis and the floor effect, but it is unlikely that we would maintain the same level of funding as previously.

- Formula grant funding for Fire & Rescue Services over the period will reduce by 25%, weighted to the second half of the review period

The reductions in the Fire specific grant has been included within formula grant reductions. It will be for the Authority to determine how the expenditure is saved.

- Personal budgets will be extended to include special educational needs, support for children with disabilities, long term health conditions and adult social care.
- The Concessionary Fares Scheme will continue but whether funding will cover costs remains uncertain.

There has been a consultation on the distribution of Concessionary Fares grant within Formula grant. There were over 40 options and most disadvantaged both the County Council but also the District Councils to varying degrees. We await notification of the methodology to be used.

- Public sector pensions will be reformed once the Hutton Review of Pensions is published next spring, however the Chancellor has already indicated that the lower paid and those in the armed forces will be protected. The reforms will, however, seek to deliver £1.8bn pa cost reductions by 2014/15. The current MPs' pension scheme will end.

## **Other Departmental announcements with an impact on OCC**

### Department for Education

- Overall Department budget to reduce by 1% per year.
- Schools budgets will see a real-term increase every year, from £35bn to £39bn per year; cash funding for individual pupils will not fall; and the £2.5bn pupil premium will go ahead.
- Capital funding of £15.9bn will be allocated to rebuild and refurbish 600 schools, although no details on which authorities will benefit.
- The Government will fund an increase in 16-19 places.
- The Education Maintenance Allowance (EMA) will be withdrawn in place of more targeted support, although there is no clue about the impact on OCC.
- The SureStart scheme will be protected in cash terms.
- There is a guarantee of 15 hours a week of free education and care for 2 year olds from disadvantaged backgrounds, but the impact on OCC isn't clear.

### Department for Transport

- The Government confirmed £30bn of capital investment in transport (said to be an increase on spending in the last 4 years). Projects, including £14bn in rail, however there was no reference to South East schemes (projects in all other regions were mentioned).
- More detail will be published next week

### Department for Business, Innovation & Skills

- Overall Departmental budget to reduce by 7.1% per year, but the Science budget of £4.6bn per year will be protected.
- The Government will invest in: the Diamond Synchrotron (£69m); up to £1bn in carbon capture & storage; £200m in Portsmouth; and £1bn in funding for the Green Investment Bank.
- 40% cut in Higher Education.
- Train to Gain will be abolished and learners will be expected to contribute more to their learning.

Adult Learning – there is notice given that the Train to Gain grant will be abolished, but there is other funding for Adult apprentices without any clarity about how it is to be delivered, nor through which organisations

- There will be an increase of 50% in adult apprenticeships, with 75,000 new schemes.
- Four broadband pilots were announced in the Scottish Highlands and Islands, North Yorkshire, Cumbria and Hereford.
- An additional £500m was added to the announced £1bn Regional Growth Fund.

### Department of Health

- Health spending will rise every year over and above inflation to £114bn by 2014/15. This means a real-terms increase in health spending by 1.3% over the review period.
- The department is expected to save £20bn in efficiency but this will be reinvested.
- Spending on medical research will be protected.

### Others

- DEFRA faces cuts of 8% per year but with more money for flood and coastal defences.
- The Disability Living Allowance will be reduced.
- 16% cut to Police spending, with priority being given to counter terrorism services, potentially affecting levels of local policing.
- In addition there was an announcement on Carbon Reduction Energy Efficiency Scheme. We had originally believed that there would be a recycled allowance but this has now become simply a tax.

This means an additional pressure for OCC, rising to £2.6m because we were planning for the previous system which enabled a trading scheme

- Interest on loans from the Public Works Loans Board will increase by 1%, increasing the costs of our prudential borrowing.

This will increase the revenue cost of capital, (the Strategic Measures Budget) and also increase the cost of Prudential Borrowing schemes, which will reduce the revenue savings available through those schemes

#### Other areas which remain unclear

Reform Grant capitalisation for redundancy costs – there is a £200m pot but the criteria for access haven't been announced.

Other Function changes which might not be properly funded - Blue Badge reform, Floods, Trading standards closure of Consumer Focus and OFT

New Homes Bonus – it is not clear how this will work or whether the funding will go to counties and/or districts although it seems likely the lion's share will go to districts as an incentive to grant planning permissions which will result in pressure on our schools and transport capital spending!

#### **Key links**

BBC at-a-glance summary of announcements and departmental cuts:  
<http://www.bbc.co.uk/news/uk-politics-11569160>

Chancellor's statement in full:  
[http://www.hm-treasury.gov.uk/spend\\_sr2010\\_speech.htm](http://www.hm-treasury.gov.uk/spend_sr2010_speech.htm)

Full HM Treasury Spending Review document:  
[http://cdn.hm-treasury.gov.uk/sr2010\\_completereport.pdf](http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf)

Opposition response (BBC report):  
<http://www.bbc.co.uk/news/uk-politics-11585241>