

COMPREHENSIVE SPENDING REVIEW AND PRE-BUDGET 2007

PORTFOLIO RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

25TH OCTOBER, 2007

Wards Affected

County-wide

Purpose

The purpose of this report is to brief Cabinet on the content of the Comprehensive Spending Review and Pre-Budget 2007 announcements made on 9th October, 2007.

Key Decision

This is not a Key Decision.

Recommendation

THAT the content of this report as important context for reviewing the Council's Medium-Term Financial Management Strategy for 2008 – 2011 be noted.

Reasons

Cabinet has executive responsibility for managing the Council's financial affairs including making recommendations to Council on budget plans. It is essential that the Council's business and financial planning processes take account of national policy developments.

Considerations

1. BACKGROUND

- 1.1 The Chancellor Alistair Darling announced his 2007 Pre-Budget statement on the same day as the Comprehensive Spending Review 2007 (CSR07) and as such the two were published as one document.
- 1.2 As expected, the combined announcements represent the worst financial settlement for local government for a decade and a significant advance in the Government's agenda of devolution to a local level.

2. PRE-BUDGET 2007

- 2.1 The Chancellor's Pre-Budget highlighted the following national issues that impact on local government:

Further information on the subject of this report is available from
Sonia Rees, Director of Resources on 01432 383519

- UK economic growth in 2008/09 is forecast to be between 2% and 2.5% (down 1.5% on predictions), rising to between 2.5% and 3% in 2009/10 and 2010/11.
- Target inflation rates to be below 2% for the next two years.
- £1.3bn a year to improve local and regional transport.
- Direct funding for social care will increase to £1.4bn by 2010, helping to provide new care homes as well as helping people with disabilities to live independently.

2.2 The Chancellor's Pre-Budget highlighted the following issues for local government:

- Council Tax expected to be 'well under' 5% in each of the next three financial years.
- Growth in spending by Government departments to be restricted to an average of 1% in real terms in each of the next three financial years.
- Grants for local authorities to increase to £26bn by 2010.
- Additional Concessionary Fares funding cut from £212m to £200m for 2008/09.
- Cashable efficiency savings of £4.9bn by 2010/11.
- Ring fencing removed for over £5bn of grants by 2010.
- Green light for local authorities to introduce a Supplementary Business Rate of up to 2p in the £ for 'investment and economic development'.
- A reduction in Local Authority Business Growth Initiative (LABGI) funding from £1bn over the last three financial years to £150m over the next three financial years.
- Education funding to increase above previous estimates.

3. COMPREHENSIVE SPENDING REVIEW 2007

Background

3.1 The CSR07 sets out the Government's spending plans for the financial years 2008/09, 2009/10 and 2010/11. It sets fixed Departmental Expenditure Limits (DEL) for all Government departments including local government. Each Government department has a Public Service Agreement (PSA) that describes the improvement in services the public can expect from the resources indicated in their DEL.

Key Challenges

3.2 The four key challenges for local government identified in the CSR07 are as follows:

- **Adult social care** – rising demands due to long-term demographic changes.
- **Waste** – pressure to radically reduce household landfill to meet European Union commitments.
- **Communities** – increasing local councils' place-shaping role.

- **Services** – rising expectations for modernised and personalised services.

3.3 The recognition of adult social care and waste cost pressures is in line with lobbying by local government bodies.

Value for Money

3.4 Local authorities can expect:

- A real terms increase in local government DELs averaging 1% each year.
- 3% annual efficiency savings.
- 5% cap on annual Council Tax increases.
- £150m efficiency support over the CSR07 period.

3.5 The assumptions in the CSR07 link up with those in the Pre-Budget as expected.

Performance Framework

3.6 Announcements surrounding the performance framework for local government were as follows:

- A single set of local government priorities in PSAs.
- A set of 198 national performance indicators – still to be announced.
- A maximum of 35 national targets (plus 17 statutory ones for education) negotiated through Local Area Agreements (LAA).
- A third round of LAA reward grant will be announced in November to incentivise partnership working.
- A greater emphasis on asset management – existing guidance will be updated.

3.7 The streamlined performance framework for local government is to be welcomed.

Funding Streams

3.8 In line with the Government's commitment to reduce specific and ring-fenced grant, local government funding will be delivered through **Revenue Support Grant (RSG)** and **Area Based Grant (ABG)**.

3.9 RSG will subsume the following revenue grants for the future:

- Access and Systems Capacity.
- Delayed Discharges.
- Children's Services.
- Waste Performance.
- Dog Control.

- PFI Support.
- 3.10 The Government is planning to change the way RSG is distributed from next financial year. This adds turbulence to the system and a further layer of uncertainty in predicting Herefordshire's RSG. The provisional announcement on RSG is not expected until just before Christmas which makes budget planning all the more challenging.
- 3.11 ABG – formerly known as Local Area Agreement grant - will include various specific grants. The full list will be announced alongside the provisional settlement in December. The revenue grants it is expected to include are listed in Appendix 1.
- 3.12 Cabinet will notice the significant number of revenue grants that the ABG is likely to include. This approach represents significant opportunities for more efficient and effective service delivery through closer working with partners, particularly on the health and social care agenda with a number of Department of Health grants included in the pot.
- 3.13 However, the approach also poses some financial risks. Funding will go direct to the LAA and will be allocated back to the Council on the basis of LAA priorities. The risk is that the Council is budgeting in full for services that are only part funded by the ABG if LAA and Council priorities are not closely aligned. This is a particular concern for the Children & Young People's Directorate as some £1.6m of funding is already being managed via the LAA single pot arrangement.
- 3.14 Details of capital grants to be allocated through the ABG mechanism will be announced with the provisional revenue settlement in December.

Spending Plans

- 3.15 The Government's spending plans for **local government** provide for cash increases in resources of:
- 3.9% in 2008/09.
 - 3.7% in 2009/10.
 - 3.1% in 2010/11.
- 3.16 Resources for local authorities providing adult social care services will increase by £2.6bn over the CSR07 period, representing average annual real terms growth of 1%. Whilst it may be possible to assess from the Revenue Support Grant papers how much of this real terms growth has been hypothecated to adult social care services, the funding is general support for local authorities.
- 3.17 The Government's spending plans for **education** provide for cash increases in resources of:
- 5.5% in 2008/09.
 - 5.1% in 2009/10.
 - 7.1% in 2010/11.
- 3.18 The Government's DEL for **education** provides resources for:

- £250m of programmes yet to be announced.
 - 3,500 Sure Start centres by 2010.
 - 15 hours free early years education for 3 and 4 year olds.
 - £35m in total to improve access to childcare for families with disabled children.
 - £280m in total for short breaks for severely disabled children.
 - £400m by 2010/11 in one-to-one support for children under-achieving in English and Mathematics.
 - £217m by 2010/11 for two hours a week extended schools activities for pupils receiving Free School Meals (plus two weeks of free part-time provision during the holidays).
 - £200m investment in the Primary Schools capital programme.
- 3.19 In connection with social care services, there will be growth of £190m in Department of Health funding that will directly support new policy initiatives such as:
- Expansion of care for independent level.
 - Expansion of the Partnership for Older People's Project.
 - Phasing out of NHS residential accommodation for those with learning disabilities to be replaced by support to live at home.
- 3.20 The Government's spending plans for **adult social care** provide for cash increases in resources of:
- 2.4% in 2008/09.
 - 4.2% in 2009/10.
 - 7.3% in 2010/11.
- 3.21 The Government's spending plans include additional amounts for the extended Concessionary Fares scheme. From April 2008 the scheme will allow free off-peak travel anywhere in England for English residents aged 60 or over and eligible disabled people. This funding will be allocated by specific grant, and rises from £212m in 2008/09 to £223m in 2010/11.
- 3.22 There will be no **Local Authority Business Growth Incentive (LABGI)** scheme in 2008/09. The Government is planning to introduce a new scheme from 2009/10 and is currently seeking views from the Local Government Association and local authorities on how to redesign the current scheme. The Government's spending plans allow £50m in 2009/10 and £100m in 2010/11 for LABGI funding resulting from the planned new scheme.
- 3.23 The Government has issued a White Paper on the introduction of powers for local authorities to raise and retain local **Business Rate Supplements**. This power will

be subject to four levels of protection for businesses:

- The spending will only be available for a specified economic development purpose and subject to detailed statutory consultation.
- A maximum of 2p in the £ of rateable value.
- An exemption for properties with a rateable value less than £50,000.
- A requirement to ballot where the supplement represents more than one third of the total cost of the project.

4. CONCLUSIONS

- 4.1 The strategic assumptions on the national spending plans for local government contained in the Council's Medium-Term Financial Management Strategy remain sound following publication of the Chancellors' Pre-Budget statement and the Comprehensive Spending Review 2007.
- 4.2 The future is set to be every bit as challenging as predicted within the Medium-Term Financial Management Strategy with pressure for low levels of Council Tax increase and yet greater levels of efficiency.
- 4.3 The Government's Public Service Agreements set out the performance expectations for local government. It is important that national policy is considered in local planning, especially as Government resources is allocated in line with the priorities set out in the PSAs.
- 4.4 The next key announcement from Government will be the provisional Revenue Grant Settlement figures for 2008/09, 2009/10 and 2010/11 in December. Whilst greater clarity on the national picture is very helpful and helps planning at the strategic level, all local authorities will be eagerly awaiting their grant figures to aid detailed service and budget planning. It is impossible at this stage to predict what impact the changes to the RSG distribution system will have, and greater variation between provisional and final settlements is likely.

Alternative Options

There are no alternative options.

Financial Implications

The strategic financial implications of the Pre-Budget and CSR07 are set out in the report.

Risk Management

Early advice to Cabinet on the content of the Pre-Budget and CSR07 ensures that the Council's financial strategies and plans are developed in the context of the national policy agenda to maximise the allocation and use of resources for Herefordshire.

Consultees

Chief Executive
Head of Legal & Democratic Services

Leader
Cabinet Member (Resources)

Background Papers

Chancellor's Pre-Budget 2007
Comprehensive Spending Review 2007