



Neil Wilcox
Director of Funding and Research

neil.wilcox@lgfutures.co.uk
T. 07841 862 851

Questions and Answers Concerning Spending Review 2010

22 October 2010

Contents

1. Introduction	3
2. The Chancellor of the Exchequer stated “there will be overall savings in funding to councils of 7.1% a year for four years.” Where have these figures come from?	3
3. Why have the trade press and other local government groupings arrived at different percentage reductions in formula grant?	4
4. Why does the LG Futures’ briefing show even greater percentage reductions in formula grant?	4
5. So which percentage reductions should I be using for our authorities own budget planning?	5
6. Will the funding reductions be made in RSG and/or NNDR?.....	6
7. What comprises the £0.5bn “o/w other” in the LG Resource DEL in Table 2.8 of the Spending Review Report.....	7
8. Is there any good news?.....	8

1. Introduction

- 1.1. The Chancellor of the Exchequer published the Coalition Government's Spending Review 2010 (SR 2010) on 20 October 2010. The SR 2010 sets out the Coalition Government's public expenditure plans for the next four years (2011/12 to 2014/15).
- 1.2. Following our initial briefing, subscribers to the LG Futures briefing service have asked us a number of questions. We thought it would be useful to consolidate our responses to the most common questions in a separate document for information.

2. The Chancellor of the Exchequer stated "there will be overall savings in funding to councils of 7.1% a year for four years." Where have these figures come from?

- 2.1 Table 2.8 (page 51 of the Spending Review report) is reproduced below:

	£billion				
	2010/11	2011/12	2012/13	2013/14	2014/15
Resource DEL	28.5	26.1	24.4	24.2	22.9
Of which (o/w) funding for formula grant	28.0	25.0	23.4	23.2	21.9
o/w council tax freeze	0.0	0.7	0.7	0.7	0.7
o/w other	0.5	0.5	0.4	0.4	0.4

- 2.2 The Chancellor of the Exchequer has highlighted the real terms reduction in formula grant between 2010/11 and 2014/15. Therefore, in order to arrive at the overall 7.1% per annum (28% in total) reductions, we need to:

1) Inflate the 2010/11 funding for formula grant over the next four years using the Government's inflation projections¹ as follows:

2011/12	2012/13	2013/14	2014/15
2.40%	1.90%	2.00%	2.00%

¹ These figures represent the Office for Budget Responsibility's CPI inflation projections at the time of the Emergency Budget 2010. The OBR will be publishing new forecasts on 25 November 2010.

2) Apply the funding for formula grant figures, in Table 2.8, and compare the figures:

	2010/11	2011/12	2012/13	2013/14	2014/15
Real Terms Increase = Expected	28.0	28.7	29.2	29.8	30.4
Actual FG	28.0	25.0	23.4	23.2	21.9
Real Terms Reductions		-12.8%	-19.9%	-22.2%	-28.0%

2.3 It can be seen that the real terms reduction in formula grant by 2014/15 is 28.0%. Therefore, a simple average decrease over each of the four years is approximately 7.1%.

3. Why have the trade press and other local government groupings arrived at different percentage reductions in formula grant?

3.1 The most commonly quoted figures, from independent sources, highlight the percentage reduction in formula grant in cash terms (i.e. excluding the impact of inflation). Taking the actual figures from Table 2.8 in the Spending Review report results in the following cash reductions:

	2010/11	2011/12	2012/13	2013/14	2014/15
Total Formula Grant	28.0	25.0	23.4	23.2	21.9
Cash Reductions		-10.7%	-6.4%	-0.9%	-5.6%

4. Why does the LG Futures' briefing show even greater percentage reductions in formula grant?

4.1 We believe the formula grant figures highlighted in Table 2.8 of the Spending Review report include:

- £3.4bn of specific grants that will be rolled into formula grant in 2010/11 – with subsequent cash increases each year²; and
- Formula grant funding for Police and Fire authorities.

² Eric Pickles letter to Leaders of local authorities in England (dated 20 October) highlighted the following profile of specific grants rolling into formula grant over the spending review period:

	2010/11	2011/12	2012/13	2013/14	2014/15
TOTAL (£m)	3,440.99	3,930.87	4,300.36	4,469.16	4,483.18

4.2 We believe that the above inclusions effectively mask the actual reductions in formula grant that local authorities will be asked to bear over the Spending Review period. Therefore, in our briefing, we undertook analysis to try and remove this masking, which reached the following conclusions:

	Baseline				
	2010/11	2011/12	2012/13	2013/14	2014/15
	£million	£million	£million	£million	£million
Formula Grant	28,063	25,056	23,453	23,252	21,949
O/W Roll in of Specific Grants	3,441	3,931	4,300	4,469	4,483
Total Police Authorities	3,491	3,391	3,292	3,192	3,092
Total Fire Authorities	1,057	1,014	972	887	792
Local authority funding	20,074	16,720	14,889	14,704	13,582
Year on year change		-16.7%	-11.0%	-1.2%	-7.6%
Overall change		-16.7%	-25.8%	-26.8%	-32.3%
Profile of FG reduction					
Police		-2.9%	-2.9%	-3.0%	-3.1%
Fire		-4.0%	-4.2%	-8.7%	-10.7%

4.3 It should be explicitly noted that our figures are based on the limited information available (particularly concerning the profile of reductions for the Police and Fire authorities) and should therefore be treated with caution.

4.4 We conclude that the 'masking' effectively hides a 16.7% (cash) reduction in local authority funding in 2011/12 (excluding the specific grant transfer) and an overall cash reduction of 32.3% by 2014/15.

4.5 So what does this mean for local authorities?

- Had the specific grant funding not been introduced into the local government funding settlement, there would have been even greater reductions in funding. In effect, the specific grant funding has been used to cushion the blow.
- Nevertheless, local authorities will still need to continue providing many of the services that were previously funded via specific grant (e.g. Supporting People, Concessionary Travel etc.), as well as potentially taking on new future burdens concerning personal social care. If a proportion of the Specific Grants are used to cushion the funding reduction, they will not be available for direct service delivery.

5. So which percentage reductions should I be using for our authorities own budget planning?

5.1 This level of detail is not available at individual local authority level - in all of the above forecasts (the Chancellor's; other; and ours), the percentage reductions are based on the

local government ‘average’; and, clearly, individual local authorities will differ from this average level of funding. Whenever there are changes to the local government funding settlement, there are ultimately winners and losers. What has been made clear in the Spending Review 2010 is that, over the next four years, even the ‘winners’ are going to experience reductions in formula grant.

5.3 We think perhaps the best advice we have seen is that provided by the LGA, as follows:

“The profiled reductions in formula grant are:

- *in 2011-12, a reduction of 10.7%*
- *in 2012-13, a reduction of 6.4%*
- *in 2013-14, a reduction of 0.9%*
- *in 2014-15, a reduction of 5.6%*

As a very rough guide, if you are on the grant floor and likely to stay there, then the reductions could be worse than the above, and if you are above the floor things could be a bit better.”

5.4 We also think that local authorities will need to reflect a reduction in their current specific grant income (see Section 4 above); one possible specific grant reduction profile might be the difference between our “raw” funding decreases and the cash decreases set out in the Spending Review report. Local authorities obviously must decide on their own approach:

	2011/12	2012/13	2013/14	2014/15
SR Cash Reduction	-10.71%	-6.40%	-0.85%	-5.60%
LG Futures	-16.71%	-10.95%	-1.24%	-7.63%
	<u>-6.00%</u>	<u>-4.55%</u>	<u>-0.39%</u>	<u>-2.03%</u>

6. Will the funding reductions be made in RSG and/or NNDR?

6.1 As most officers will be aware Formula Grant = RSG + NNDR.

6.2 From a purely presentational point of view, we think the Spending Review cuts will be made to overall formula grant.

6.3 From a detailed point of view:

- Local authority colleagues have drawn to our attention their understanding that current

legislation means Government must pass all NNDR receipts on to local government³. If so, any required formula grant funding reductions would need to be made to the RSG element alone.

- We are also aware that, if the cuts have to be made in RSG, there wasn't initially sufficient funding in the system to make them:

At the local government finance settlement 2010/11, formula grant (excluding Police Grant) comprised of:

	£m	
Redistributed Business Rates	21,500	87%
Revenue Support Grant	<u>3,122</u>	13%
Formula Grant	24,622	

Whereas, Table 2.8 of the Spending Review report highlights that a cash reduction of £6.1bn in formula grant will be required by 2014/15.

- However, at Spending Review 2010 the Government announced that £3.4bn of specific grants would be rolled into formula grant, which effectively increases the RSG; which can then be cut. If our interpretation is correct, it might be concluded that the unfencing of the £3.4bn specific grants allows Government sufficient grant in the local government finance system to make their required cuts.
- If RSG is significantly cut, the amount of NNDR available will be spread more thinly amongst all local authorities thereby overall formula grant will be reduced.

7. What comprises the £0.5bn “o/w other” in the LG Resource DEL in Table 2.8 of the Spending Review Report

7.1 We understand that this amount covers:

- Improvement, Transformation & Efficiency
- Inspection Grant to Audit Commission (CAA)
- Valuation Office Rating Services Repayment
- VOA Revaluation Costs
- National Non Domestic Rates - Collection Costs
- Emergency Financial Assistance to LAs (Bellwin)
- Local Government Research

³ We are currently attempting to interpret the Local Government Finance Act 1988 and Local Government Finance Act 1992 to confirm this.

- Local Government Publicity
- Mayors
- Boundary Reviews: Mapping costs
- Valuation Tribunal Service
- Commission for Local Administration
- Local Government Standards Board - running costs
- Local Government Standards Board - wind up costs
- PFI Special Grant remaining on LG DEL

8. Is there any good news?

- 8.1 The additional funding (£0.7bn nationally) to support the Government's requested council tax freeze in 2011/12 is new money and will be provided as an unfenced specific grant, which can be used for any general funding purpose by each individual local authority.
- 8.2 From our conversations with local authorities, very few are planning a council tax increase in 2011/12 – therefore, this additional funding could potentially be a 'windfall', which could be used to offset some of the required formula grant reductions.

LG Futures
October 2010