

Cabinet

Tuesday 2 November 2010

10.00 am

Ground Floor Meeting Room, GO2(C), 160 Tooley Street, London SE1
2TZ

Supplemental Agenda No.1

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Agenda Item 5

Item No. 5.	Classification: Open	Date: 2 November 2010	Meeting Name: Cabinet
Report title:		Policy and Resourcing Strategy 2011/12 – 2013/14: Spending Review 2010	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance & Resources	

FOREWORD - COUNCILLOR RICHARD LIVINGSTONE, FINANCE AND RESOURCES

1. The Chancellor of the Exchequer set out the government's Spending Review for 2011-2015 on 20 October. A number of announcements made in his statement will have a significant impact on the finances of Southwark Council.
2. This report sets out those impacts, as far as we can interpret them at this time. Clearly, the main implication is a massive reduction in the funding we receive from central government and the resulting requirement to make some significant changes in the services that we deliver. However, we will need to see the grant letter from the Secretary of State for Communities and Local Government, expected in late November, before we can fully quantify those impacts.
3. Two factors of particular concern to Southwark are firstly how government treats the funding floor and secondly the implications of transferring grants into the overall formula grant. Given that Southwark's formula grant was below the floor for 2009/10 and the relatively high level of specific and ringfenced grants received from central government, there is a significant risk that Southwark could be more adversely affected by the Spending Review than the average authority.
4. The recommendations below ask that we consider the impact of the Spending Review and that we ask the Finance Director to provide further work on the details of the implications. This is vital if we are to agree a well thought out budget for the forthcoming year.
5. I would therefore ask that Cabinet members, after appropriate consideration, agree the recommendations set out below.

RECOMMENDATIONS

6. That Cabinet note the headline content of the Spending Review (SR) 2010 for local government.
7. That Cabinet note the ongoing work to assess the implications of the SR specifically for Southwark.
8. That the budget principles agreed by Cabinet in September continue to guide and underpin the work of officers in arriving at a balanced budget in February 2011.
9. That officers continue to work on budget options, particularly in line with the earlier

instruction from Cabinet in July following the national emergency budget.

10. That Cabinet instruct Strategic Directors to incorporate into budget options any specific implications from the SR as such details emerge from government.
11. That Cabinet instruct the Finance Director to present a further report later in the autumn following the publication of the provisional local government settlement by the Department for Communities and Local Government (DCLG).
12. That Cabinet instruct officers to provide further information to voluntary sector providers and other stakeholder groups on the outcomes of the SR, especially in respect of grants.

BACKGROUND INFORMATION

13. In June 2010, the new coalition government announced an emergency budget setting out a significant reduction in the level of public spending for the four years from 2011/12 to 2014/15.
14. Arising from this emergency budget, the cabinet requested at their meeting on 20 July that the Finance Director ask Strategic Directors to identify savings of 25% over the three years from 2011/12 to 2013/14. This work continues and future reports will be submitted to Cabinet as budgets are prepared in accordance with the Policy and Resourcing Strategy and the Council's Forward Plan.
15. On 21 September the cabinet agreed a number of principles for budget setting. These principles continue to guide the work of officers in preparing budget options.
16. On 20 October the Chancellor presented the SR 2010 to Parliament for the four year period to 2014/15. The SR has provided more information on how cost reduction targets will be distributed between each Government department. It has also provided statements on how government funding streams to local government will be changed and indicated a number of specific areas that will be targeted. However the specific resource details for Southwark Council will not be clear until at least receipt of the provisional grant settlement. This is expected later in the autumn.
17. The major funding sources for Southwark affected by the SR are set out in paragraphs 18 to 32.

Formula Grant

18. The main government grant given to the council is the Formula Grant. The Formula Grant makes up some 72% of the Council's net General Fund revenue budget. For 2010/11 this equates to £230.7m. The grant is arrived at through the application of formulas, known as the 'four block model'. If the formulae were strictly applied in 2010/11 Southwark would have received some £21m less than the final settlement. This position is set out in DCLG's published working papers attached to the final settlement for 2010/11. However, Southwark receives more than that determined by the formulae due to the application of a "minimum funding guarantee" that ensures no council receives less than a nationally determined minimum. For 2010/11, this was a 1.5% increase on the previous year's grant. A further 25 London councils are in the same position as Southwark in receiving the minimum funding guarantee. These councils are commonly referred to as 'floor authorities'.

19. Over the last spending review period (2008/09-2010/11) Southwark always received the minimum funding guarantee. This equated to increases in grant of 2.00%, 1.75% and 1.50% from 2008/09 to 2010/11 respectively. Inflation over this period was on average above these percentage increases in grant. Table 1 compares grant increases with CPI and RPIX inflation rates over the period 2008/11.

Table 1. Comparison of percentage grant increases against inflation for 2008/11.

	2008/09 (%)	2009/10 (%)	2010/11 (%)
Grant increase	2.00	1.75	1.50
CPI annual increase	3.80	2.30	3.30*
RPIX annual increase	4.00	2.50	4.90*

* = denotes average for the first six months of 2010/11.

Dedicated Schools Grant (DSG)

20. All councils receive a specific grant directly for schools expenditure. This is called the Dedicated Schools Grant, or DSG. In 2010/11, Southwark received £176.7m of which £151m is allocated to schools formula budgets; the remainder is held centrally to provide pupil related services. DSG funding excludes any grant to support local academies. Academies receive their funding directly from government although the council is still required to support local academies through its community leadership role, in particular with regards special educational needs and pupil referrals.

Area Based Grant (ABG) and other specific grants

21. Area Based Grant (ABG) is a consolidation of a number of previously ring-fenced and specific grants, such as Working Neighbourhoods Fund (WNF) and Supporting People (SP). ABG is 'unringfenced'. This means the council is not technically restricted as to how the ABG is allocated locally. However, the 'unringfenced' grants within ABG have generally been linked to activities that support the delivery of a number of government targets. As a consequence, to date the council have passported (i.e. handing directly to services) the grants in full to reflect the anticipated amount expected for these activities.
22. SP grant is used to support social housing tenants and encourage independence so that vulnerable people can be helped to live at home. Up to 2009/10, SP grant was treated as a 'ring-fenced' grant. This means the grant is restricted to specific activities determined by government. In 2009/10 SP was 'unringfenced' and administered as separate grant by central government. In 2010/11 SP became part of the ABG allocation, but remained used to directly to support vulnerable people.
23. The original allocation for ABG in 2010/11 for Southwark at the beginning of the financial year 2010/11 was £44m. WNF represented £7.4m and SP £18m. However, after in-year reductions following the national emergency budget in June the overall allocation of ABG for Southwark was reduced to £41m. This included £2.1m reduction from Children's Services, a £0.7m reduction in WNF and a £0.3m reduction in SP administration grant.
24. The council also receive a number of other specific grants to support local service delivery. These include those allocated to local government by government departments

other than the Department of Communities and Local Government (e.g. Home Office; Department of Health; Department for Education etc.). The majority of these grants are within adult social care (e.g. mental health, carers grants) and children's services (e.g. Sure Start) although there are other grants such as those supporting community safety activities and the environment.

Housing Benefits

25. The council provides housing benefits to support those who are not able to pay full market or council rent. The total amount of cash spent by the council on housing benefits is then matched by central government grant. In 2010/11 this will amount to some £97m. The government have also provided additional grant to cover the administration associated with distribution of benefits payments. However, in the last two years this administration grant has been reduced from £4.9m to £4.3m.

Council Tax Benefits

26. The council pay out council tax benefits on behalf of the Department for Work and Pensions. All councils receive a grant from government to broadly match the payments made to people on council tax benefits. The council is expected to pay out £28.8m in council tax benefits in 2010/11. Like with housing benefits, the council receive additional grant from government to cover the cost of administration which, as stated in paragraph 20, has fallen over the last two years.

Social care

27. The council currently receives a number of specific and 'unringfenced' grants (including 'passported' ABG) directly to support social care services.

Housing Revenue Account (HRA)

28. As a landlord of social housing the council has an annual Housing Revenue Account (HRA) which funds the management and maintenance of council homes. The HRA is made up of a number of income sources, including rents from tenants and a grant from government known as HRA subsidy. The subsidy is the level of grant that the council receives to compensate for factors of deprivation and locality in relation to housing provision. In 2010/11 Southwark received a total subsidy of £32.7m. The value of the HRA is £265m.

Council Tax

29. The amount raised from council tax makes up around 28% of the council's overall general revenue fund budget. In 2010/11 Southwark set a zero increase in council tax. Southwark's council tax for 2009/10 (including GLA) was 13.6% below the national average, 6.6% below the London average (including GLA) and 8.7% below the London average (excluding GLA). Including 2010/11, Southwark's council tax has increased by 8% over the last five years. This level of council tax is in line with the medium term resources strategy (MTRS), which is 'to maintain council tax increases within inflation levels over a medium term planning horizon'. Table 2 below compares Southwark's council tax increase with average inflation (both CPI and RPIX) for the period of the last spending review 2008/11.

Table 2. Southwark's council tax increase compared to average inflation (both CPI and RPIX) for the period of the last spending review 2008/11.

	2008/09 (%)	2009/10 (%)	2010/11 (%)
Southwark only council tax increase	4.00	0.00	0.00
CPI annual increase	3.80	2.30	3.30*
RPIX annual increase	4.00	2.50	4.90*

* = denotes average for the first six months of 2010/11.

Business Rates

30. Business rates, known as national non-domestic rates (NNDR), are collected locally and redistributed on a national scale through the formula grant. Southwark is a net receiver of NNDR, which means it gains more through the redistribution than what is collected locally. For Southwark in 2010/11 this equated to some £201m (or 87% of the formula grant).
31. From 2010/11 local authorities were given the ability to charge supplementary business rates (SBRs) as an additional local income stream. However, in London the SBR was used to directly fund the Crossrail initiative, therefore no London authority was given the opportunity to use SBR for local purposes.

Capital

32. The council currently manages a ten year capital programme for both housing and other investments. The value of the programme is £886m. The programme is funded through a number of sources including capital receipts and capital grants. Those which are affected directly by the SR are the council's borrowing approvals and government grants. A significant portion of the capital programme supports primary school redevelopment and the Southwark Schools for the Future programme, which are both affected by changes in grant from government. There are also schemes which are funded, or are likely to be funded, through the Private Finance Initiative (PFI) with credits provided by central government.
33. This report now sets out the headline content of the SR for local government. The report specifically draws on issues relating to the major funding sources set out in paragraphs 18 to 32 above.

SR 2010 FOR LOCAL GOVERNMENT

Overall and formula grant

34. There have been a number of statements made regards the level of funding reduction for local government over the next four years. The Chancellor announced in his speech on 20th October that funding to local government will be reduced by 7.1% each year for the next four years. On the same day 'SR 2010' (published by HM Treasury) stated that 'overall resource savings in Local Government 'departmental expenditure limits' (DEL) to councils of 28 per cent over the four years'. Also on the 20th October, the Secretary of State for Communities and Local Government (CLG) wrote to all councils explaining that 'councils will face an average loss of grant of 7.25%, in real terms, in each of the next four

years'. There is still some uncertainty as to the specific headline numbers and officers continue to await clarification from government.

35. Based on information published by HM Treasury, overall, local government DEL will reduce from £28.5bn in 2010/11 to £22.9bn in 2014/15. There is a higher level of reduction in DEL in 2011/12, compared to later years. The grants to local government that are effectively allocated by other government departments (e.g. Home Office; Department of Health; Department for Education etc.) will also be subject to reduction over the review period.
36. In his statement the Chancellor has described for the need for "a dramatic shift in the balance of power from the central to the local". This includes lifting the ring-fencing of "all local government revenue grants from 2011/12", with the exception of local health and schools grants.
37. The number of specific grants to local government will be reduced from around 90 to less than ten. Around £4.5bn of general and specific grants will be moved to formula grant by 2014/15. Of the remaining ring-fenced grants, the Dedicated Schools Grant (DSG) will be simplified and a new public health grant will be created. The government will retain the Disabled Facilities grant and Supporting People grant. The working neighbourhoods fund is to end. The details of these headline changes are set out in a letter from the Secretary of State for CLG (Appendix 1) although how these changes will be made and administered has not yet been published by the government. Furthermore, there have been no statements or publications made on the data underpinning local government grants for 2011/12 and beyond.
38. It is important that the government make clear how these previously specific grants are moved into formula grant for resource planning processes, particularly because Southwark is a 'floor authority'.
39. Should the 'floor' be reduced from its current level then the council will receive a real terms reduction in both formula grant and the previously specific grants that are to be moved into formula grant from 2011/12 onwards. Further, if the floor is reduced and the formula grant increase moves into a negative growth position this would result in an absolute cut overall. In effect the floor provides a level of protection within the grant formula distribution. Should the floor be removed completely this would represent a severe reduction for Southwark, on top of the reductions in grant already announced for the period to 2014/15. The chancellor made no statement on the continuation of the floor or otherwise.
40. The government began a consultation on changes to the formula grant distribution on 28 July 2010. This consultation ended on 6 October 2010. This consultation raised two key areas of significance:
 - changing 'the labour cost adjustment' in the Area Cost Adjustment which would, before applying the "minimum funding guarantee", move over £100m of grants out of London, with a £6.5m reduction (again before the "minimum funding guarantee" is applied) for Southwark
 - transfer of concessionary fares in two tier areas from district to county level authorities

The results of the consultation are expected later in the autumn.

Schools and national DSG

41. The government want to 'simplify' the schools grant system, including DSG, but the details are yet to be published. A number of grants that do not currently form part of DSG will be included in the overall DSG grant from 2011/12. Any grant that is moved into the overall DSG spending envelope is subject to the risks associated with changes to criteria in determining how the grant is allocated.
42. Nationally the SR identified a small increase in schools funding over four years from £35bn to £39bn. It is not yet known if this rise will be uniformly applied across all local authorities. Underlying per pupil funding will be maintained in cash terms therefore this does not allow for inflation which in effect is a real terms reduction, based on current inflation rates. Schools funding increases in real terms by 0.1%. It cannot yet be ascertained if, and how, the national increase in schools funding translates to Southwark as local allocations have not yet been published by the government. Southwark is currently experiencing a rise in pupil numbers with resultant cost pressures and it will be important to determine the extent to which the DSG allocation for Southwark accounts for such pressures.
43. The government announced £2.5bn to support the pupil premium but initial analysis of HM Treasury data shows this is not additional grant outside of the DSG. This will therefore mean a redistribution of resources within the DSG spending envelope. The impact on Southwark schools will depend on the allocation method used by the Department for Education (DfE), which is not yet known.
44. The SR 2010 document (HM Treasury) refers to £1.1billion of school budget efficiencies nationally over the four year spending period to 2014/15 but there is no description as to how such efficiencies will be achieved or locally allocated. Funding for the Schools Sports partnerships end from 2011/12. Nationally there will be a reduction in per pupil funding for 16-19 year olds. Locally, the numbers of 16 – 19 year old pupils are increasing.
45. Personal budgets will be introduced for children with Special Educational Needs (SEN), although specific details on local determinations have not yet been published.
46. The government have announced the extension of 15 hours a week of early years education and care to all disadvantaged two year olds from 2012/13 and maintained the universal entitlement of 15 hours to all three and four year olds. The associated resources that will fund this, which grant this will come from, and how this will then be determined locally have not yet been published by the government.

Area Based Grant (ABG) and other specific grants

47. ABG will be removed from 2011/12. WNF funding ends in 2011/12. SP is retained, but moved into the overall formula grant, with a national programme of £6bn over the four years to 2014/15, in line with current allocations. The remaining ABG grants will either be merged into one of the core grants for local government from 2011/12 (see Appendix 1) or moved into the formula grant. The government have not yet published detailed information on this at a local level. Any grant that is moved into formula grant is subject to the risks associated with reductions in the total level of the grant, changes to criteria in determining the formula of the grant and whether a minimum funding guarantee is maintained and at what level. In 2010/11 for Southwark these remaining ABG grants equate to some £17m, the majority of which funds children's and adult social care functions.

48. As stated in paragraph 34, the number of specific grants to local government will be reduced from around 90 to less than ten. A majority of these grants are within adult social care and children's services. Precise details on how the grants will be absorbed into formula grant or one of the other core grants to local government has not yet been published by the government.
49. One grant affected by the changes will be Sure Start. Sure Start supports a range of early years and children's services to improve life outcomes for the young. For Southwark the total amount of Sure Start in 2010/11 is around £16m. Nationally, Sure Start services will be maintained in cash terms but this does not allow for inflation which in effect is a real terms reduction (based on current inflation rates). The way in which Sure Start cash is translated into local determinations has not yet been published.
50. It is understood by officers that, based on government working group papers, at a national level Sure Start grant will be rolled into overall formula grant. There are no published details as to how this will be administered. However, once moved into formula grant the previous Sure Start grant will also become subject to the risks associated with reductions in the total level of the grant, changes to criteria in determining the formula of the grant and whether a minimum funding guarantee is maintained and at what level.

Housing Benefits

51. For those in receipt of housing benefits the government announced a number of changes as part of a £7bn package of further welfare savings to those announced in the June emergency budget. Specifically, from 2013 household benefit payment will be capped at around £500 per week for couples and lone parent households and £350 per week for single people.

Council tax benefits (CTB)

52. The SR introduced more power to councils to control CTB. In his statement on 20 October the Chancellor said that the government "will give local authorities greater flexibility to manage council tax together with direct control over Council Tax benefit, within an overall budget that will be reduced by 10% from April 2013". This means it is proposed to localise CTB from 2013/14, although the precise details on how this will be delivered have not yet been specified by the government. The council will need to pay close attention to any changes made to CTB by the government as this will have a significant impact on local resource planning.

Social care

53. Nationally, an additional £1bn a year for social care through the NHS was announced by the government, as part of an overall £2 billion a year of additional funding to support children's and adult social care by 2014/15. This additional billion for personal social services grant will be rolled into formula grant from 2011/12. The details on how the grant is rolled into formula grant and the impact on the local determination of such grant is not yet published. However, by rolling into formula grant it becomes subject to the risks associated with reductions in the total level of the grant, changes to criteria in determining the formula of the grant and whether a minimum funding guarantee is maintained and at what level.

54. By rolling the personal social services and ABG grants into formula grant (or one of the core grants for local government), the uncertainty attached to the future of specific grants that currently fund activity within children's and adult social care is increased. The details on local determination have not yet been published. The uncertainty adds to the challenge of managing ongoing cost pressures within both children and adult social care over the medium term.
55. There are three new, or re-configured, grants for social care. These are Early Intervention Grant, Learning Disabilities Grant and from 2013/14 a Public Health Grant. Details of these grants including which existing grants if any they replace have not yet been published in detail by the government.

HRA Subsidy

56. On 20 October the Chancellor stated that the government intend to reform the social housing system. On the same day the 'SR 2010' (published by HM Treasury) stated that the government intend on 'reforming the council housing finance system so local authorities have greater control over their own finances, and can reinvest to meet local housing need'. Further on the same day a letter from the Secretary of State for CLG to all councils stated that the settlement 'radically reforms the Housing Revenue Account'. The details of such a reform had not been published at the time of writing this report.
57. The Government have announced that an initial debt adjustment will be applied for each council. Therefore financial year 2011/12 would be the last year for HRA revenue subsidy on the current basis. In the short term this introduces potential disadvantages for resource planning, especially in relation to the transfer of debt. However the council will need to analyse further details of these changes when they become available.
58. Right-to-Buy (RTB) receipts, which previously had been promised to be retained in full for local authorities under self-financing rules, will now be remitted to central government. The SR does not make clear if this refers to the existing 75% of receipts or 100%. As RTB receipts are running at low levels (26 in 2009/10 at £2.5m; 13 so far this year), this will not be too onerous for Southwark, however the principle is an important one, and undermines the basis of self-financing. Once again further details are awaited for clarification on whether the Government is seeking to capture all or part of any other housing capital receipts, such as those generated by auction sales of surplus property.
59. Rent levels for existing social housing tenants are not proposed to change in headline terms. However, the financing of affordable house construction is switched from being financed by CLG to additional rent receipts for new tenancies, which are to be set at 80% of market rents. If London as a whole is employed as the comparator, this implies a very substantial increase in rents for new tenants, potentially to double or triple the rent charged to existing ones. For reference, Inner South East London Local Housing Allowance rates (as used for private sector HB purposes) for October 2010 and average LBS rents for 2010/11 are listed in the table below:

Bedrooms	LHA	80% LHA	LBS Average	Increase
0*	£90.00	£72.00	£65.24	10.4%
1	£185.00	£148.00	£73.06	102.6%

2	£241.64	£193.31	£79.55	143.0%
3	£402.74	£322.19	£86.61	272.0%
4+	£520.00	£416.00	£95.76	334.4%

**LHA is not specified for studio properties – this rate is for a shared 1-bedroom*

However it is unclear whether these new 'market' rates will apply only to housing associations or to local authority providers of social housing as well.

60. The SR did not place a figure on the continuing support for the Decent Homes programme, however since publication the Housing Minister has indicated that this will be £2bn; which is a reduction on the previous Government's assessment of a total of £3.2bn being required.
61. The SR indicates that there would be a national self-financing surplus of £25m per annum accruing to HM Treasury. This is slightly more than previous estimates, and means that the total HRA debt position after settlement will have increased accordingly. It is not yet possible to quantify the likely effect (if any) on Southwark.

Council Tax

62. A letter from DCLG on 21 October set out details on the proposed funding of a voluntary council tax freeze. If Southwark freezes council tax in 2011/12, it will be eligible to receive a grant equivalent to a 2.5% increase in its 2010-11 basic amount of council tax *multiplied* by the authority's tax base for 2011-12 (rounded to the nearest pound).
63. Funding will only be provided to support a council tax freeze in 2011-12. However, the Government intends to provide supplementary funding to local authorities in subsequent years of the SR via specific section 31 grants to compensate those councils for the council tax income foregone during the period of the freeze.
64. In Southwark the difference between a 2.5% increase in council tax and a council tax freeze is equivalent to £2.3m based on the current tax base.

Business Rates and Tax Increment Finance powers

65. The government have confirmed in the letter from the Secretary of State for CLG on 20 October that councils will be able to borrow against future growth in Business Rates to fund infrastructure projects. This is referred to as Tax Increment Finance powers.
66. On 29 October (the same day this report went to print) the government published a White Paper: "*Local growth: realising every place's potential*". The paper confirms the government's intention to consider the scope to allow councils to retain locally raised business rates. This will be taken forward through the Local Government Resource Review which will start in January 2011. The paper also confirms the government's intention to introduce new powers to enable authorities to carry out Tax Increment Financing. Officers will analyse the details contained within the White Paper in the coming weeks, including investigate what, if any, further legislative requirements may be required and the potential timescales attached to this.

67. In considering any new borrowing powers the council will need to balance incentives against cost, particularly in light of the level of borrowing the council has already undertaken. The council will need to consider appropriate affordability tests attached to borrowing requirements. The council has a consolidated interest rate of approximately 7%. The financing costs of any new borrowing on average would cost the council on average 11% per annum over a normal 25 year period.

Capital

68. Capital funding from all government departments will fall by around 45% over the spending review period.
69. Flexibility of prudential borrowing is to be maintained. However interest rates on the public works loan board have been increased to 1% above UK government gilts.
70. £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.

OTHER CONSIDERATIONS

Inflation

71. In calculating funding to the public sector over the SR period the government have made a general assessment of the impact of inflation. The specific details of this assessment are not set out.
72. Current inflation rates are above those expected in a number of economic forecasts and represent a real threat to the value of grants moving forward. September inflation figures produced by the ONS showed RPI and RPIX at 4.6%, 0.1% down from August. CPI remained at 3.1% with no change from August. Most inflation indicators are showing a smooth, if not rapid reduction from the April peak of 5.3% RPI, 5.4% RPIX and 3.4% CPI.
73. CPI, used for the Bank of England's target, remains well above the 2% target and it brings to an end a three-month period during which the rate had been falling. The Governor of the Bank of England is required to write to the Chancellor of the Exchequer when CPI is above the target. This letter includes explanations as to why inflation has moved away from the target, and when the target is expected to be met. The Governor of the Bank of England's latest letter to the Chancellor of the Exchequer anticipates that CPI will remain above the 2% level until the end of 2011, longer than was anticipated in May when it was expected that 2% would be reached within a year.
74. Much of the current high level of inflation is attributed to the increase in VAT in January 2010, past rises in oil prices and the continued pass-through of higher import prices following the depreciation of sterling since mid-2007.

Human Resources and Pensions

75. The SR announced an increase in the state retirement age to 66 by 2020. The interim findings of the review of public sector pensions (the Hutton Review), highlighted that public sector workers could contribute more in order to offset the rising cost, and longevity, of provision. The main factor identified in the increasing costs was that people

are living longer in retirement. The review also described the continued payment of final salary-linked pensions across the public sphere as 'fundamentally unfair' on lower paid staff.

76. The government will await the final report of the Hutton Review, which is anticipated in 2011 before making any decision on whether to implement the report's recommendations. However contributions from public sector workers are likely to increase and this increase will be both staggered over time and progressive, with higher contributions from better paid workers. Other options under consideration are likely to include a switch to career average-linked pension payments and an increase in the normal retirement age for public staff to that of the state pension age.
77. The Council is awaiting the results of the Triennial Review of the pension fund. At present the council is modelling an increase of 3.5% in contributions to bring the employer contribution level to 21.5%. This is an anticipated cost of £2m per annum from 2011/12.

Targets

78. The SR confirmed the abolition of reporting to government of Local Area Agreement (LAA) targets along with the National Indicator set for local government. The government will review data requirements for local government and publish a core list of such requirements in April 2011. In preparing budget options Strategic Directors are working on the implications and potential savings opportunities arising from the abolition of some reporting requirements to central government.

Future Timetable

79. The impact of the SR in terms of specific resources for Southwark will not be clear until receipt of the provisional settlement. It is anticipated that the provisional settlement will be announced later in the autumn. The fuller impact may only be clear upon receipt of the final settlement which is expected to be announced in January 2011.
80. Upon receipt of the provisional settlement a report will be prepared for Cabinet's consideration on the detail of that settlement alongside an update to the MTRS. When drawing up proposals as part of the final budget report careful and detailed consideration is to be given to the effect on communities, including equalities impacts. It is anticipated that final report to Cabinet on the budget for 2011/12 to 2013/14 will be presented in late January / early February 2011. Cabinet will present the final budget options, alongside recommendations for council tax setting, on 22 February 2011.

Community impact statement

81. This report identifies key financial issues arising from the SR. It concentrates on information published by the government and therefore is focused on the overall national financial position. However the financial information ultimately relates to a service or activity that the council provides and/or supports.
82. The SR has set out national issues that will impact on all communities across Southwark although the specific local impact will only start to be understood in detail following the publication of the local government settlement. In itself, therefore, this report is judged to have no impact on local people and communities. However the actions that will be required by the council as a result of the SR are likely to have an impact on local people

and communities in terms of service provision and programme delivery. This will be considered when decisions around those services and programmes are proposed.

83. In the report to Cabinet on 21 September, the budget setting principles stated that “we will conduct an equalities impact assessment for our budget proposals”. When considering the impact of equalities on services and policies it will also be important to consider the recent guidance circulated by the Director of Communities, Law and Governance on making decisions on in year grant funding.

Resource implications

84. This report in itself has no resource implications. The report outlines where change in resources is likely to be experienced at a national level.

Legal implications

85. Legal implications are included in the comments of the Strategic Director of Communities, Law & Governance below.

Financial implications

86. The financial implications of this report are fully expanded in the body of the report.

Consultation

87. The purpose of this report is to describe the highlights from the Spending Review 2010 as set out by the Chancellor of the Exchequer on 20 October 2010. Future decisions made on the basis of this report will require consideration of the impact on local people and communities as appropriate.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

88. The constitution determines that cabinet consider decisions regarding the strategic aspects of the regulation and control of the council's finances. The council has obligations under Section 32 of the Local Government and Finance Act 1992 to calculate and agree an annual budget. The issues contained in this report will assist in the future discharge of that obligation.

REASONS FOR URGENCY

89. This report is urgent because of the significant impact of the SR 2010 on the council's budget and resource planning process.

REASONS FOR LATENESS

90. It was not possible to prepare this report until details of the SR were made public which was on 20 October 2010. Officers have been working since to analyse the areas of potential impact of the SR, in as far as is possible, on Southwark's finances.

Background Papers	Held At	Contact
SR 2010, HM Treasury	2 nd Floor, 160 Tooley Street	Cathy Doran 020 7525 4396

APPENDICES

No.	Title
Appendix 1	Letter from Secretary of State: "Local Government and the Spending Review"

AUDIT TRAIL

Cabinet Member	Councillor Richard Livingstone, Finance and Resources	
Lead Officer	Duncan Whitfield, Finance Director	
Report Author	Jennifer Seeley, Deputy Finance Director Cathy Doran, Finance and Resources Stephen Gaskell, Corporate Strategy	
Version	Final	
Dated	29 October 2010	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Communities, Law & Governance	Yes	Yes
Finance Director	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team	29 October 2010	



The Rt Hon Eric Pickles MP

Secretary of State for Communities and Local Government

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20 October 2010

Leaders of Local Authorities in England

Dear colleagues,

LOCAL GOVERNMENT AND THE SPENDING REVIEW

The Coalition Government's Spending Review set out today provides a fair though challenging settlement for local government. It reflects the clear priorities for the Spending Review as a whole: to bring down the massive budget deficit and drive economic growth, while protecting the interests of hardworking families and the most vulnerable in society.

The review also provides significant new powers for local government. Councils have long argued that with more freedom and flexibility, they would be much better equipped to become more efficient and effective in delivering local public services. This settlement delivers that freedom and flexibility, as part of the new Government's decentralisation agenda.

Councils will face an average loss of grant of 7.25%, in real terms, in each of the next four years. However, this will be accompanied by new financial freedoms and flexibility.

Local flexibility on local spending

Today's settlement:

- tackles the principal pressure on social services by providing an additional £2 billion to support adult social care by 2014-15;
- commits £6.5 billion to affordable housing and Decent Homes over four years;
- offers help to the vulnerable with £6.5 billion to Supporting People over the Spending Review period;
- offers more flexibility to councils by ending ring-fencing of all revenue grants from next year, except for simplified school grants and the new public health grant which will be introduced in 2013. In total, local authorities will have greater control over more than £7 billion of funding from 2011-12 which is moving into formula grant, being unringfenced or is new funding for the SR10 period;
- protects council tax payers by offering, in partnership with local authorities, a council tax freeze;

- shifts many other budgets – including budgets for GPs and Police and Crime Commissioners – to the local level, so that you can pool and prioritise this money more effectively;
- sets out plans to implement the first phase of Community Budgets in 16 areas from April 2011, by pooling departmental budgets at source for 16 places, to tackle families with complex needs, with the intention that all areas will be able to take this approach from 2013; and,
- radically reforms the Housing Revenue Account, so that you will have much greater ability to run your own affairs, provides over £2 billion on Decent Homes in total over four years and enables councils who own housing to improve the decency of tenants' homes with enough money to more than halve the backlog by 2015.

Savings on local red tape

These new powers come on the back of radical reductions in the bureaucratic reporting and inspection requirements which hold councils back.

We are already abolishing the Audit Commission, have ended Comprehensive Area Assessment, scrapped 4,700 Whitehall (LAA) targets, are dismantling the National Indicator Set and are ready to scale back significantly the plethora of data reporting requirements which cost you time and money - the LGA estimate that complying with government data demands and inspection costs local authorities nearly £300 million.

Local growth

We are replacing the Regional Development Agencies with local enterprise partnerships, which put councils and civic leaders in the driving seat. We are also introducing a Regional Growth Fund (worth £1.4 billion) to create jobs and growth in places currently heavily dependent on the public sector - this could include support for activities such as housing growth and market renewal.

The New Homes Bonus will reward communities that build houses - planning permissions granted now will count against the Bonus.

We have already confirmed that councils will be able to borrow against future growth in Business Rates to fund infrastructure projects. And the Localism Bill will go even further in giving councils control over the issues which matter to local people, including providing councils with the general power of competence they have long called for.

Local savings

This unprecedented shift in power means that you will be well placed to tackle the inevitable challenges ahead. 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 reduction of 7.25% a year.

The reduction in formula grant funding for fire and rescue authorities will be 25% over the period. Reductions for fire and rescue services are weighted to the second half of the spending review period, so that fire and rescue authorities have time to prepare.

But since councils (including fire and rescue authorities) also raise revenue from other sources, the actual reduction in overall council spending will be much lower. There is a clear expectation that councils will use this new autonomy to protect key frontline services.

Local finance reform which protects the vulnerable

To help you do this, we are:

- funding the council tax freeze: if you choose to freeze council tax in 2011-12, we will fund the equivalent of a 2.5% increase in council tax that year for the Spending Review period;
- providing £1 billion of additional funding through the NHS budget to break down the barriers between health and social care, and rolling over £2.4 billion of adult social care grants - including an additional £1 billion by 2014-15 - into formula grant;
- investing £4.5 billion in affordable housing over the next four years. As part of this, we intend to provide £200 million over four years to the Mortgage Rescue Scheme and £100 million for Empty Homes. We will also provide an extra £2 billion for the Decent Homes programme;
- protecting investment in Homelessness Grant, which will remain at current levels;
- protecting the Disabled Facilities Grant, while removing the ring fence to ensure councils can make their own choices about making the most of this money;
- guaranteeing a £200 million capitalisation fund in 2011-12 to support those of you that wish to deliver efficiency savings early through internal restructuring; and
- committing £6.5 billion to Supporting People over the next four years, and giving councils more flexibility to deploy it in line with local needs.

As part of our broader reforms to the welfare system, together we will secure savings in Council Tax Benefit spending and provide a localised approach to the benefit from 2013-14. This will let councils gain from reductions in the cost of Council Tax Benefit in the future, with more detail set out later in the year. The Government wants Welfare Reform to help people who can work get back into work. It is not the Government's intention to interfere with pensioners' entitlements, rather to give councils greater freedom and flexibility.

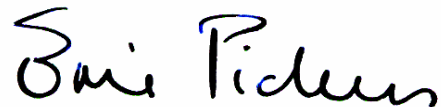
Local innovation

But at the same time, the onus is very much on councils themselves to make the most of this unprecedented freedom and flexibility to focus all efforts and resources on protecting hardworking families, vulnerable people, and frontline services. That must mean:

- fundamentally re-examining every aspect of the way that councils work;
- eliminating all traces of waste by becoming more transparent and improving procurement practice;
- maximising efficiency and productivity, drawing on the lessons of the LGA-led productivity programme;
- sharing departments, officers and back office services between different local authorities; and
- bringing excessive senior pay under control.

The emphasis must be on creativity and innovation. Councils must really put every aspect of service delivery under the microscope, focusing on early intervention and drawing on the significant expertise, reach and resources in the voluntary and community sector.

I have every confidence that, with these new powers, councils who tackle the issues head on will be able to meet the expectations of local residents by protecting frontline services, hardworking families and the most vulnerable.

A handwritten signature in black ink that reads "Eric Pickles". The signature is written in a cursive, flowing style.

THE RT HON ERIC PICKLES MP

GRANTS ROLLING INTO FORMULA GRANT

£ million	Baseline	2011-12	2012-13	2013-14	2014-15
<u>Communities and Local Government</u>					
Supporting People	1,636.00	1,625.00	1,620.00	1,620.00	1,590.21
Housing Strategy for Older People	20.00	15.50	13.50	11.50	10.50
Race Equality	0.17	0.03	0.03	0.03	0.03
Economic Assessment Duty	11.03	1.50	1.50	3.00	3.00
Open Source Planning	-	-	-	15.00	20.00
Fire	-	-	-	49.82	50.28
<u>Department for Transport</u>					
Concessionary Travel	223.00	224.00	204.00	208.00	212.00
Other Transport Revenue	112.00	79.00	72.00	80.00	83.00
<u>Department for Environment, Food and Rural Affairs</u>					
Animal Health Enforcement	8.50	4.80	4.00	3.20	2.40
<u>Department for Education</u>					
Total	114.05	109.34	83.17	70.51	66.34
Previously formed from:					
<i>LSC Staff Transfer</i>	<i>51.47</i>	<i>47.44</i>	<i>43.17</i>	<i>38.91</i>	<i>34.64</i>
<i>Services for Children in Care</i>	<i>54.88</i>	<i>58.40</i>	<i>36.50</i>	<i>28.10</i>	<i>28.20</i>
<i>Child Death Review Processes</i>	<i>7.70</i>	<i>3.50</i>	<i>3.50</i>	<i>3.50</i>	<i>3.50</i>
<u>Department of Health</u>					
AIDS Support	25.50	27.70	30.30	33.10	36.20
Preserved Rights	235.40	228.84	221.68	215.11	209.80
On-going Personal Social Services	752.34	767.02	784.43	804.98	826.31
Previously formed from:					
<i>Mental Health</i>	-	-	-	-	-
<i>Child and Adolescent Mental Health Services</i>	-	-	-	-	-
<i>Learning Disability Development Fund</i>	-	-	-	-	-
<i>Mental Capacity Act and Independent Mental Capacity Advocate Service</i>	-	-	-	-	-
<i>Carers</i>	-	-	-	-	-
<i>Adult Social Care Workforce</i>	-	-	-	-	-
<i>LINKs</i>	-	-	-	-	-

£ million	Baseline	2011-12	2012-13	2013-14	2014-15
Re-cycled Personal Social Services (inc. safeguarding and autism)	303.00	318.15	335.75	354.91	373.11
Previously formed from:					
<i>Social Care Reform</i>	-	-	-	-	-
<i>Learning Disability Campus Closure Programme</i>	-	-	-	-	-
<i>Stroke Strategy</i>	-	-	-	-	-
New Personal Social Services Funding	New	530.00	930.00	1,000.00	1,000.00
TOTAL	3,440.99	3,930.87	4,300.36	4,469.16	4,483.18

OTHER CORE REVENUE GRANTS

- Early Intervention Grant
- Public Health Grant (from 2013-14)
- Learning Disabilities
- New Homes Bonus
- Council Tax Freeze Grant
- Housing Benefit and Council Tax Benefit Administration Grant
- PFI Grant
- Dedicated Schools Grant
- Preventing Homelessness

Local authorities will also be able to bid for the £1.4 billion Regional Growth Fund which will provide a mix of revenue and capital funding over 2011-12, 2012-13 and 2013-14. Further information will be published shortly. Arrangements for Pupil Premium Grant are to be determined.

FULL DETAILS OF CLG'S GRANTS TO LOCAL GOVERNMENT

Revenue Grants to Local Government	Baseline	2011-12	2012-13	2013-14	2014-15
	£m	£m	£m	£m	£m
Open Source Planning	4.35	5.00	10.00	0.00	0.00
Fire	36.00	71.58	59.57	0.00	0.00

Preventing Homelessness	70.97	90.00	90.00	89.30	88.00
New Homes Bonus	0.00	196.00	250.00	250.00	250.00
Total	111.32	362.58	409.57	339.30	338.00

Note: The fire funding grant will replace 4 previous fire grants from 2011-12; and the Preventing Homelessness line includes funding for Housing Management.

Capital Grants to Local Government	Baseline	2011-12	2012-13	2013-14	2014-15
	£m	£m	£m	£m	£m
Local Authority Social Housing Grant	212.10	65.00	0.00	0.00	0.00
Disabled Facilities Grant	168.80	180.00	180.00	180.00	185.00
Decent Homes ALMOs	625.41	260.00	352.00	389.00	594.00
Fire Capital Grant	70.82	70.00	70.00	70.00	70.00
Total	1077.14	575.00	602.00	639.00	849.00

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