

**HAMPSHIRE COUNTY COUNCIL****Decision Report**

<b>Decision Maker:</b>	Efficiency Panel
<b>Date:</b>	21 July 2010
<b>Title:</b>	2010/11 Government grant reductions and Emergency Budget
<b>Reference:</b>	1860
<b>Report From:</b>	County Treasurer

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## **1. Executive Summary**

1.1. Since the new Coalition Government took office in May, two significant announcements have been made affecting the County Council's short and medium-term financial planning.

- The Chancellor of the Exchequer announced on 17 May that the new Government intended to reduce the previous Government's spending plans for 2010/11 by £6.2bn, of which £1.2bn related to grants to local authorities. Details of the grant reductions were announced on 10 June.
- The Emergency Budget on 22 June outlined the Government's plans to eliminate the structural element of the public sector deficit by 2015/16. The budget also contained details of the overall level of planned Government spending during the period, the allocation of which will be determined by the Spending Review, which will be presented to Parliament on 20<sup>th</sup> October.

## **2. 2010/11 grant reductions**

2.1. Since the Cabinet considered the medium term financial strategy update in May, the Chief Secretary to the Treasury has announced details of reductions of £6.2bn in planned public spending in 2010/11. £1.2bn of this sum will be achieved by reductions in local authority grants. It has been confirmed that formula grant, DSG and Sure Start grants will be unaffected by these grant reductions, and a statement has been made by the Secretary of State for Communities and Local Government on the allocation of the grant reductions, on 10 June 2010. In addition the Home Office has announced reductions of £125m in capital and revenue grants to

Police Authorities of which the Hampshire Police Authority's share is £3.2m.

- 2.2. The County Council is facing cuts of a minimum of £8.4 million revenue funding and £5.5 million capital funding. Not all funding has been allocated so there are further opportunities lost where in-year bidding for grants will no longer be possible. This reduction represents about 4.8% of the County Council's grant income, excluding schools ringfenced grants.
- 2.3. County Council services are affected by the funding cuts, as follows

**Table 5**

	Revenue	Capital
	£m	£m
Children's Services	4.8	
Adult Services	0.7	
Environment	0.6	4.0
Safer and Stronger Communities	0.1	
LPSA2 reward grant	1.5	1.5
LABGI	0.7	
<b>Total reduction</b>	<b>8.4</b>	<b>5.5</b>

- 2.4. Expressed as a % of the overall revenue or capital cash limit for the relevant service the grant reductions are:

**Table 6**

	Revenue	Capital
	%	%
Children's Services	2.9	
Adult Services	0.2	
Environment	0.9	10.7
Policy and Resources	0.1	

- 2.5. Because the reductions in grant have been made through area-based and specific grants rather than formula grant, the impact of the reductions on services is uneven, as it reflects the differing priorities of Government departments in being targeted with in year budget reductions. The overall

level of the County Council's grant reductions is not unexpected given the scale and direction of the national grant reductions.

- 2.6. In addition there are likely to be some additional grant reductions outside the main area based and specific grant streams identified by the Government. The Department for Education has already indicated that some of its departmental reductions will affect programmes delivered by local authorities. The Treasury has also cancelled or suspended a number of projects which were offered government support after 1 January 2010, but this has no significant impact on Hampshire.
- 2.7. The Cabinet agreed on 28 June that 2010/11 capital and revenue cash limits should be reduced in line with the grant reductions, as it is the Council's policy of directing area based, specific capital grants, whether or not ringfenced, to the respective services. The Cabinet will be receiving a further report in September on Executive member proposals to achieve the cash limit reductions.

### **3. Emergency Budget**

- 3.1. The Emergency Budget on 22 June outlined the Government's plans for reducing public expenditure over the four year period 2011/12 to 2015/16, with a view to eliminating the structural deficit over this period from a combination of spending reductions and higher taxes.
- 3.2. The allocation of the planning total for departmental spending limits between departments will be determined by the Spending Review which is due to be presented to Parliament on 20 October. The Chancellor of the Exchequer has already indicated that the NHS and International Development budgets will be protected from having to make real term reductions and that on that basis the average real term reduction in other departmental budgets will be 25% over the next four years. He also recognised that not all departments would receive the same settlement and that there would be particular pressures on schools and defence budgets. The Institute for Fiscal Studies are projecting that if reductions in schools and defence budgets were limited to 10% over the next four years, that would require a 33% average reduction in other departmental budgets. The Secretary of State for Communities and Local Government has indicated that local authority grant reductions could be as much as 40% over the next four years.
- 3.3. The Government has also announced that it will work in partnership with local authorities to freeze council tax in 2011/12, but the terms of any additional Government support are still awaited. Though the Government are not directly responsible for agreeing local authority pay settlements, Government policy is that public sector pay should be frozen in 2011/12 and 2012/13 for all staff earning more than £21,000 per annum, with staff earning less than £21,000 receiving a lump sum annual increase of at least £250. The proposed increase of 1% in employers national insurance from 1 April 2011 is proceeding, but the additional cost is partly offset by raising the lower threshold for national insurance contributions by £21 per week.

**4. Conclusions**

- 4.1. The grant reductions in 2010/11 create a lower baseline from which future reductions from 2011/12 will be assessed. The implications of the Emergency Budget are only likely to become clearer from the Autumn, once the Spending Review decisions have been made and government expectations about future council tax levels become more explicit. The more rapid acceleration of the deficit reduction programme means that the scale of the reduction in government grant could be higher than previously assumed. All of these factors will give added impetus to the County Council's efficiency programme.
- 4.2. The appendix summarises progress against the corporate efficiency targets for 2011/12 and 2012/13 , based on efficiencies in Phase 1 of the efficiency programme, which have been approved to date. It includes the impact of additional savings from the planned pay freeze in 2010/11, 2011/12 and 2012/13, allowing for additional payments to staff earning less than £21,000 in 2011/12 and 2012/13. These have been incorporated in the Medium Term Financial Strategy since the current three year budget plan was approved in February 2010, increasing the efficiency target to £21.5m in 2011/12 and £18.9m in 2012/13.

**5. Recommendation**

- 5.1. That the Panel note the report.

**CORPORATE OR LEGAL INFORMATION:****Links to the Corporate Strategy**

<b>Hampshire safer and more secure for all:</b>	yes/æ
Corporate Improvement plan link number (if appropriate):	
<b>Maximising well-being:</b>	yes/æ
Corporate Improvement plan link number (if appropriate):	
<b>Enhancing our quality of place:</b>	yes/æ
Corporate Improvement plan link number (if appropriate):	

**Section 100 D - Local Government Act 1972 - background documents**

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

1.1. Equality objectives are not adversely affected by any proposals in this report.

### **2. Impact on Crime and Disorder:**

2.1. There are no proposals in this report which have any direct impact on the prevention of crime.

### **3. Climate Change:**

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change.

## Corporate Efficiency Savings 2011/12 and 2012/13

	2011/12		2012/13	
	Planned	Programmes approved to date	Planned	Programmes approved to date
	£m	£m	£m	£m
Pay and Productivity	11.5		8.9	
Mileage Rates		1		
Pay freeze in 2010/11		4		
Pay freeze for staff earning more than £21,000 in 2011/12 and 2012/13		3.9		3.9
Procurement	5	3.8	5	3.2
Income generation	2.5	3.4	2.5	2.3
Facilities efficiencies	2.5		2.5	
Other corporate efficiencies:				
Waste contract		4.1		
IT Services Corporate Services Review		1.1		
HPSN 2 Contract		1.1		
	21.5	22.4	18.9	9.4

£2.4m  
in  
2013/14