Appendix 4
Comprehensive Spending Review CSR – Overview

Introduction

This report provides an update on the impact of the CSR in particular to the local government announcements. The full details of the grant settlement for Local Government will not be known until December 2010.

Big Picture

On 20 October 2010, the Chancellor George Osborne set out the Government's spending plans for the next four years.

The general shape of the CSR had been well-trailed in advance with schools and hospitals being protected although the protection for schools is minimal at 0.1% in real terms. Defence also received relative protection (8% cuts in real terms). Other smaller budgets also received protection.

However the Chancellor was also able to announce that the average reduction in Departmental Expenditure Levels (DEL) was much less than expected and also less than the average reduction proposed by the previous government. Many had expected unprotected DELs to be reduced by an average of 25% but the CSR has reduced this down to 19%.

The Chancellor has managed this by putting tremendous pressure on Annually Managed Expenditure (AME) and, in particular, welfare budgets. There is clearly some risk here because these budgets are based on forecasts and assumptions which can unravel over time. Failure to deliver on planned AME would result in the Chancellor either coming back for extra savings from DEL (and potentially from local government) or accepting that the structural deficit will not be eliminated over the Parliament.

Formula Grant

The overall cuts in Formula Grant were broadly in line with expectations. It had been expected that Formula Grant would be cut by around 25% – that is, by the average cut in unprotected budgets. In fact, Formula Grant has been cut by 22% in cash terms – better than expectations but worse than the actual average cut in DEL (19%).

Issues outstanding

As a more detailed understanding of the impact of these cuts will not be known until the grant settlement. Looking forward to 2011-12 and beyond, the impact of the cuts will depend on a:

- The criteria used to distribute funding for the remaining core grants (into which the majority of existing Specific and Area Based Grants will be merged)

- The methodology used to roll Specific and Area Based grants into Formula Grant (e.g. the new formula to be used and any baseline adjustments)

- Other changes to the model used to allocate Formula Grant. These include, the level at which funding floors will be set in 2011-12 and beyond, the possible introduction of options included in recent Formula Grant distribution consultation, the results of which are expected in late November or early December 2010. Most significant for London Councils is likely to be any changes to Area Cost Adjustment methodology, which could see around £100m of grant move out of London.

- The impact of using new data (e.g. population projections) in 2011-12 and beyond.

Headlines commentary impacting on Local Government generally include;

- Cuts in real terms of 7.25% for each of the next four years (a total of 26% in cash terms) to funding streams for English councils. This means that authorities' budgets will shrink by an average of 14% once Council Tax is taken into account.

- There will also be a reduction in the number of specific grants from over 90 to less than 10, leaving just public health, schools, fire, policing and a handful of others. More details of how these changes will apply are set to be announced in December's Localism Bill and local government finance settlement, but it is expected that they will have a non uniform impact across the country, since some councils (particularly metropolitan authorities) rely on specific grants much more than others.

- £650m in annual funding has been awarded to cover a four-year Council Tax freeze from 2011/12. CLG will give those authorities that agree to freeze or reduce Council Tax in 2011-12 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. In the three subsequent years, the Government will provide supplementary funding via specific section 31 grants to compensate them for the council tax income that they would forego.

generally, they are likely to increase poverty levels across the country, which could result in extra demands being placed on other public services.

- "Staggered and progressive" changes to public sector employees' pension contributions will be implemented, so that the Government saves an additional £1.8 billion by 2014-15. These reforms will prove difficult to achieve unless contribution increases are factored in a long way down the pay-scale, and may even result in lower paid workers opting out of the scheme. Lord Hutton has recognised the risks inherent in this approach, since these people would no longer be paying any contributions to the scheme.
- Budgets for non-education children's services will be reduced by 12%, including cutting back on education maintenance allowance payments and a 60% drop in capital spending (largely as a result of scrapping the Building Schools for the Future programme). There may also be cuts to education support services such as school transport or truancy units.
- A new 'fairness premium' will allocate £7.2 billion over the spending review period to support the education of children from low-income homes. £2.5bn of this is for a 'pupil premium', which will mean that there will be a real terms 0.1% increase in education budgets for 5-16 year-olds (although the 16 -19 budget is being cut). Sure Start is also being protected in cash terms, although the Government wants to see new providers enter this market and the funding will no longer be ring-fenced.
- The Chancellor hopes to raise £7 billion by cracking down on tax fraud, evasion and avoidance. There is little doubt that the Government is not collecting all of the revenue that it is due, and the Chancellor has allocated an additional £900m to address this gap over the spending review period. However, previous attempts to clamp down on these activities have had mixed results, as individuals and companies have been able to exploit other tax loopholes, or move their money elsewhere.
- £470m has been set aside to support capacity-building in the third sector and help the Government implement its vision of a Big Society. This includes funding for the National Citizen Service and a Transition Fund of £100m to provide short term support for voluntary sector organisations providing public services.
- Revenue raised from the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme will be used to support the public finances (including spending on the environment), rather than recycled to participants. This unexpected announcement means that there will be no carbon trading through the scheme; instead the levy of £12 per tonne will effectively act as a tax on carbon emissions that will raise up to £1 billion a year by 2014-15.