

Budget Panel 25th October 2010.

Cabinet 1st November 2010.

Supplementary Paper: Comprehensive Spending Review, 20th October 2010.

The Chancellor of the Exchequer announced overall control totals for Public Expenditure covering the period 2011/2012 to 2014/2015 in Parliament on 20th October. These control totals do not provide detail for individual councils which will not be known until December.

Headline announcements that apply for district councils Council include:

- Central Government funding to councils decreases by around 26% over the next 4 years. This is potentially misleading for district councils as the Revenue Support Grant (Formula) Grant includes £1 billion **additional** grant for social care (which is not a district council function). It is likely therefore that district councils will suffer at least a 30% reduction over the four year period.
- Confirmation of a two year pay freeze for the public sector (commencing April 2011). This to apply to those staff earning over £21k p.a. For those below this threshold an award of at least £250 in each year is permissible.
- A programme to deliver up to 150,000 new affordable homes over the four year period and includes an extra £4.4 billion of capital for social housing. Disabled Facilities Grants to be protected and to receive increases in accordance with inflation over the four year period.
- To set aside £470m over the Spending Review period to support capacity building in the voluntary and community sector.
- Capital funding to local government from all government departments will fall by around 45% over the Spending Review period. The Government will prioritise capital investment on areas of greatest economic value such as high value local transport and has made available £2billion of additional funding in 2011/2012 and 2012/2013 and £2.3billion in 2013/2014. The continuance of some major projects such as Crossrail (London) has been confirmed but a full schedule of such transport projects will not be known until next week.
- All Government Departments will publish business plans next month setting out the details of their reform plans and which will include vision and priorities up to 2014/2015.
- Those authorities who freeze their council tax in 2011/2012 will have an additional grant equivalent to 2.5% of the resultant loss in their tax base in each year of the 4 year spending review.
- There will be a number of reforms to the Welfare (benefits) system (including more resources to identify fraud. This is a very complex area and will need greater detail and more analysis at a national level to identify the effect at a local level.

Effect for Watford

The **Medium Term Financial Strategy (MTFS)** attached at Appendix A had assumed no pay awards and the loss of RSG (Formula) Grant to be 10% year on year over a three year period. It would now appear that the efficiency savings required to meet government targets can be achieved over a one year additional timescale. The CSR announced on 20th October indicates funding at a National level and it is feasible that the effect for Watford could be more adverse. At this time therefore it is recommended that the efficiencies required at Appendix A (£3.8m over a three year timescale) should remain at this point in time. Later in the budget process (when firmer information is known) the timing of these savings can be revisited.

The MTFS did not include any additional grant for 'freezing' council tax in 2011/2012. What does the CSR paper on this subject actually result in?

“that local authorities who freeze their council tax next year will have the resultant loss to their tax base funded at a rate of 2.5% in each year of the Spending Review”

The Government has set aside £700m Nationally to fund this 'compensation'.

The Government are likely to place a cap on any council tax increase which I would assume to be 5%. For Watford, a 5% increase in Council Tax equates to an additional £403k. The above formula would therefore appear to only reimburse Watford (by way of a Special Grant) 2.5% of this income foregone and **equates to £10k per annum**. This does appear a derisory amount, and my calculation should be treated with caution until some clarification has been received from the LGA.

Bernard Clarke
Head of Strategic Finance
21st October 2010.