

To: Cabinet

From: John Simmonds, Cabinet Member for Finance & Lynda McMullan, Director of Finance

Subject: Response to Government Savings Announcement

Summary: To update Cabinet on the recent announcement of in-year reductions in Government grants and to identify how KCC intends to respond and the process for agreeing revised budget as a consequence

1. Introduction

1.1 On 24th May the Treasury announced a package of additional savings to be delivered in 2010/11 amounting to £6.2bn. The majority will affect central Government departments although £1.165bn will be in year reductions in grants to local government. This is a small amount compared to the anticipated reductions in public spending that will be needed over the lifetime of the current Parliament to address the budget deficit. The £1.165bn is made up as follows:

- £537m from Communities and Local Government (CLG)
- £311m from Department for Education (DfE)
- £309m from Department for Transport (DfT)
- £8m from Department for Environment, Food and Rural Affairs (Defra)

1.2 The Treasury has confirmed the local government Formula Grant will not be affected and that grants for schools, 16-19 participation and Sure Start will be protected. It also appears that grants from Department for Health and Home Office will be unaffected although this has not yet been confirmed. The Government also announced that £1.7bn of grants will be de-ringfenced allowing local authorities greater discretion how funds are used.

1.3 At this stage we still have no detail on the grants which will be affected although we are expecting a written ministerial statement which we hope to include in a verbal update. Following the ministerial statement there will be a period of time to confirm the figures are correct but no consultation about which grants are affected. For planning purposes at this stage we have estimated that in the worst case scenario KCC's share of the savings could be around £23m although this would depend on which particular grants are affected.

1.4 We are assuming that County Councils will not have any share of DfT grant reductions as the only grant we receive from DfT is the recently announced £2.44m emergency fund to repair pot holes following the bad winter weather. We are also assuming any reductions in grants from Defra will be relatively minor and the impact can be covered in monitoring reports.

2. Grants Received in 2010/11

2.1 The timing of grant announcements means that we do not have a complete picture when the budget is published. We have an established mechanism to make adjustments to cash limits to reflect changes in grants and the table below summarises the latest position

	CFE £000s	KASS £000s	EH&W £000s	CMY £000s	CED £000s	Total £000s
CLG						
Area Based Grant	31,881	24,192	5,826	34,605	115	96,619
Other CLG Grants	0	0	0	0	2,764	2,764
DfE						
DSG	801,301	0	0	473	4,377	806,151
Standards Grant	41,602	0	0	0	0	41,602
Standards Fund	89,169	0	0	0	0	89,169
Sure Start & Early Years	42,640	0	0	0	0	42,640
Other DFE Grants	3,351	0	0	734	0	4,085
DoH	0	8,773	0	0	0	8,773
Home Office						
Asylum	15,611	0	0	0	0	15,611
Drugs	0	0	0	1,790	0	1,790
Total Grants	1,025,555	32,965	5,826	37,602	7,256	1,109,204
Other grants not within Local Government Finance	98,650	0	1,205	13,357	360	113,572

3. CLG Grants

3.1 The main grant from CLG is the Area Based Grant (ABG). This is allocated as an un-hypothecated sum, although by and large the money is spent in the same way as it was when it was allocated as individual ring-fenced grants although some elements have now been absorbed into core services and ABG is indistinguishable from other mainstream funding. We believe it is unavoidable that CLG will be able to make savings in grant of the magnitude announced without a significant element coming from ABG.

3.2 There are some other minor grants e.g. Local Public Service Agreement Performance Reward Grant, Local Authority Business Growth Incentive Scheme, Housing Planning and Delivery Grant, Housing and Council Tax benefit grant, etc. It is likely that some of these other grants could be targeted for reductions.

4. DfE Grants

4.1 We have assumed that DSG, Standards Grant and Sure Start will be unaffected by the cuts. The vast majority of the remaining Standards Fund and other DfE grants are ring-fenced. At this stage it is not clear whether the DfE savings will be in relation to ring-fenced grants (and therefore by default we would have to reduce the expenditure supported by the grant) or whether grants will be de-ringfenced before they are reduced (and therefore in effect be no different from ABG).

5. Next Steps

5.1 The combination of likely reductions in ABG and de-ringfencing of grants means that it is unlikely that we will be able to identify the specific savings from the grants above following Government consultation. This means that we will need to look at the totality of the budget for the necessary savings rather than concentrate on a limited number of specific elements.

5.2 Directorates have been asked to identify and prioritise savings either from uncommitted sums for activities supported by ABG and other grants (excluding statutory services or activities which would simply transfer pressures onto core budgets) and from areas already identified in the medium term plan for 2011/12 and 2012/13 which could be brought forward. Directorates have also been asked to identify any other options for delivering in year savings to ensure that we can at least cover the possible £23m that may be needed. It is important that service priorities are considered carefully in choosing between savings options.

5.3 It is highly unlikely that the impact of revised cash limits and spending forecasts will be available for the first exception budget monitoring report due to be presented to Cabinet on 12th July

5.4 The Cabinet Member for Finance will have responsibility for responding to the technical consultation on the detail of the figures. The response will be agreed in the same way as other finance consultations.

6. Recommendations

6.1 Cabinet is asked to note the potential for savings from grant reductions and endorse the strategy outlined in paragraph 5.

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